OFFERING CIRCULAR

BANQUE BEMO S.A.L.

(Registered as a joint stock company under the laws of the Republic of Lebanon)
List of Banks Nº 93; Commercial Registry: Beirut 17837

US$35,000,000

7.00 per cent Subordinated Bonds due on January 4th, 2024

Issue Price: 100 per cent

The US$ 35,000,000 Subordinated Bonds due on January 4th, 2024 (the "Bonds") offered hereby are being issued by BANQUE BEMO SAL ("BEMO", the "Bank" or the "Issuer") at an issue price of 100% of their principal amount and consist of 3,500 Bonds having each a US$10,000 denomination. The Bonds will be in registered form and represented by a Global Bond Certificate which will be deposited on or about December 5th, 2017 (the "Issue Date") with the Custodian and Clearing Centre of Financial Instruments for Lebanon and the Middle East SAL, Midclear S.A.L, a common depositary, clearing and paying agent based in Lebanon (the "Clearing Agent").

The Bank's General Assembly of Shareholders that met on September 5th, 2017 resolved the issuance of the Bonds. The issuance of the Bonds has been approved by the Central Council of the Central Bank of Lebanon (the "Central Bank" or "BDL") on November 2nd, 2017. The offering of Bonds has been approved by the Board of the Capital Markets Authority (CMA) on November 7th, 2017.

The Bonds will bear a fixed interest at a rate of 7.00% per annum payable semi-annually in arrears on the 30th day of June and 31st day of December of each year where the first payment shall occur on December 31st, 2018. Interest yield on the Bonds is subject to Lebanese taxes *inter alia* the presently applied 7% withholding tax on earned interest.

The Bonds will constitute direct, general and unsecured obligations of the Bank, subordinated as described herein. In the event of bankruptcy, suspension of payments, reorganization, dissolution, winding up, liquidation or composition or arrangement with creditors of the Bank, the claims of the Bondholders will rank junior in right of payment to the claims of holders of unsecured and unsubordinated payment obligations of the Bank, *pari passu* with the claims of holders of all other subordinated indebtedness of the Bank and senior to the rights and claims of shareholders of the Bank. The Bonds rank *pari passu* among themselves. *See "Terms and Conditions of the Bonds – Status and Ranking"*.

The Bonds are subject to redemption in whole at their principal amount, together with accrued interest. *See "Terms and Conditions of the Bonds - Redemption and Purchase"*.

See "Certain Investment Considerations" for a discussion of certain factors to be considered in connection with investing in the "Bonds".

The Bank will not list the Bonds on the Beirut Stock Exchange or any other stock exchange. The Bonds are issued and marketed in Lebanon. Any sale abroad should take into consideration the relevant jurisdiction's laws and regulations.

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THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION TO PURCHASE, SUBORDINATED BONDS IN ANY JURISDICTION. NO ONE HAS TAKEN ANY ACTION THAT WOULD PERMIT A PUBLIC OFFERING TO OCCUR IN ANY JURISDICTION. THE SUBORDINATED BONDS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OR ANY STATE OR OTHER JURISDICTION IN THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES AT ANY TIME. NEITHER THE US SECURITIES AND EXCHANGE COMMISSION, NOR ANY STATE SECURITIES COMMISSION NOR ANY OTHER REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED THE SUBORDINATED BONDS OR PASSED UPON OR ENDORSED THE MERITS OF THE PROGRAMME OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

BANQUE DU LIBAN (THE CENTRAL BANK OF LEBANON) HAS NOT PASSED UPON AND TAKES NO RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OR FOR THE MERITS OF THE SUBORDINATED BONDS.

THIS OFFERING CIRCULAR INCLUDES INFORMATION PROVIDED IN COMPLIANCE WITH THE REGULATIONS OF THE CAPITAL MARKET AUTHORITY (CMA) OF LEBANON. THE CMA DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE CONTENT OF THE INFORMATION IN THIS OFFERING CIRCULAR, INCLUDING THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. THE LIABILITY FOR THE CONTENT OF THE OFFERING CIRCULAR LIES WITH THE ISSUER OF THE OFFERING CIRCULAR, ITS DIRECTORS AND OTHER PERSONS, SUCH AS EXPERTS, WHOSE OPINIONS ARE INCLUDED IN THE OFFERING CIRCULAR WITH THEIR CONSENT. THE CMA HAS ALSO NOT ASSESSED THE SUITABILITY OF THE SECURITIES COVERED BY THIS OFFERING CIRCULAR FOR ANY PARTICULAR INVESTOR OR TYPE OF INVESTOR.

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IMPORTANT NOTICE

This offering circular ("Offering Circular") contains information provided by the Bank in connection with the offering of its "Subordinated Bonds 2017" (the "Bonds"). The Bank confirms that all information regarding the Bank and the Bonds contained in this Offering Circular is true and accurate in all material respects as of the date of this Offering Circular *(or, if different, the date as of which such information is stated herein to be supplied)*, and does not omit any material facts, the omission of which would make any statement of fact or opinion relating thereto and contained herein misleading.

No person has been authorized to give any information or make any representation other than those contained in this Offering Circular; and, if given or made, such information or representations must not be relied upon as having been authorized.

This Offering Circular is not intended to provide the sole basis of any credit or other evaluation and should not be considered as a recommendation by the Bank, or by any of its respective officers, employees, agents or affiliates, that any recipient of this Offering Circular should purchase the Bonds. Each prospective subscriber in or purchaser of the Bonds (the "investor") should note the following:

a) An investment in the Bonds is subject to certain risk factors *(among which those described below under "Certain Investment Considerations" and all other information contained in this Offering Circular)* that an investor should carefully consider before reaching a decision to buy the Bonds.

b) This Offering Circular has been prepared solely for informational purposes. It is not intended to provide financial, legal, accounting or tax advice and should not be relied upon in that regard.

c) This section, describes the significant risks to the best of Banque BEMO's knowledge, relating to an investment in the Bonds. Purchasers are urged to read and consider, in consultation with their legal, tax and accounting advisors, the following information about these risks, together with the other information contained in this Offering Circular, before investing in the Bonds. Subscribers who are not prepared to accept the following risk factors should not invest in the Bonds.

Potential investors are advised that the purchase of the Bonds' Issuance is suitable only for, and should be made only by, eligible investors who can bear the risks of limited liquidity and who understand and can bear the financial and other risks of an investment in the Bonds Issuance..

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of the Bonds may be restricted by law in certain jurisdictions. No action has been taken by the Bank, or by any other person which would permit a public offering of any Bonds or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable securities laws and regulations.

In particular, potential investors should note the following:

BANQUE DU LIBAN (THE CENTRAL BANK OF LEBANON HAS NOT REVIEWED THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR AND TAKES NO RESPONSIBILITY FOR THE INFORMATION HEREIN CONTAINED OR FOR THE MERITS OF ANY OFFERING OF "SUBORDINATED BONDS 2017" HEREUNDER.

THIS OFFERING CIRCULAR INCLUDES INFORMATION PROVIDED IN COMPLIANCE WITH THE REGULATIONS OF THE CAPITAL MARKET AUTHORITY (CMA) OF LEBANON. THE CMA DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE CONTENT OF THE INFORMATION IN THIS OFFERING CIRCULAR, INCLUDING THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. THE LIABILITY FOR THE CONTENT OF THE OFFERING CIRCULAR LIES WITH THE ISSUER OF THE OFFERING CIRCULAR, ITS DIRECTORS AND OTHER PERSONS, SUCH AS EXPERTS, WHOSE OPINIONS ARE INCLUDED IN THE OFFERING CIRCULAR WITH THEIR CONSENT. THE CMA HAS ALSO NOT ASSESSED THE SUITABILITY OF THE SECURITIES COVERED BY THIS OFFERING CIRCULAR FOR ANY PARTICULAR INVESTOR OR TYPE OF INVESTOR.

The Bonds' Issuance has not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), nor with any regulatory authority in the United States, and may not be offered or sold within the

United States or to, or for the account or benefit of, any U.S. person (as such terms are defined in Regulation S under the Securities Act), and will only be sold to Eligible Investors outside the United States in offshore transactions in reliance upon Regulation S. Furthermore, none of the United States Securities and Exchange Commission, or any other United States federal or state securities commission or regulatory authority or any regulatory authority or agency of any other jurisdiction has recommended or approved the Bonds' Issuance or passed upon accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

The Bank will not list the Bonds' Issuance on any stock exchange, in Lebanon or abroad.

The Bonds will be issued in registered form, registered in the respective names of the purchasers thereof in the share registry maintained by Midclear SAL. Interests in the Bonds will be shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear SAL.

NOTICE TO LEBANESE INVESTORS

Law 161 dated August 17, 2011 governing Capital Markets in Lebanon prohibits marketing or promoting financial instruments in Lebanon prior to obtaining the authorization of the Board of the Capital Markets Authority to that effect. The Bank has obtained the authorization of the Board of the Capital Markets Authority to market, promote, offer and sell the Bonds in Lebanon.

PRESENTATION ON FINANCIAL INFORMATION

A copy of the audited consolidated financial statements of the Bank for the years ended December 31, 2014, 2015, 2016 and the un-audited financial statements for the period ended June 30, 2017 are included in this Offering Circular. The Bank's consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and the regulations of the Central Bank and the Banking Control Commission, and include the results of the Bank and its consolidated subsidiaries BEMO Securitization SAL (BSEC), Ferticed Limited Holding *(Ferticed was liquidated in December 2016),* BEMO Investment Firm Ltd-Dubai, and Depository & Custody Company S.A.L. The Bank maintains its accounts in Lebanese Pounds. For ease of presentation, certain financial information included herein may be presented in US Dollars. Unless otherwise stated in this Offering Circular, such financial information (i) is extracted from the audited financial statements of the Bank for the years ended December 31, 2014, 2015, 2016 and the un-audited financial statements for the year ended June 30, 2017; (ii) has been translated from LBPs into US Dollars at the following closing rates of exchange as reported by the Central Bank.
The following rate of exchange was used for the financial statements' figures:

Average Exchange Rate

Year	**US$1 equivalent**
December 31, 2014	LBP 1,507.5
December 31, 2015	LBP 1,507.5
December 31, 2016	LBP 1,507.5
June 30, 2017	LBP 1,507.5

Source: Central Bank of Lebanon

These translations into US Dollars are presented solely for the convenience of the readers of this Offering Circular and no representation is made that any amount in LBP's or US Dollars mentioned in this Offering Circular has been, could have been or could be, converted into US Dollars or LBPs, as the case may be, at any particular rate or at all. For the purposes of this Offering Circular, unless otherwise specified or the context otherwise requires, references to "US Dollars", "USD" and "US$" are to the lawful currency of the US, and "LBPs" are to the lawful currency of the Republic of Lebanon. Certain monetary amounts included in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

The legal notice provided for in Article 126 of the Code of Commerce in relation with this Bonds' Issuance has been published in:

- The Official Gazette , N. 53 Dated November 16th, 2017
- The Daily "Al Nahar" , N. 26419 Dated November 16th, 2017
- The Daily "Addiyar" , N. 10253 Dated November 16th, 2017

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute "forward-looking statements". These statements appear in a number of places and sections in this Offering Circular and include statements regarding the Bank's intent, belief or current expectations or those of the Bank's Management (as defined below) with respect to, among other things:

- Statements regarding the Bank's results of operations, financial condition, future economic performance and any plans regarding its business;
- Statements regarding the Bank's competitive position and the effect of such competition on its results of operations;
- Statements regarding trends affecting the Bank's financial condition or results of operations;
- Statements of the Bank's plans, including those pertaining to new products or services and anticipated customer demand for these products or services and potential acquisitions;
- Statements regarding the Bank's growth and investment programs, the relevant anticipated capital expenditure and the success of its investment programs;
- Statements regarding the Bank's intentions to contain costs, increase operating efficiency and promote best practices;
- Statements of assumptions;
- Statements regarding the impact of the ongoing global financial and market crisis;
- Statements regarding the potential impact of regulatory actions on the Bank's business, competitive position, financial condition and results of operations; and
- Statements regarding the possible effects of adverse determinations in litigation, investigations, contested regulatory proceedings and other disputes.

These forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "is expected to", "will", "will continue", "should", "approximately", "would be", "seeks", or "anticipates" or similar expressions or comparable terminology, or the negatives thereof. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and that actual results, performance or achievements of the Bank may differ materially from those expressed or implied in the forward-looking statements as a result of various factors. The information contained in this Offering Circular, including, without limitation, the information under "Certain Investment Considerations", "Management Discussion and Analysis of Financial Results and Position", "Description of the Bank", and the "Banking Industry and Banking Regulation in Lebanon" identifies important factors that could cause such differences. In addition, many other factors could impact the Bank's actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. The Bank does not undertake to update any forward-looking statements made herein.

SUBORDINATED BONDS 2017: CONTACTS AND DETAILS

Name of Issuer	**BANQUE BEMO SAL**
Key Contacts on Offer	1. Mr. Gaby Frangieh, Assistant General Manager, Head of Finance, Capital and Systems Management Rabieh Main Road, Lahlouh Center Tel No: 04-408910/11/12 Email: gabyfrangieh@bemobank.com 2. Mr. Antoine Chamandi, Chief Financial Officer Rabieh Main Road, Lahlouh Center Tel No: 04-408910/11/12 Email: antoinechamandi@bemobank.com 3. Mrs. Maria Haraoui, Chief Risk Officer 7th Floor, Esseily Building, Riad El Solh Square, Beirut Central District Tel No: 01-992600 Email: mariaharaoui@bemobank.com 4. Mr. Joseph Mikhael, Director, Treasury and Capital Markets 7th Floor, Esseily Building, Riad El Solh Square, Beirut Central District Tel No: 01-992700 Email: josephmikhael@bemobank.com
Statutory Auditors of the Issuer	**Deloitte & Touche** 131 Phoenicia Street, Ain Mreisseh, Beirut, Lebanon **DFK-Fiduciaire du Moyen Orient** Geahchan Building, Sin El Fil, Metn, Lebanon
Type of Securities	Tier II Capital, non-convertible, non-callable, Subordinated Bonds
Type of Transaction	**Public Offering**
Date of Filing	**October 16, 2017**
Proposed Date of Offer	**November 20, 2017**

Responsibility for Offering Circular: *The Issuer and its Board of Directors/Senior Management accept legal responsibility for the information contained in the Offering Circular, and believe that there are no facts that have been omitted that would make any statement in the Offering Circular inaccurate or misleading.*

The members of the Board of Directors believe that the Bank has sufficient funds enabling it to meet its current requirements.

This Offering Circular has been prepared in compliance with the requirements of the Law and governing circulars and decisions of the Central Bank of Lebanon as well as CMA regulations including Offers of Securities Regulation dated July 27, 2017

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GLOSSARY OF DEFINED TERMS

For the purposes of this Offering Circular, the following terms shall have the meanings set forth below:

"Additional Tier I Capital" means the additional Tier I Capital of the Bank as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Additional Tier I capital shareholders cash contribution to capital subject to interest payments, non-cumulative perpetual preferred shares, and financial instruments that: (i) are issued and fully paid, and (ii) are permanent, subject to early redemption at the Issuer's discretion following five years from their issue date and after exchanging such instruments with equivalent financial instruments and minority interest accepted within Additional Tier I Capital.

"*Articles of Incorporation*" means, the Articles of Incorporation of the Bank as amended or supplemented from time to time.

"*Bank*" means Banque BEMO SAL, a bank incorporated in the Lebanese Republic, together with, where appropriate in the context, the Bank's consolidated subsidiaries: BEMO Securitization SAL, Ferticed Limited Holding (Ferticed was liquidated in December 2016), BEMO Investment Firm Ltd-Dubai and Depository & Custody Company S.A.L.

"Bankdata" means Bankdata Financial Services WLL, a Lebanese company providing rankings and financial analysis for banks and financial institutions in Lebanon.

"Basel Accords" refer to the banking supervision accords (recommendations on banking regulations)—Basel I, Basel II and Basel III—issued by the Basel Committee on Banking Supervision (BCBS) of the Bank for International Settlements, as in effect from time to time.

"BCC" means the Lebanese Banking Control Commission.

"*Central Bank of Lebanon*" means "*Banque du Liban*", the Central Bank of the Lebanese Republic.

"*CMA*" means the Lebanese Capital Markets Authority established by virtue of Law no 161 of August 17, 2011.

"*Common Equity Tier I*" means the Bank's Common Equity Tier I Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of Central Bank of Lebanon, which are based generally on the Basel Accords. Common Equity Tier I capital includes paid-up share capital, issue premiums, shareholders cash contribution to capital not subject to interest payments, legal and statutory reserves (including reserves for unspecified banking risks but excluding reserves allocated for liquidation of real estate properties), retained earnings, funds allocated for investments in real estate properties and minority interests accepted within Common Equity.

"Eligible Investors" means any person who is not a U.S. citizen, Chairman or member of the Board of Directors of the Bank, the General Manager of the Bank, spouse or minor child of aforementioned persons or any person acting on their behalf.

"Escrow Agent" means Banque BEMO SAL in its capacity as escrow agent for the aggregate issue price paid by each investor in connection with his/her subscription in the Bonds.

"Deed of Irrevocable Undertaking to Subscribe" or *"Irrevocable Undertaking to Subscribe"* means a purchase application in the prescribed form for the subscription in the Bonds, a copy of which is attached to this Offering Circular as Exhibit A.

"*Issuer*" means the Bank.

"Law 308" means Lebanese Law No. 308 dated April 3, 2001, relating to the issuance by banks of shares and dealing therein, the issuance by banks of bonds and the ownership by banks of real property.

"Lebanese Pounds" means the official currency of the Lebanese Republic.

"Midclear" means Custodian and Clearing Centre of Financial Instruments for Lebanon and the Middle East SAL, Midclear S.A.L, a joint stock company organized under the laws of the Lebanese Republic and owned 99 per cent by the Central Bank of Lebanon, and which acts as the central depositary and clearing house in the Lebanese Republic.

"Regulation S" means Regulation S under the US Securities Act of 1933, as amended.

"Regulatory Event" means a change in any applicable Lebanese law or regulation which would likely rule out the Bank's right to account for Preferred Shares as Tier 1 Capital or the right to maintain the premiums of the Preferred Shares in US Dollars or in any other foreign currency – though the Bank shall have no obligation to maintain these premiums in US Dollars or in any other foreign currency.

"Subscription Escrow Account" means the account maintained by the Escrow Agent captioned "Subordinated Bonds 2017 Subscription Escrow Account" for the purpose of receiving and holding the aggregate issue price paid by each eligible investor in respect of the Bonds Issuance.

"Tier I Capital" means the Bank's Tier I Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Tier 1 capital is the sum of Common Equity Tier I Capital and Additional Tier I Capital as defined above.

"Tier II Capital" means the Bank's Tier II Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Tier II capital comprises preferred shares (other than preferred shares which are both perpetual and non-cumulative), subordinated loans, and any unrealized gain in participations and stocks held classified as Other Comprehensive Income (OCI), the revaluation surplus of the bank's properties – subject to the Central Bank of Lebanon approval, and general provisions constituted on assets exhibiting similar risk characteristics subject to approval of the Banking Control Commission.

"USD" or *"U.S. Dollars"* means the official currency in the United States.

"Unites States" and *"US Persons"* have the meanings assigned to such terms in Regulation S.

SUMMARY OF THE OFFERING

The following is a summary of certain information pertaining to the offering of ***"Subordinated Bonds 2017",*** *including the principal terms thereof. This Summary should be read as an introduction to the Offering Circular, and any decision to invest in the securities should be based on consideration of the Offering Circular as a whole. This Summary does not purport to be complete and is qualified in its entirety by the more detailed information that appear elsewhere in the Offering Circular, as well as by reference to the resolutions of the Ordinary General Assembly of shareholders that was held on September 5, 2017 authorizing the issuance of such Bonds, a copy of which is available for review to prospective subscribers upon their request at the offices of the Bank. Liability may arise based on the contents of the Summary if it is false or misleading in a material respect when read in conjunction with the other parts of the Offering Circular.*

Issuer……....	Banque BEMO SAL
Description…….	Tier II Capital, non-convertible, non-callable, Subordinated Bonds offering governed by (a) the Lebanese Code of Commerce, including, in particular, Articles 122 to 143, inclusive, and Articles 453 et seq. thereof; (b) Law No 308 of the Lebanese Republic, dated April 3, 2001; and (c) Banque du Liban decisions.
Issue Size…….	**US$35,000,000.-***(US Dollars thirty five million)*. The Issue Size is not subject to any increase.
Currency…….	US Dollar
Maturity……..	January 4, 2024
Issue Price……...	100% of the Nominal Value of the Bonds. Nominal Value: USD 100.00
Issue Date and Conditions to Issue and Offer……	**December 5, 2017 (Tentative)** The issuance of the Bonds is subject to the approval of the Central Bank of Lebanon, acting through its Central Council, and authorization by the Extraordinary General Meeting of Shareholders of the Bank. The Offering of the Bonds is subject to the approval of the Capital Markets Authority in Lebanon
Interest Rate……	7.00 per cent per annum, subject to the presently applied 7% withholding tax on earned interest for or on account of taxes of the Republic of Lebanon, payable semi-annually on December 31st and June 30th of each year. The first interest payment will be made on December 31st, 2018 including any interest amount due up to December 31st, 2017.
Use of Proceeds……...	The net proceeds from the sale of the Bonds will be used for general corporate purposes
Status and Subordination……..	The Bonds will constitute subordinated debt, ranking junior to the rights of the Bank's depositors and other creditors, however, senior to those of equity stakeholders. The Bonds therefore will not rank *pari passu* in priority of payment to unsecured obligations of the Bank. In the event of a bankruptcy, suspension of payments pursuant to Law No. 2 of January 16, 1967 (as amended) of Lebanon or any other applicable statute, reorganization, dissolution, winding-up, liquidation or composition or arrangement with creditors of the Issuer, the claims of the Bondholders in respect of the Bonds will rank junior in right of payment to the claims of holders of unsecured and unsubordinated payment obligations of the Issuer, *pari passu* with the claims of holders of all other subordinated indebtedness of the Issuer and in priority to the claims of the shareholders of the Issuer. The Bonds shall rank *pari passu* among themselves.
Related Party Transactions……	Related party transactions will be dealt with, within the scope and limitations of Article 152 of the Code of Money and Credit and Article 158 of the Code of Commerce and the Central Bank Basic Decision 11717 dated March 8th, 2014.

Events of Default…….	There is an event of default in any of the following situations: *(a) Non-Payment* the Issuer fails to pay the principal of or interest on the Bonds when due and such failure continues for a period of seven days in the case of principal and 14 days in the case of interest; or *(b) Breach of Other Obligations* the Issuer does not perform or comply with any one or more of its other obligations in these Bonds which default is incapable of remedy or is not remedied within 14 days after notice of such default shall have been given to the Registrar, Paying Agent and Custodian and to the Issuer at its specified office by any Holder of this Bond; or *(c) Insolvency* the Issuer is (or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts; or *(d) Winding-up* an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer, or the Issuer ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation on terms approved by a Resolution of Holders of Bonds, or *(e) Authorization and Consents* any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds, (ii) to ensure that those obligations are legally binding, valid and enforceable and (iii) to make the Bonds admissible in evidence in the courts of Lebanon, is not taken, fulfilled or done and, in any such case, if the matter is capable of remedy, it is not so remedied within 15 days of the Issuer becoming aware of it; or *(f) Illegality* it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under the Bonds; then the Bonds may, by notice in writing given to the Registrar, Paying Agent and Custodian at its specified office by the Holder of the Bonds (or the Issue Trustee, if appointed), be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further formality unless such event of default shall have been remedied prior to the receipt of such notice by the Registrar, Paying Agent and Custodian.
Form of Bonds…….	The Bonds will be issued in registered form and represented by one Global Bond Certificate, which will be deposited with Midclear.
Registrar, Custodian and Paying Agent……	Custodian and Clearing Centre of Financial Instruments for Lebanon and the Middle East SAL Midclear S.A.L ("Midclear"), the Custodian, Registrar and Clearing Agent for the Bonds, will administer the records of transfer and ownership of the Bonds. Midclear will also act as the Paying Agent by assuming the responsibility for the regular disbursement of interest payments and final principal payments to the

	Bondholders and transmit to these Bondholders all notifications received by the Issuer during the Bonds' life.
Denominations…….	The Bonds will be issued in denomination of US$10,000 each, constituting a total number of 3,500 Bonds bearing serial numbers from 1 up to 3,500.
Minimum Subscription..	5 (Five) Bonds or US$ 50,000.-(US Dollars fifty thousand)
Actions of Bondholders..	With respect to every bond issue, an assembly shall, by right, be formed by all the holders of the Bonds and shall be called Bondholders' Assembly, responsible for safeguarding the rights of the holders of the Bonds. The Bondholders' Assembly appoints a representative (the "Holders' Representative") for the issue. The Holders' Representative shall assume the following: (i) represent the holders of the Bonds before Courts or before any other authority, (ii) perform necessary work for protecting the holders of the Bonds and safeguarding their rights; and (iii) any other duties entrusted to him by the bondholders' assembly. The Holders' Representative may attend the Issuer's General Assemblies of shareholders and express his opinion thereat, without having the right to vote on resolutions. The Bondholders' Assembly shall meet on a yearly basis, unless the Holders' Representative calls for an extraordinary meeting whenever it deems it necessary. The Holders' Representative shall notify the Issuer of the resolutions adopted by the bondholders' assembly.
Withholding Tax…….	All payments of principal and interest in respect of the Bonds by the Issuer will be made after deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of, or by or within any political subdivision of or any authority having power to tax in, any applicable jurisdiction and each Bondholder will be required to assume and be solely responsible for any and all such taxes, including (but not limited to) such taxes as may be imposed in the Republic of Lebanon ("Lebanese Taxes"). If the Issuer shall be required to make any such deduction or withholding, it shall make payment of the amount so deducted or withheld to the appropriate governmental authority, but Bondholders shall not be entitled to receive any additional or other amounts to reimburse them for any such withholding or deduction. Interest payable on the Bonds is currently subject to withholding of Lebanese Taxes at a rate of seven per cent. The applicable rate may change pursuant to an amendment to or enactment of legislations.
Delivery and Clearance...	Ownership of the Bonds may be acquired, and transfers thereof may be effected exclusively through the book-entry systems of the Bonds' register held and maintained by Midclear SAL. The securities account records of Midclear, representing the Bonds register maintained by the Registrar, shall, in the absence of manifest error, be conclusive evidence of the identity of the owners of the Bonds.
Selling Restrictions…….	There are restrictions in the United States and certain other jurisdictions in connection with the offering and sale of the Bonds. No selling restriction in Lebanon.
Redemption……..	Redemption prior to maturity is not authorized. At maturity, redemption is subject to the prior approval of the Central Bank of Lebanon, as per BDL Basic Directive No 6830 of the Central Bank of Lebanon dated December 6, 1997. Redemption Price: 100% of the nominal value
Transfer……	The Bonds will be freely transferable, subject to standard know your customer (KYC) diligence conducted by the Bank and in compliance with the Lebanese Law.
No Listing…….	The Bank will not list the Bonds on any organized stock exchange in Lebanon or abroad.

Subscription Fees……	Maximum of 3% of the subscription amount *(negotiable, subject to the Bank's Management discretion)*
Subscription/Offering Period (tentative)	November 20, 2017 (from 8:30 a.m., Beirut time) through November 29, 2017 (until 1:00 p.m., Beirut time). The Subscription/Offering Period is not subject to extensions.
Priority Allocations…….	All eligible prospective subscribers shall submit to the Bank a duly signed Deed of Irrevocable Undertaking to Subscribe application. The Bank shall have the sole discretion to allocate the subscriptions received based on selected criteria. The Bank will notify subscribers via recorded phone calls of its acceptance or rejection, in whole or in part, of their Deeds of Irrevocable Undertaking to Subscribe applications and allotments, if applicable.
Governing Law……	The Subordinated Bonds 2017 are governed by the substantive laws of the Republic of Lebanon.
Submission to Jurisdiction……..	All parties to this offering, including the subscriber(s) and Bondholder(s) shall submit to the exclusive jurisdiction of the tribunals and courts of Beirut, Lebanon, to settle all disputes, claims or legal actions arising out of or in connection with the Bonds.
Risk Factors…….	The nature of the investment in the Bonds carries with it numerous types of risks including, but not limited to, political, economic, market and financial risks. Those risks relate, inter alia, to the circumstances in Lebanon and the region. Eligible Investors in Bonds should make themselves fully aware of the risks relating to their investment in Bonds before making such an investment. The following section does not describe all of the risks of an investment in the Bonds. Prior to making an investment decision, prospective applicants should carefully consider all the information set forth herein and as will be more fully described in the Offering Circular. The Bank will have the Offering Circular available in printed form at its Head Office, and General Management Offices at least 2 days prior to the commencement of the offer. **Considerations relating to Lebanon** The Bank operates in Lebanon and, accordingly, its economic and financial condition, its results of operations and business prospects are closely related to the overall political, social and economic situation in the Lebanese Republic, which in turn is tied to the geo-political situation in the region. The Bank is not rated. **Currency Considerations and Devaluation Risks** The Lebanese Pound is convertible and the Central Bank intervenes when necessary in order to maintain orderly conditions in the foreign exchange market. The Central Bank has been successful during the past several years in maintaining a stable rate of exchange against the U.S. Dollars. However, there can be no assurances that the Central Bank will continue, be willing or able to maintain a stable currency through intervention in the currency markets or otherwise. The Lebanese economy and banking sector are highly dollarized. In case the Lebanese Pound depreciates against the US Dollar, the financial conditions, business, liquidity and results of operations of Lebanese companies, including the Bank and its customers in Lebanon, would be materially adversely affected. **No Market; Illiquidity** There is currently no secondary market for the Bonds and in the future no secondary market shall be developed. Accordingly, the purchase of Bonds is suitable only for investors who intend to hold the Bonds until maturity and who are willing to bear the risks of illiquidity in the respective security.

	No Deposit Insurance The Bonds issued (a) are not guaranteed, insured or otherwise backed, by the credit of any Government or any agency or political subdivision thereof; (b) are not guaranteed or insured by any private deposit insurance corporation or agency; and (c) are not guaranteed by the Bank or any other related party (including the mother company, affiliated units and companies in Lebanon and abroad, sister companies or any other related party). **Subordinated Ranking** The Bonds will be subordinated to all other liabilities on the Bank's balance sheet, and as such bear a significantly higher risk of default in case of insolvency of the Bank. As part of the Tier II capital of the Bank, the Bonds are only senior to the components of shareholders' equity, including common and preferred shares.
Debt Issuing Restrictions	Subject to the abidance by the applicable laws of Lebanon, the Bank reserves the right to issue additional debt and equity instruments at the terms and at the time it deems appropriate.
Current structure of the Capital of the Bank	Common shares: LBP 62,248,000,000 Preferred Shares: US$ 35,000,000
Existing Subordinated Bonds	The Bank issued Subordinated Bonds in 2014 for the amount of US$25,000,000 maturing on January 4, 2021 and paying an annual interest rate of 6%
Placement Agent	Banque BEMO SAL

The Applicant acknowledges that he/she is fluent in the English Language. The Applicant further acknowledges that he/she fully understands the content of this Term Sheet, which is in English, and that he/she has been given the opportunity to ask questions and receive answers from the Issuer and obtain additional information necessary to understand and evaluate the merits and risks of purchasing and owning the Bonds.

يقر مقدم الطلب أنه يتقن اللغة الإنكليزية وأنه إطلع علع لائحة التعريف وعلى كافة الشروط والخصائص والمخاطر المنصوصة أعلاه باللغة الإنكليزية ، للسندات المرؤوسة التي ينوي المصرف اصدارها وهو بالتالي يؤكد فهم محتواها كليا ويقبلها جميعها من دون أي تحفظ. كما وأن مقدم الطلب يقر بأنه تم إعطاءه الفرصة لطرح الأسئلة وتلقي الإجابات عنها من قبل المصرف المصدر والحصول على معلومات إضافية ضرورية لفهم وتقييم مزايا ومخاطر شراء وامتلاك السندات.

Signature **الإمضاء**

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SUBSCRIPTION TIMETABLE AND PROCEDURES

Timetable and Authorizations

The following is a summary timetable and schedule of authorizations relating to the offering of the "Subordinated Bonds 2017". Prospective subscribers should note that this timetable is tentative and subject to change. Nevertheless, subject only to acceptance by, or on behalf of, the Bank, each subscription is final and irrevocable under all circumstances, regardless of delays in the closing of the transaction.

August 3, 2017:	A letter was sent by the Bank to the Governor of the Central Bank of Lebanon seeking preliminary approval on the issuance of the "Subordinated Bonds 2017".
August 4, 2017:	A meeting of the Board of Directors of the Bank was held to convene a General Assembly of Shareholders to meet exceptionally and to recommend to such General Assembly to issue the Bonds and to approve the terms and conditions of the issuance of the Bonds.
August 31, 2017:	A letter was received from the Governor of the Central Bank of Lebanon addressed to the Bank approving the in-principle issuance of the "Subordinated Bonds 2017".
September 5, 2017:	A General Assembly of Shareholders meeting was held exceptionally to authorize the issuance of the Bonds and to approve the terms and conditions of the issuance of the Bonds, and to delegate to the Chairman-General Manager/or whomever the latter appoints the power to set the Official Subscription Period and Subscription methodology.
October 16, 2017:	A letter was addressed by the Bank to the Capital Markets Authority in Lebanon seeking approval for the offering of the "Subordinated Bonds 2017".
October 16, 2017 :	A letter was addressed by the Bank to the Governor of the Central Bank of Lebanon, attaching a copy of the minutes of the General Assembly of Shareholders held to authorize the issuance of the "Subordinated Bonds 2017" and other pertinent documents seeking final approval for the issuance of the "Subordinated Bonds 2017".
November 2, 2017:	Banque du Liban, acting through its Central Council, approved the issuance of the Bonds.
November 7, 2017:	Capital Markets Authority, acting through its Board, approved the offering of the Bonds
November 9, 2017:	Confirmation Board of Directors defining final interest rate and Subscription Period was held.
November 20, 2017 (from 8:30 a.m., Beirut time) through November 29, 2017 (until 1:00 p.m., Beirut time):	**Official Subscription Period** – Prospective Eligible Investors wishing to subscribe for "Subordinated Bonds 2017", must submit duly completed "Deed of Irrevocable Undertaking to Subscribe" to the Issuer in accordance with the instructions contained therein no later than 1:00 p.m., Beirut time, on the last day of the Official Subscription Period (i.e., November 29, 2017).
November 30, 2017:	**Final Allotment Date** – The final allotments of the "Subordinated Bonds 2017" are expected to be made by the Bank. The Bank will notify each subscriber via a recorded phone call of its acceptance or rejection, in whole or in part, of its "Deed of Irrevocable Undertaking to Subscribe" and allotments, if applicable.
December 5, 2017 (tentative):	**Issue Date** – The "Subordinated Bonds 2017" are expected to be issued, and the Global Certificate remitted to Midclear.
December 22, 2017 (tentative):	First meeting of the Bondholders' Assembly is scheduled to be held.

Procedures for Subscription

Application for Subscription; Acceptance by the Bank

Prospective Eligible Investors wishing to subscribe in the Subordinated Bonds 2017 must submit a "Deed of Irrevocable Undertaking to Subscribe" in the prescribed form, a copy of which is attached to this Offering Circular as Exhibit A. Copies of this Offering Circular and the form of "Deed of Irrevocable Undertaking to Subscribe" are also available at the offices of the Bank located at the address indicated on the back cover of this Offering Circular and at the Bank's General Management and branch offices.

The "Deed of Irrevocable Undertaking to Subscribe" must be duly completed in full in accordance with the instructions contained therein, signed by the prospective subscriber, which must be an Eligible Investor, and submitted to the Bank in two counterparts. A "Deed of Irrevocable Undertaking to Subscribe" submitted by a corporation must be signed by a duly authorized representative in accordance with the constitutive documents of such corporation. A "Deed of Irrevocable Undertaking to Subscribe" shall be deemed received by the Bank only upon execution by the prospective Eligible Investor of payment of Aggregate Issue Price and receipt thereof by the Bank, such receipt to be evidenced by the return of a fully-executed copy of the "Deed of Irrevocable Undertaking to Subscribe" to the prospective subscriber. The Issuer may, in its sole discretion, reject any "Deed of Irrevocable Undertaking to Subscribe" in whole or in part and/or terminate the offering of the Subordinated Bonds 2017 at any time and for any reason whatsoever. In either such event, no person shall have any right to purchase the Subordinated Bonds 2017 from the Issuer at any time. The "Deed of Irrevocable Undertaking to Subscribe" will be received by the Bank only if submitted by Eligible Investors and only if submitted together with full payment of the relevant Aggregate Issue Price.

Payment of Aggregate Purchase Price

Upon submission of a "Deed of Irrevocable Undertaking to Subscribe", a prospective subscriber is required to transfer funds, in U.S. Dollars, to the Escrow Agent for credit to the "Subordinated Bonds 2017 Subscription Escrow Account", in an amount equal to the Net Aggregate Issue Price (i.e. the product of the number of the Subordinated Bonds 2017 being subscribed for times the issue price per share (i.e. USD 100.00). Bank charges and other related fees and expenses, if any, incurred in connection with the payment amounts in respect of the Aggregates Issues Price will be for the account of the applicant.

In the event that the offering of the Subordinated Bonds 2017 is terminated or if a "Deed of Irrevocable Undertaking to Subscribe" is rejected (in whole or in part), the Aggregate Issue Price or a corresponding portion thereof received by the Bank will be promptly refunded to the relevant applicant.

The "Subordinated Bonds 2017 Subscription Escrow Account" will not bear any credit interest.

Allotment

The Subordinated Bonds 2017 will be allotted at the sole discretion of the Bank to Eligible Investors, who have submitted a valid "Deed of Irrevocable Undertaking to Subscribe" that has been accepted by the Bank. It is expected that all allotments of the Subordinated Bonds 2017 will be made on or about November 30, 2017.

The Bank will send notices of allotments to subscribers on or promptly following the Final Allotment Date once the final allotments have been made. Until such time, no subscriber shall have any right or interest in any Subordinated Bonds 2017.

CERTAIN INVESTMENT CONSIDERATIONS

The subscription to, and purchase of, the Bonds might involve substantial risks and is suitable only for, and should be made only by, eligible investors that are fully familiar with the Lebanese Republic in general. . The following section does not describe all of the risks of an investment in the Bonds. Each prospective subscriber in or purchaser of the Bonds (the "investor") should note the following:

a) An investment in the Bonds is subject to certain risk factors (among which those described below under "Certain Investment Considerations" and all other information contained in this Offering Circular) that an investor should carefully consider before reaching a decision to buy the Bonds.

b) This Offering Circular has been prepared solely for informational purposes. It is not intended to provide financial, legal, accounting or tax advice and should not be relied upon in that regard. This Offering Circular contains all information that is necessary to enable a prospective subscriber to make an assessment of the Issuer and its assets, liabilities, financial position, management, profits or losses, and business prospects, as well as details of the type and terms and conditions of the Bonds being offered

c) This section, describes the significant risks to the best of Banque BEMO's knowledge, relating to an investment in the Bonds. Purchasers are urged to read and consider, the following information about these risks, together with the other information contained in this Offering Circular, before investing in the Bonds. Subscribers who are not prepared to accept the following risk factors should not invest in the Bonds.

Summarized below are a number of risk factors generally associated with emerging markets such as Lebanon. However, these are not intended to be exhaustive and there may be other risk factors that should be taken into account in relation to a particular investment. Investors should also note that a feature of emerging markets is that they are subject to rapid change, and the information set out below may become outdated relatively quickly. The Issuer has no obligation to update the information here below for any circumstances or events occurring after the date of this Offering Circular.

Considerations Relating to the Lebanese Republic

The Bank operates in Lebanon and, accordingly, its economical and financial condition, its results of operations and business prospects are closely related to the overall political, social and economic situation in the Lebanese Republic, which in turn is tied to the geo-political situation in the region. Lebanon is located in a region which has been subject to ongoing political and security concerns, especially in recent years. Internal and external factors combined led to a heavily militarized conflict, which lasted from April 1975 until October 1990. Repetitive series of fighting took place, aggravated by two Israeli military invasions in 1978 and 1982 leaving the country with substantial physical and infrastructure damage and a significant decline of government authority, as well as a large public sector deficit and capital outflows. The post-conflict era has been characterized by large public sector deficits and setbacks in the implementation of political and economic reforms due, among other matters, political problems. Current political problems in the Middle East also have an impact on the economic and political situation in Lebanon.

During the past years, Lebanon experienced dramatic events starting from the assassination of Prime Minister Rafic Hariri on February 14th, 2005 and a 37-day war and invasion by Israeli military forces in July 2006 leading to large infrastructure damage. This was coupled with renewed tensions between the supporters of the Government and the opposition which culminated to civil unrest on May 7th, 2008 imposing an intervention by the Arab League. This intervention led to an agreement in Doha (Qatar) between the different parties which ended the stalemate and led to the election on May 25, 2008 of General Michel Sleiman as President of the Republic paving the way towards new parliamentary elections. A new electoral law was drafted changing the voting system for the parliamentary polls in 2009. Following the successful elections, a new government was formed in 2009 headed by Prime Minister Saad Hariri. On 12 January 2011, this government was overthrown due to large disagreements between its members mainly the commitment to the Special Tribunal of Lebanon, that investigated the murder on former Prime Minister Rafik Hariri. Directly after the resignation, President Sleiman appointed Najib Mikati as new prime minister. He won the support of a majority of the members of the parliament and was asked to form a new government. After five months of laborious negotiations with the different political parties, a new 30-member cabinet took office on 13 June 2011.

On 22 March 2013, Prime Minister Najib Mikati resigned after his divided cabinet was unable to agree on a new election law and the parliament's refusal to extend the tenure of the country's police chief. After the resignation of Prime Minister Mikati, Mr. Tamam Salam was appointed as new prime minister where it took him around 10 months to constitute the government mainly due to large disagreements between political parties. These disagreements prevailed and Lebanon's presidential elections which were supposed to be held by May 25, 2014, were postponed. On October 31, 2016 and pursuant to a 29-month presidential vacuum where political institutions remained paralyzed, Lebanon elected General Michel Aoun as President. Pursuant to this election, a new Cabinet was formed on December 18 2016,

under Prime Minister Saad Hariri. General parliamentary elections were supposed to be held in Lebanon in 2014. However, the failure of Parliament in electing a new President, two thirds of the body extended its own term until 2017 then to 2018 after approving a new electoral law in June 2017 replacing the previous system under which the 128 members of parliament were elected from 26 multi-member constituencies in which voters cast as many votes as there were seats in their constituency and the candidates with the highest number of votes within each religious community were elected. The new electoral law instituted proportional representation in 15 multi-member constituencies. The law also stipulated the adoption of biometric identity cards to cast ballots during the next elections instead of the identity card. Parliamentary elections delayed due to the presidential vacuum and disagreements on the electoral law are scheduled to be held in May 2018. Lebanon's upcoming parliamentary elections currently constitute the biggest challenge for political forces whose majority fear the outcome of the vote in light of a new law that forecasts uncertain victories. Amid those fears, worries re-emerged in September 2017 concerning the possibility of once again postponing the elections, scheduled for next May, amid calls from Speaker Nabih Berri to hold elections at the end of this year before the scheduled date. Speaker Nabih Berri's parliamentary Development and Liberation Bloc submitted an urgent draft law to end Parliament's term this year and to hold early elections before the end of 2017 amid fears of any emergency extension if Lebanon's Ministry of Interior fails to complete the biometric identity cards before next May. This new draft law is anticipated to create further divide between the different political factions and could result in non-holding of parliamentary elections.

On November 5, 2017, Lebanese Prime Minister Saad Hariri unexpectedly resigned during a trip to Saudi Arabia, saying his life was in danger, and creating a leadership vacuum. The Lebanese presidency has announced that it does not accept the resignation statement where the Prime Minister is required to submit it officially in Lebanon. All political forces were exerting efforts to find a solution that could protect "stability" and prevent implosion in the state.

Conflict in Syria and spillover effect on Lebanon

In addition to the aforementioned, the Syrian conflict which started in April 2011 had a large adverse impact on Lebanon. A year after neighboring Syria began its descent into civil war, deadly clashes between rival religious groups erupted in Tripoli and Beirut raising fears that the conflict was beginning to spill over the border and that Lebanon's already fragile political truce could once more collapse into sectarian strife. The massive influx of people fleeing the Syrian conflict - by October 2016, Syrian refugees were estimated to be 1.5 million - has placed a severe strain on the country's resources.

Starting October 2012, a series of terrorist car bomb explosions were witnessed further attenuating the ailing political situation. However, strict security measures imposed by the Lebanese Security Apparatus led to curbing of such bombings. Starting August 2014, fleeing Syrian Jihadi fighters retrenched in the Bekaa region next to the border with Syria (Ersal area). However, and pursuant to efforts deployed by the Lebanese Army 95% of the territory once controlled by militants had been recaptured by the Lebanese Army by June 2016. During the month of August 2017, and after several offensives and attacks, the Lebanese Army recaptured the remaining ISIL holdouts in the Western Qalamoun area, and with the ISIL withdrawal, the Lebanese government regained full control of Lebanese territory for the first time in six years.

Lebanon's institutional and governance effectiveness remain weak, reflecting both its highly divided domestic political system and the high-risk regional security environment. Although some improvements are well noted since the election of a new president, and the formation of a new cabinet which approved a new electoral law and process, the overall situation remains extremely precarious and any improvement is tied to the resolution of the conflict in Syria and the region, which will eventually lead to a potential agreement between divided political groups.

Discovery of Hydrocarbon resources in Lebanon

Major natural gas reserves and hydrocarbon deposits recently discovered off the coast of Lebanon and other Middle Eastern countries have ignited considerable interest in the hydrocarbon potential of the region. Being a new player in the hydrocarbon industry, Lebanon is under pressure to demonstrate to investors it has the aptitude to manage the development of its hydrocarbon resources efficiently and in a timely manner despite regional instability and potential geopolitical obstacles. Lebanon has received a substantial amount of interest when 52 companies from 25 different countries participated in its pre-qualification round in spring of 2013.

After being delayed for 3 years, Lebanon's path to offshore licensing is now coming to fruition with a deadline for bids set for September 15, 2017 and where Lebanese officials reported on plans to award four offshore blocks by November

15, 2017 in the country's first attempt at establishing its domestic oil and gas resources. The discovery of oil and gas fields in the Levant Basin could be a new prospect for bringing both wealth and economic development to Lebanon. However, the latter could materialize once the in-depth exploration activities are initiated noting that initial results pursuant to drilling in Cyprus were not encouraging.

Sovereign Debt Ratings

As at the date of this Offering Circular, the Lebanese Republic's obligations denominated in foreign currency were rated as follows:

Rating Agency	**Tenor**	**Rating**	**Outlook**
Standard & Poor's Ratings Services*	Long Term	**B-**	Stable
	Short Term (less than one year)	B	
Moody's Investors Service Limited**	Long Term	B3	Stable
Fitch IBCA Limited***	Long Term	B-	Stable
	Short Term (Less than one year)	B	

** On September 2, 2017, S&P Global Ratings has kept its foreign and local currency sovereign credit rating for Lebanon unchanged. Lebanon continues to show modest progress in normalizing its divided political system, as evidenced by the adoption of the new electoral law in June this year. Still, we anticipate that the general government debt burden will remain very high through 2020, said S&P. The rating agency kept its B-/B score for Lebanon unchanged, and maintained its stable outlook on the country, saying that inflows of deposits will remain steady over the next 12 months to support the government's borrowing needs and external deficit. S&P indicated that the Lebanese government's debt-servicing capacity depends largely on the domestic financial sector's willingness and ability to add to its holdings of government debt, which in turn relies on bank deposit inflows, particularly from non-residents, and also on central bank financing. This structural weakness constrains the ratings, as do Lebanon's divided political environment and regional tensions. These factors have, in turn, hindered economic outcomes and public finances, to which consistently large fiscal deficits, as well as high, and rising public debt attest. S&P noted that Lebanon, after Japan and Greece, has the highest government debt at an estimated 148 per cent of gross domestic product among the sovereigns it covers. Lebanon's B-/B rating is a speculative rating also known as junk by investors.*

*** On August 25, 2017, Moody's Investors Service downgraded Lebanon's long-term issuer ratings to B3 from B2 and changed the outlook to stable from negative. The rating downgrade is based on Moody's view that a B3 rating appropriately captures Lebanon's credit risk profile. The ongoing erosion of Lebanon's very weak government finances will continue to constrain the rating pending further clarity on whether recent and prospective fiscal reforms will be effective given the evolving political environment. While Lebanon's external liquidity position continues to be strong, and banking liquidity ample, rising external imbalances, coupled with a weak growth outlook increase Lebanon's vulnerability to external shocks. The stable outlook reflects the return to a fully-functioning government, which will support reform momentum going forward. Lebanon has a strong track record of servicing debt under stressed conditions, and its external buffers have continued to strengthen in recent years, supported by new deposits and the Central Bank's operations. Lebanon's local-currency bond and deposit ceilings are unchanged at Ba2. The foreign currency deposit ceiling is lowered to B3 from B2 and the short term foreign currency deposit ceiling remains at NP. The foreign currency bond ceiling was changed to B1 from Ba3. On November 7th, 2017, Moody's warned that reopening Lebanon's political vacuum after the resignation of prime minister Saad al-Hariri would damage the country's credit rating*

****On September 1st, 2017, Fitch kept Lebanon credit rating at 'B-' with stable outlook. Fitch said its rating reflected Lebanon's very weak public finances and high political risk, as well as its large foreign reserves and strong banking system. Lebanon is trying to reform its fragile economy after years of paralysis in decision-making, but is under pressure to do more to stop its rising debt spinning out of control. The election of President Michel Aoun last year and appointment of a new government led to steps to improve stability and boost the economy, partly through laws to allow oil and gas development. Last month the government decided to raise public sector pay and to increase taxes to cover the cost, prompting Moody's to downgrade its credit rating for Lebanon to B3. Fitch said Lebanon's public finances were weaker than those of its peers and its outlook for fiscal consolidation was unclear. Its forecast is that Lebanon's budget deficit will narrow to 9.5 percent of gross domestic product (GDP) in 2017 and then to 8.9 percent in 2018-19. That would imply the government's debt-to-GDP ratio rising to 155 percent in 2019. On November 10th, 2017, Fitch said that the resignation of Prime Minister Saad Hariri will test the ability of the Lebanese banking system to confront the new crisis. "A prolonged political crisis would again test the resilience of deposit growth and diaspora inflows into the Lebanese banking system, which are key to government funding. Government debt-GDP, at around 150 percent, is one of the highest among Fitch-rated sovereigns and interest spending consumed 48 percent of budget revenue in 2016," the report said.*

Prospective purchasers of Bonds should note the following:

-All of the above-mentioned ratings referred to above are non-investment grade. A security rating is not a recommendation by the rating organization, or by any other person, to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning ratings organization and each should be evaluated independently from the other.

-Any change in the sovereign debt rating of Lebanon by any major rating agency may significantly impact yields on both sovereign and corporate debt securities on the local and international market. Investors in the Bonds should bear in mind that a sharp rise in yields subsequent to a downgrade of Lebanon's sovereign ratings may adversely affect the price of the Bonds on the secondary market.

THE "SUBORDINATED BONDS 2017" HAS NOT BEEN, NOR IS EXPECTED TO BE, RATED BY ANY CREDIT RATING AGENCY.

The definition applicable to Standard & Poor's Rating Services ratings referred to above is that debt of this rating is generally regarded as having significant speculative characteristics, and that the Lebanese Republic's capacity or willingness to meet its financial commitment on its securities will be dependent upon favorable business, financial, and economic conditions.

The definition applicable to the Moody's Investor Services Limited ratings referred to above is that debt of this rating is generally regarded as lacking characteristics of desirable investment, and that assurance of interest and principal payments or maintenance of other terms in connection with such debt over a long period may be small.

The definition applicable to the Fitch Ratings' ratings referred to above is that debt of this rating is generally regarded as indicating that significant credit risk is present, but that a limited margin of safety remains. Financial commitments are currently being met; however, the capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

Budget Deficit and Macro-Economic Instability

As a result of Lebanon's long reconstruction effort and recurring large budget deficits, the Lebanese state has accumulated a high level of public debt estimated currently at around 140% of GDP. Although a recovery plan has been devised by the Government with the help of the international financial community, and financial contributions have been received by Lebanon in the framework of the Paris II and Paris III Agreements, the implementation of related structural reform plans has been delayed. These plans include the privatization of state assets and other measures, which are expected to contribute significantly to the reduction of the public debt and consequently improve the overall fiscal position. Lebanon's debt-to-GDP ratio fell to 135 percent more than a year ago. But the failure to increase revenues or trim spending over the last year has contributed to a surge in the public debt, which is now estimated at more than $55 billion.

Government revenues, including budget revenues and treasury receipts attained LBP 1,215 billion in December 2016 to sum LBP 14,959 billion in 2016 (LBP 14,435 billion in 2015). The LBP 14,959 billion revenues comprised LBP 13,989 billion budget revenues and LBP 970 billion treasury receipts. Government expenditures, consisting of budget and treasury spending, amounted to LBP 2,029 billion in December 2016 to total LBP 22,412 billion in 2016 (LBP 20,393 billion in 2015). The LBP 22,412 billion expenditures included LBP 7,484 billion debt service and LBP 14,928 billion other general expenditures of which LBP 1,397 billion to EDL and LBP 1,765 billion related to budget expenditures for previous years. Total Deficit increased as such to LBP 7,453 billion in 2016 from LBP 5,958 billion in 2015, while the primary balance surplus decreased to LBP 31 billion compared to LBP 1,092 billion respectively.

Gross public debt amounted to LBP 114,828 billion (the equivalent of USD 76.2 billion) at the end of January 2017, thus increasing by 1.7 percent when compared to end December 2016 and by 7.8 percent form end January 2016.
Net public debt, which subtracts public sector deposits at commercial banks and the central bank from gross public debt, amounted to LBP 98,480 billion at the end of January 2017, increasing by 5.8 percent from end of January 2016.

The shares of the local currency debt and foreign currency debt of the total gross were around 61.2 percent and 38.8 percent respectively at the end of June 2017. The distribution of local currency debt by type of holder was as follows: 42.9 percent for banks (45.7 percent end of May 2017), 41.6 percent for the Central bank (39.2 percent in the previous month) and 15.5 percent for the non-banking sector (15.1 percent one month earlier). The breakdown of the foreign currency debt was as such: Eurobonds (92.3 percent), Multilateral (4.3 percent), Bilateral (3.0 percent), Paris II loans (0.1 percent) and others (0.3 percent). The average maturity of the Government debt securities denominated in the domestic currency was estimated at 1,333 days (3.66 years) as at end June 2017 with a weighted interest of 6.91 percent, while the average maturity of the Government debt instruments denominated in foreign currencies was around 6.97 years with a weighted interest of 6.39 percent.

It is important to note that during 2017, the first Lebanese state budget in 12 years was approved by the Cabinet aiming to reduce the deficit to 8.7 percent of national output in 2017 from 9.3 percent the year before. The budget projects spending of 23.67 trillion Lebanese pounds ($15.7 billion) and revenues of 16.38 trillion pounds. Lebanon's failure to

pass a budget for more than a decade has reflected successive political crises since the 2005 assassination of former Prime Minister Rafik al-Hariri.

Equally, the International Monetary Fund (IMF) concluded a visit to Lebanon in September 2017 where the following recommendations were made:

- **Front-loaded fiscal adjustment is needed based on revenue measures, increasing tax compliance, increasing fuel taxation, and rebalanced spending, including by reducing costly electricity transfers.**
- **The authorities can promote sustainable growth through structural reforms, including by taking steps to improve the business climate.**
- **Lebanon, which has provided a safe haven for over a million Syrian refugees, has received international assistance for its efforts and deserves continued support.**

The fund noted that the country's wide budget deficit remained a source of vulnerability with public debt reaching 148 per cent of GDP in 2016, among the highest in the world after countries like Japan. That's set to increase after public sector wage hikes this month. To counter the challenge of the fiscal strain, the IMF said the country should halt the rise of public debt to put the economy on a sustainable growth path. It also said the country could boost revenues by increasing fuel taxation and cracking down harder on tax evasion.

The potential failure by the Government to implement structural reform and privatization plans may lead to additional borrowings to cover a higher budget deficit which shall further increase total public debt and have a negative impact on the country’s finances.

Accuracy of Financial and Statistical Information

The analysis of the economic situation and prospects in Lebanon is hampered by the lack of reliable data on the economy. Presently, only the monetary accounts and the fiscal operations of the Lebanese Government are available on a regular basis. However and although an improvement is witnessed during the past two years, there are important gaps in informational and institutional coverage. All other data (balance of payments components, prices, production, employment and finances of both public and private sectors) are, for all practical purposes, best estimates. Throughout this Offering Circular, the Bank has also set forth certain statistics, including market shares, from official sources and other sources it believes to be reliable, including its own sources and estimates. Such information, data and statistics may be approximations or estimates or use rounded numbers. The Bank has not independently verified such information, data or statistics, does not guarantee their accuracy and completeness and accepts no responsibility in respect of such information, data and statistics, other than that this information has been accurately reproduced and that, accordingly, as far as the Bank is aware and is able to ascertain from information published, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Emerging Markets

Investing in financial instruments involving emerging market risk, such as Lebanese risk, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. These higher risks include, but are not limited to, high volatility, limited liquidity and changes in the regulatory, fiscal and political environments that may affect the ability of investors to receive payment, in whole or in part, in respect of their investments. There can be no assurances that the market for securities bearing Lebanese risk, such as the Bonds, will not be affected negatively by events elsewhere, especially in emerging markets.

CONSIDERATIONS RELATING TO THE BANK AND THE BANKING INDUSTRY

Global Financial Crisis

After irresponsible risk-taking sent the global economy into a multi-year depression in 2007-2008 resulting in many bankruptcies of large financial institutions and governments, regulators and central banks in advanced economies launched a major effort to strengthen their financial systems. To that end, they focused initially on banks, which have since improved their risk-absorbing capital cushions, cleansed opaque balance sheets, increased liquidity, and enhanced

transparency while narrowing the scope of high-risk activities, and partly realigned internal incentives to discourage reckless behaviour. Moreover, the process for resolving failing – and failed – banks has been improved.

In addition to strengthening the banking sector, policymakers have also made progress toward standardising derivative markets and making them more robust and transparent, which also reduces the risk of future taxpayer bailouts for irresponsible institutions. Moreover, the system for payments and settlement has been made safer, thereby lowering the threat of a "sudden stop" in economic activity, like the one that occurred in the fourth quarter of 2008. Although the Financial Stability Board (FSB) describes the financial system as "safer, simpler and fairer," it also acknowledges "nascent risks that, if left unchecked, could undermine the G20's objective for strong, sustainable and balanced growth."

The FSB indicated that another systemic financial crisis that threatens growth and economic prosperity worldwide likely will not originate in the banking system. However, it would be premature to assert that all the risks confronting the financial system have been resolved. Because risks have changed – and migrated out of the banking system – the FSB called on regulators and supervisors to step up their efforts and widen their focus to see beyond the banks

On another regional front, the fall of crude oil prices by 50 percent starting in 2015 is seen to largely benefit oil-importing economies and to challenge oil exporters. In the case of Lebanon, an energy importer and aspiring energy exporter, there are mixed effects on its broader economy. On the economic front, the World Bank highlighted the primary benefit of the oil price drop to come from a lower fuel bill for the national electricity company, Electricité du Liban. This is significant given that in the past years exceptionally high oil prices have cost the Lebanese government, on average, an astounding 4.7 percent of GDP to maintain electricity prices constant, by covering any price difference above $23 per barrel. Another positive impact is the fall of 20 liters of gasoline from LL39,000 to LL22,000, benefiting consumers. If low prices are sustained, the effects can eventually create an economic boost by increasing the spending power of consumers.

On the negative side, the flow of remittances from Lebanese emigrants could be at risk. In 2014, Lebanese expatriates sent a significant $7.7 billion to support families back home – which constitutes more than 16 percent of Lebanon's GDP. As 60 percent of these financial flows come from Gulf countries, they could be at risk due to lower oil price leading to project delays, budget cuts and may ultimately impact the employment and income of Lebanese working in the Gulf Cooperation Council states.

It is difficult to predict how long the persisting volatility in the financial sector and capital markets will exist or whether related concerns about further failures of financial and other institutions will exacerbate the prevailing difficulties in the global economy and, accordingly, it is not possible to foresee the specific impacts these conditions may have on the Lebanese Republic. In particular, the global financial situation may have adverse effects on the Lebanese Republic, including with respect to: (i) losses by, or reduced income of, Lebanese nationals overseas, which may result in reduced inflows and remittances; and (ii) the general slowdown in economic activity in the Lebanese Republic, which may impact the assets and profitability of Lebanese banks, including the Bank. If current global market conditions and circumstances deteriorate further, or continue for protracted periods of time, this could lead to a decline in available funding and credit quality and increases in defaults and non-performing debt, which may impact the investments and finances of the Bank.

Liquidity

With respect to the Lebanese banking sector, liquidity levels were historically maintained at high levels rendering short-term inter-bank loans readily available and comparatively cheap.
As of December 31, 2016, the Bank's net loans accounted for 47.53% of customers' deposits, while net primary liquid assets to customers' deposits stood at 35.50%. Taking into consideration the fact that as of December 31, 2016, total loans granted against pledged deposits amounted to LBP 148,734 million, the adjusted net loans to customers' deposits ratio would drop to 43.71% while net primary liquid assets to customers' deposits would stand at 38.09%. There can be no assurance that these liquidity conditions will continue to prevail over the long term.

Exposure to Lebanese Government Risk

Similar to other Lebanese banks, a portion of the Bank's liquidity in both Lebanese Pounds and foreign currency is invested in Lebanese Government obligations or maintained as reserves with Banque du Liban or invested in

Certificates of Deposits issued by Banque du Liban. The composition of the Bank's investment and trading portfolio and placements with Banque du Liban remained relatively stable as at December 31, 2015 and 2016, with Lebanese and other governmental treasury bills and bonds and Certificates of Deposits with Banque du Liban (in both LBP and foreign currency) comprising 24.50% of the Bank's total assets at the end of 2016 compared to 25.34% at the end of 2015. These investments exclude placements and deposits (required and excess reserves) maintained with the Central Bank. Such investments remain below the average for the Lebanese Banking Sector at the end of 2016 where the share of the Lebanese sovereign exposure constituted around 30% of total assets of the consolidated balance sheet of Lebanese banks

Nonetheless, it is important to note that any default by the Lebanese Government or Banque du Liban on any of its obligations, or any significant reduction in value or liquidity of Government securities the Bank holds, or in the regulatory or accounting treatment thereof, would have a material adverse effect to the Bank's business, liquidity, results of operations, financial condition and prospects, as well as on other Lebanese banks.

U.S. and European Union Sanctions on Syria and Hezbollah

The Bank owns a 22% stake in its associate bank Banque BEMO Saudi Fransi (also known as BBSF) established and operating in Syria. In addition, the Bank has been dealing since establishment with prime Syrian privately owned corporate clients extending credit facilities to support their business operations. Since 2003, the U.S. Treasury Department Office of Foreign Assets Control ("OFAC") has been administering the Transactions Regulations, which include sanctions imposed on Syria prohibiting U.S. persons from engaging in certain transactions, including investments, with the Syrian Government and certain private parties, as well as other parties, designated by OFAC as Specially Designated Nationals of Syria. In addition, Syria's relations with the United States and the international community have deteriorated in recent years, especially pursuant to the hostilities and measures initiated in Syria in 2011 where new sanctions against Syria were imposed prohibiting all foreign assistance to the country, as well as exports and re-exports of items on the U.S. Munitions List, all items on the Commerce Control List, and all other U.S. products except food and medicine. U.S. sanctions prohibit any financial transaction with the Syrian government and block all property of the Syrian government, its senior leaders, U.S. persons that support the Syrian government, and individuals and entities involved in the planning, sponsoring, organizing, or perpetrating of terrorist attacks. Additional sanctions on Syrian public entities and individuals supporting the regime were issued during the past years.

Further to the above in May 2011 the European Union imposed sanctions on Syria including an embargo on the supply of arms, military equipment and equipment which might be used for internal repression. The European Union also imposed asset freezing measures on certain persons identified as being responsible for the hostilities. The scope of the measures were subsequently widened to also cover natural or legal persons and entities associated with them. Additional sanctions on Syrian public entities and individuals supporting the regime were issued during the past years by the European Union.

On top of the above, and in December 2015, the Hizballah International Financing Prevention Act (HIFPA) was enacted by the US Congress where its purpose was to curb the access of Hizballah to international banking transactions. In response, the Central Bank issued Circular 137 requesting Lebanese banks to comply with the US law. At the same time, the Lebanese parliament passed legislation to enhance anti-money laundering and counter-terrorism financing rules to meet international standards and safeguard Lebanon's banking sector.

In 2017, and subsequent to proposed draft amendments to the HIFPA including widening of financial sanctions proposed by the US Congress on Hizballah, Lebanese bankers and politicians began extensive lobbying and visited the US capital detailing the adverse impact of such sanctions on the Lebanese Banking Sector. US policymakers promised to take into considerations the remarks stated. Until date, the said new version of the HIPFA including amendments is has not been enacted.

There can be no assurance regarding US Treasury/OFAC's and/or EU's enforcement policy with regard to Syria, Hizballah or other countries where the Bank may develop operations, and it is possible that US Treasury/OFAC and/or EU may take a different view regarding the measures the Bank has taken or the status of the Bank's investments. The imposition of any sanctions or designations of individuals or entities within the Bank as Specially Designated Nationals may result in U.S./E.U persons or affiliates associated with the Bank being subject to restrictions and penalties. These sanctions could also have a material adverse effect on the Bank's business, liquidity, results of operations, financial conditions and prospects.

Currency Considerations and Devaluation Risks

The Central Bank of Lebanon has been successful during the past several years in maintaining a stable rate of exchange against the U.S. Dollars. However, there can be no assurances that the Central Bank of Lebanon will continue, be willing or able to maintain a stable currency through intervention in the currency markets or otherwise. The Central Bank's foreign assets, aided by sovereign deposits mainly from Gulf countries and financial transactions conducted with Lebanese banks reached US$ 43,055 million as at September 15, 2017 as per the interim BDL Balance sheet.
The Lebanese economy and banking sector are highly dollarized. According to data published by the Central Bank, over 66% of total banking sector deposits were in foreign currencies as at the end of June 2017. In case the Lebanese Pound devalues against the US Dollar, the financial conditions and results of operations of Lebanese companies, including the Bank and its customers in Lebanon, would be affected.

Furthermore, since a substantial portion of the loans of the banks operating in Lebanon are denominated in US Dollars, a devaluation of the Lebanese Pound would increase the debt service burden of borrowers whose income is in Lebanese Pound and therefore would likely increase the level of the Bank's non-performing loans.

Potential Lack of Investments Alternative

The Bank extends loans and overdraft facilities to a growing number of customers in Lebanon and neighboring countries. While all credit facilities are subject to a strict credit approval process, including sufficient securities (e.g., mortgages, liens and co-guarantors), proper enforcement of such collateral, particularly outside Lebanon, remains subject to the efficiency of the local judicial system. Besides lending activities, the Bank also invests its funds in interest bearing deposits in EU and US banks and financial institutions, internationally traded securities and the remaining amount in Lebanese Government debt securities and deposits with the Central Bank of Lebanon.

Competition

The market for financial and banking services in Lebanon is competitive. As of December 31, 2016, there were 45 active commercial banks, 17 specialized medium and long-term credit banks, 4 Islamic Banks and 51 financial institutions operating in a country with a population of approximately four million. These banks and financial institutions include branches of foreign large international banks and financial institutions with access to larger and cheaper sources of funding. Competition to attract depositors and quality borrowers and to provide fee-based services to customers has been particularly strong since the end of the war in 1990. As a result of the competitive environment in which the Bank operates, the Bank's expenses may increase and its revenues may decrease, depending on the extent and intensity of the competition.

CONSIDERATIONS RELATING TO THE OFFERING

Illiquidity

There is currently no secondary market for the Bonds and in the future no secondary market shall be developed. Accordingly, the purchase of Bonds is suitable only for investors who intend to hold the Bonds until maturity and who are willing to bear the risks of illiquidity in the respective security.

No Deposit Insurance

The Bonds issued (a) are not guaranteed, insured or otherwise backed, by the credit of any Government or any agency or political subdivision thereof; (b) are not guaranteed or insured by any private deposit insurance corporation or agency; and (c) are not guaranteed by the Bank or any other related party (including the mother company, affiliated units and companies in Lebanon and abroad, sister companies or any other related party).

Subordinated Ranking

The Bonds will be subordinated to all other liabilities on the Bank's balance sheet, and as such bear a significantly higher risk of default in case of insolvency of the Bank. As part of the Tier II capital of the Bank, the Bonds are only senior to the components of shareholders' equity, including common and preferred shares.

No Future Debt Issuing Restrictions

Subject to the abidance by the applicable laws of Lebanon, the Issuer reserves the right to issue additional debt instruments at the terms and at the time it deems appropriate. Such an offering of additional debt instruments may be issued with or without security, which may result in further subordination of the Bonds.

Use of Proceeds

The primary purpose of the Offering is to strengthen the capital structure of the Bank to retain a strong capital base in light of a growing risk weighted asset base. The proceeds from the Offering will be entirely used for strengthening the Tier 2 regulatory capital base. The proceeds shall support the growth of the Bank and ensure its abidance to regulatory requirements as stipulated by Central Bank decisions. Given the stated use of the proceeds where the latter shall be allocated to the regulatory capital base denoted as Tier 2 / Supplementary capital, the risk factors associated with the use of proceeds are the ordinary banking risks arising from the nature of the business of the Issuer which could impact the ability of the Bank to honor its obligations under the Bonds. The risks include Credit risk (default by borrowers/ counter parties), Interest rate risk (adverse movement in market rates), Liquidity risk (inability to obtain required amount of funding at economical rates), Currency risk (adverse movement in forex rates), Price risk (adverse changes in market prices of securities/ investments/ assets), Operational risk (risk of fraud, errors, improper documentation, etc.), Technology risk (data loss, interruptions, obsolescence) and Reputation risk (risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation which may adversely affect its financial position, business and profitability). Any of these risks could affect the Bank causing it to incur financial loss and loss of business.

No Credit Rating

The Bank and the Subordinated Bonds 2017 are not rated by any external credit rating agency

REGULATORY AND CORPORATE REQUIREMENTS

The issuance by Lebanese commercial banks of subordinated bonds or notes such as the Subordinated Bonds 2017 is governed by the following:

- Code of Commerce of the Lebanese Republic including in particular Articles 122 to 143, inclusive and Articles 453 et seq. thereof
- The provisions of the Law No. 308 of the Lebanese Republic dated April 3, 2001
- Central Bank of Lebanon directives and circulars namely BDL Basic Decision No 6856 dated December 19, 1997, BDL Basic Decision No. 6830 dated December 6, 1997 and BDL Basic Decision No. 6939 dated March 3, 1998.

The main prerogatives as set by BDL Decision No 6856, which govern the issuance of subordinated bonds, notes and other similar debt instruments by Lebanese banks, such as the Subordinated Bonds 2017 are as follows:

1) Prior Approval of the Central Bank of Lebanon: prior to the date of issuance, the Issuer must obtain the approval and authorization of the Central Bank, which requires, but will not be granted necessarily upon, satisfaction of the following conditions:

a- that the capital base of the Issuer be not less than the amount to be allocated for the bank's headquarters and branches in accordance with applicable decisions and regulations issued by the Central Bank;

b- that the term of the bonds to be issued be not less than one year;

c- that annual principal amortizations not exceed twice the Tier 1 Capital of the Bank;

d- that the Issuer does not redeem, discount or acquire any bond prior to its maturity unless such bond has been issued and is outstanding for a period of one year or more

e- that the bonds be issued pursuant to applicable laws of the Republic of Lebanon

f- that the bonds be freely negotiable

g- that the denomination of the bond be not less than LBP 150,000 or its equivalent in foreign currency

h- that the maturity date, the interest rate and the methods of calculation and payment of interest and the dates for such payment be stated in the text of the bond itself;

i- that the nominal amount of the bonds be equal to its issue price; and

j- that the issue date and the maturity date be on a business day in Lebanon

2) Auditors' Obligations: the statutory external auditors of the Bank are obligated to verify on an ongoing basis the compliance by the Issuer with provisions of BDL Decision No 6856 and with all other applicable regulations and to advise the Central Bank and the Banking Control Commission of any violation of such regulations.

3) Shareholders' Approval: According to Article 125 of the Code of Commerce, the issue of corporate bonds (such as the Bonds) must be resolved by the Issuer's Ordinary General Assembly of Shareholders. The Assembly will (i) determine the terms and conditions of the issue; and (ii) resolve the issuance of the Bonds accordingly.

4) Capital Markets Authority Authorization: Pursuant to CMA Regulations the issuance of bonds by commercial banks (such as the Issuer) is subject to the prior approval of the Lebanese Capital Markets Authority where the Issuer should strictly comply with the requirements of CMA Offers of Securities Regulation dated July 27, 2017

Form, Value and Subscription: Corporate bonds shall be issued in nominal value and registered in the names of their holders. Corporate bonds must be repaid at said nominal value. The value of corporate bonds shall be paid in one amount on subscription, and will be credited to the account of the Issuer.

Denomination: Corporate bonds can be denominated in foreign currency.

Bondholders' Assembly: With respect to every bond issue, an assembly shall, by right, be formed by all the holders of the Bonds and shall be called Bondholders' Assembly, responsible for safeguarding the rights of the holders of the Bonds. The Bondholders' Assembly appoints a representative (the "Holders' Representative") for the issue. The Holders' Representative shall assume the following: (i) represent the holders of the Bonds before Courts or before any other authority, (ii) perform necessary work for protecting the holders of the Bonds and safeguarding their rights; and (iii) any other duties entrusted to him by the bondholders' assembly. The Holders' Representative may attend the Issuer's General Assemblies of shareholders and express his opinion thereat, without having the right to vote on resolutions.

The Bondholders' Assembly shall meet on a yearly basis, unless the Holders' Representative calls for an extraordinary meeting whenever it deems it necessary. The Holders' Representative shall notify the Issuer of the resolutions adopted by the bondholders' assembly.

REPRESENTATIONS AND WARRANTIES OF SUBSCRIBERS

Each prospective subscriber of the Bonds will be required to make the representations and warranties set forth in Exhibit A to this Offering Circular to, and for the benefit of the Issuer, on and as the date of its application to subscribe to the Subordinated Bonds and on and as the Issue date. The Bonds will be sold to such subscriber in reliance on such representations and warranties. See “Exhibit A: Deed of Irrevocable Undertaking to Subscribe”.

SCHEDULE OF INFORMATION REQUIRED TO BE DISCLOSED PURSUANT TO ARTICLE 126 OF THE LEBANESE CODE OF COMMERCE

Name of Issuer……	Banque BEMO SAL
Headquarters…….	96 Pasteur building, Pasteur street, Medawar area, Beirut, Lebanon
Principal Amount of Bonds……	US $ 35,000,000.-(US Dollars thirty five million)
Date of General Assembly Convened exceptionally authorizing the issuance of the Bonds……..	September 5th, 2017
Interest Rate……	(6.50-7.25) per cent per annum, subject to the presently applied 7% withholding tax on earned interest for or on account of taxes of the Republic of Lebanon. The final interest rate shall be determined by the Board of Directors that will resolve the Notice of Article 126 Code of Commerce and define the Subscription Period
Interest Payment Dates…….	Semiannually on June 30th and December 31st of each year
Issue Price……	100%
Maturity Date……	January 4, 2024
Net Profit for Year-Ended December 31, 2016……	LBP 23,745,310 thousand
Capital…….	LBP 62,248,000 thousand fully paid
Number of Bonds on Issue Date……	3,500 Bonds to be initially represented by the Global Certificate
Denomination……..	US $10,000
Subordination…….	The Bonds will be subordinated
Security……	Unsecured
Previous Bond Issues……..	The Bank issued in December 2014 Subordinated Bonds amounting to US$25,000,000 maturing on January 4, 2021

Names and Addresses of Members of the Board of Directors:
Dr. Riad Obegi; Mr. Samih Saadeh; Sharikat Al Istimarat Al Oropia Lil Sarek Al Aousat Holding SAL represented by Mr. Jean Hajjar; Mr. Peter Hrechdakian; Mrs. Karine Obegi; Mr. Antoine Wakim; Mr. Derek El Zein; Sheikh Hassan Kabbani
The business address of all the members of the Board of Directors and managers is: Banque BEMO SAL – 96, Pasteur Building, Pasteur Street, Medawar Area, Beirut, Lebanon.

DESCRIPTION OF THE SHARE CAPITAL OF BANQUE BEMO SAL

Shares in Issue

Eligible share capital: The issued and outstanding share capital of the Bank consists of 62 million nominative common shares authorized and fully paid with a par value of LBP 1,004 per share and divided as follows:

Listed Shares: 51,400,000
Unlisted Shares: 10,600,000

82.9% of the total number of common shares is listed on the Beirut Stock Exchange The Bank has not issued any capital instruments of innovative, complex or hybrid nature.

Shareholders' cash contribution to capital: This caption represents capital injection of USD 19,306,789 made by shareholders, in the form of shareholders' cash contribution to capital, each to the extent of his/her shareholding in the Bank's equity. Effective 2011, the General Assembly of shareholders approved to call-off interest on cash contribution to capital. This sort of equity instrument consists of non-refundable capital injection which could be converted into share capital and it has the advantage of being booked and maintained in foreign currencies which allows for hedging against national currency fluctuation.

Preferred Shares: On December 19, 2013, the Bank issued Non-cumulative Perpetual Preferred Shares in the amount of USD35million (LBP52billion) on the basis of 350,000 shares at USD100. The owners of Preferred Shares are entitled to receive annual dividends at a rate of 7.00%. The Preferred Shares are perpetual, but the Bank has the option, in its entire and sole discretion, to purchase part or all of the Preferred Shares, subject to compliance with the ratios and regulations set by Central Bank of Lebanon and by the Banking Control Commission, pursuant to several terms and conditions where the first purchase can be made within a two-month period from the date of the meeting of the Annual Ordinary General Assembly which shall meet to approve the annual financial accounts of fiscal year 2018.

Change in Share Capital

The share capital of the Bank may be increased only with the approval of the Bank's shareholders at an Extraordinary General Assembly and the authorization of the Central Bank of Lebanon, following a decision of the Board of Directors. The Bank's shareholders shall also determine during the Extraordinary General Assembly meeting the conditions of issue of new shares. Increases in share capital may be effected either by the issue of new shares, by incorporation of retained earnings or free reserves or by any other legally authorized means. New shares may be issued for cash or for assets contributed in kind. Under Lebanese legislation, the share capital of the Bank may not be reduced under any circumstances; however, in common with other Lebanese banks, the Bank is authorized to buy back its own shares and cancel them subject to certain conditions

The Bank has undertaken the following changes affecting its share capital:

On January 31, 2011, the Extraordinary General Assembly approved in its meeting the increase of share capital from LBP16billion to LBP62billion thereby raising the share capital by LBP46billion through the issuance of 46,000,000 ordinary shares with a par value of LBP1,000 per share against a transfer of LBP16billion from retained earnings, free reserves, and legal reserve and the remaining balance of LBP30billion subscribed into in cash.

On May 16, 2014, the Extraordinary General Assembly resolved to redeem 200,000 preferred shares "Issuance 2006" and to reconstitute the Bank's capital for the equivalent amount and adjust the decimals in the nominal amount of the share, through transfer from the retained earnings whereby the nominal amount of the share becomes LBP1,004 after the reconstitution of the capital. No other changes in the Bank's share capital have been affected in the last five years.

Directors' Interests

The interests of the Directors of the Bank in the share capital of the Bank held directly as at the date of the Offering Circular are indicated as follows:

Director	Direct
Dr. Riad Bechara Obegi *(Chairman and General Manager)*	0.02%
Mr. Samih Halim Saadeh *(Vice Chairman – General Manager)*	1.82%
Sharikat Al Istismarat Al Oropia Lil Sharek Al Aousat (Holding) SAL *represented by Mr. Jean Victor Hajjar*	61.057%
Mr. Antoine Youssef Mansour Wakim	0.017%
Sheikh Hassan Isam Mohamed Kabbani	0.03%
Mrs. Karine S. Mansour Obegi	0.008%
Dr. Derek Abdelkader El Zein	0.008%
Mr. Peter Ara Hrechdakian	0.008%

Related Party Transactions

In the ordinary course of its activities, the Bank transacts business with related parties, including shareholders, directors, subsidiaries and associates. See *"Management and Human Resources – Balances/Related Party Transactions"* and *"The Banking Sector and Banking Regulation in the Lebanese Republic – Banking Sector – Related Party Transactions"*

None of the above-mentioned directors has entered into service contracts with the Bank.

No Director of the Bank has an interest in any contract, arrangement or transaction entered into by the Bank or its subsidiaries, which is or was unusual in its nature or conditions or significant in relation to the business of the Bank and which was effected during the current or immediately preceding fiscal year, or was effected during an earlier fiscal year and remains in any respect outstanding or unperformed.

Shareholders

The following table sets out the composition of the main holders of the Bank's Common Shares, who control, directly or indirectly, at least 2 percent of the Bank's share capital, as shown in the Bank's register of shareholders as at the date of the Offering Circular:

Shareholder Name	Percentage of Shareholding
Sharikat Al Istismarat Al Oropia Lil Sharek Al Aousat (Holding) SAL*	61.057%
Banque Saudi Fransi– KSA**	10.327%
Ms. Nour Maroun Semaan	4.496%
Ms. Tala Maroun Semaan	4.496%
Ms. Maya Maroun Semaan	4.496%
Sheikh Issam Ben Mohamad Ben Khairy Kabbani	3.066%
Al Amir Libanaise Holding SAL	2.394%
Others	9.668%

** Sharikat Al Istismarat Al Oropia Lil Sharek Al Aousat (Holding) SAL counts among its shareholders Mr. Riad Bechara Obegi (20.5%), Mr. Yordan Bechara Obegi (33.41%), Late Georges Bechara Obegi (29.83%), Mr. Peter Ara Hrechdakian (10.25%), Mrs. Tania Issa Semaan (3%)*

***Banque Saudi Fransi (BSF) is affiliated with Credit Agricole Corporate and Investment Bank that holds an equity interest of 31.1% in BSF*

Reserves: Reserves consist of the following as at December 31, 2016 and 2015 (Audited):

(LBP Million)	**Audited 2016**	**Audited 2015**
Legal reserve……..	6,846	5,048
Reserve for general banking risks…….…….	31,904	26,524
General reserve for performing loans……	4,054	1,500
Reserve for assets acquired in satisfaction of loans……..……..	870	768
Reserve from disposal of assets acquired in satisfaction of loans…….	182	182
Other reserves…….	6,209	5,518
Total Reserves…….	**50,065**	**39,540**

Eligible reserves are created by accumulated appropriations of profits and are maintained for future growth, to reach 2% of total risk weighted assets in 2017. In accordance with the requirements of Lebanese Money and Credit Law, the

Bank transfers since its inception 10% of its net income to the legal reserve account. This reserve is not available for distribution but can be used for capital increase.

The reserve for general banking risks is constituted according to local banking regulations from income on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies to the extent of LBP 2.84 billion and LBP 29.06 billion, respectively, in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

Issued Securities:
For details on issued securities and stock price as well as volume of trading, prospective buyers are invited to consult the Bank's page on Beirut Stock Exchange on the following web link:

http://www.bse.com.lb/ListedSecurities/Issuers/BanqueBEMO/tabid/129/Default.aspx.

Alternatively, the following can be used:

Link on Beirut Stock Exchange
Click on http://www.bse.com.lb/
Click on Listed Securities – Issuers – Banque BEMO

CAPITALIZATION AND USE OF PROCEEDS

The following table outlines the long-term liabilities and shareholders' equity of the Bank as of December 31, 2016 and June 30, 2017. Except as otherwise disclosed in this Offering Circular, there has been no material change in the Bank's long-term liabilities, shareholders' equity, or total capitalization since June 30, 2017. The table also outlines the Bank's potential capitalization pursuant to the intended Bonds' Offering.

Banque BEMO SAL Capitalization

All figures are in LBP Billions	Dec 2016	June 2017	Post-Offering
Long-Term Liabilities……	**37.68**	**37.68**	**90.45**
Subordinated Bonds…….	37.68	37.68	90.45
Shareholders' Equity			
Capital…….	62.24	62.24	62.24
Treasury Shares……	(2.93)	(2.97)	(2.97)
Preferred Shares……...	52.64	52.64	52.64
Shareholders' cash contribution to capital……...	29.10	29.10	29.10
Reserves……	50.06	56.14	56.14
Retained Earnings…….	27.38	36.62	36.62
Cumulative currency translation adjustment……	-	0.31	0.31
Profit for the period……..	23.84	11.99	11.99
Equity attributable to the Group……...	**242.35**	**246.08**	**246.08**
Non-controlling interest……...	0.10	0.11	0.11
Total Equity……	**242.45**	**246.19**	**246.19**

Notes:
1. Assuming amount of Subordinated Bonds issued equivalent to USD 35 million. Post offering amounts are net of offering fees and expenses

Use of Proceeds

The net proceeds of the issue of the Bonds will be used by the Bank to shore-up the Bank's capital base, a measure intended by the Bank to enhance its capital adequacy ratio. Subject to the approval of the Central Council of the Central Bank, the Subordinated Bonds' Issue will be considered as part of Tier II capital and it is expected to strengthen the Bank's eligible capital base used for calculation of solvency ratios, particularly in U.S. Dollars.

The improved capital structure will support the expected growth of the Bank's assets, its funding needs, and the expansion of its commercial banking activities and services in the respective markets of Lebanon and the neighboring Arab markets.

Banque BEMO SAL Capitalization Ratios

		Audited December 31, 2016	Unaudited June 30, 2017	Unaudited Post Offering*
Common Equity Tier 1 Ratio…	%	10.39	9.59	9.89
Tier I Capital Ratio……...	%	13.42	12.44	12.60
Total Capital Ratio……	%	15.59	14.07	16.48
Total Risk Weighted Assets….	LL mln	1,735,782	1,849,627	1,944,675

**Assuming Total Risk Weighted Assets increase by an additional 5% from June 30, 2017 amounts* *Source: BEMO*

OVERVIEW OF BANQUE BEMO SAL

Banque BEMO SAL is a Lebanese joint-stock company registered in the Beirut Commercial Registry under No. 17837 and on the Central Bank of Lebanon's Banks List under No. 93. The Bank's Head Office is located at 96 Pasteur building, Pasteur street, Medawar area, Beirut, Lebanon, and the General Management Offices in Esseily Building, Riad el Solh square, Beirut Central District.

The Obegi Family, major shareholder of the Bank, has a long and successful banking history. In 1961, the Obegi Family founded "Crédit Libanais SAL", one of the leading commercial banks in Lebanon and in which they sold their majority shareholding in 1985. In 1973, they founded "Banque de l'Europe Méridionale SA" currently "BEMO Europe-Banque Privée", in Brussels-Belgium with offices and operations in Paris (1976), Luxembourg (1982) and Cyprus (1986). In 1994, and with the renewed confidence in the country, the Obegi Family through "Sharikat Al Istismarat Al Oropia Lil Shark Al Aousat (Holding) SAL" re-entered the banking sector in Lebanon by acquiring "Future Bank SAL" a small, problem-free commercial bank and renamed it "Banque Bemo SAL".

The Bank's **total assets** were equivalent to LBP 2,650 billion (US$ 1,758.24 million) as at December 31, 2016 as compared to LBP 2,443 billion (US$ 1,620.56 million) as at December 31, 2015, reflecting a year-on-year increase of 8.48%. The un-audited balance sheet as at June 30, 2017 reveals that the total assets' base reached LBP 2,581 billion (US$ 1,711.88 million) declining by 2.6% when compared to December 31, 2016 figures.

The Bank's **loans and advances to customers** *(including loans and advances granted to related parties and net of provisions for non-performing loans and unrealized interests)* were equivalent to LBP 1,040.57 billion (US$ 690.26 million) as at December 31, 2016 as compared to LBP 1,018.12 billion (US$ 675.37 million) as at December 31, 2015 reflecting a year-on-year increase of 2.2%. The un-audited balance sheet as at June 30, 2017 reveals that loans and advances to customers were equal to LBP 1,135.21 billion (US$ 753.04 million) increasing by 9.1% when compared to December 31, 2016 figures.

The Bank's **customers' accounts at amortized cost** *(including related parties accounts)*, were equivalent to LBP 2,189.14 billion (US$ 1,452.17 million) as at December 31, 2016 as compared to LBP 2,038.95 billion (US$ 1,352.54 million) as at December 31, 2015, reflecting a year-on-year increase of 7.39%. The un-audited balance sheet as at June 30, 2017 reveals that customers' accounts at amortized cost reached LBP 2,110.95 billion (US$ 1,400.44 million) decreasing by 3.6% when compared to December 31, 2016 figures.

The Bank's **shareholders' equity** reached LBP 242.45 billion (US$ 160.83 million) as at December 31, 2016 as compared to LBP 202.88 billion (US$ 134.58 million) as at December 31, 2015 reflecting a year-on-year increase of 19.5%. The un-audited balance sheet as at June 30, 2017 reveals that the Bank's shareholders' equity reached LBP 246.19 billion (US$ 163.31 million) increasing by 1.5% when compared to December 31, 2016 figures.

It is important to note that on September 30, 2016, the Central Bank of Lebanon issued an intermediary circular No 436 amending its basic circular No 44 and decision no 6939 related to solvency calculation in Lebanese commercial banks. The new requirements are further strengthen the overall capital adequacy framework already in place in Lebanese banks.
After conducting the necessary deductions as directed by BDL and BCC requirements, the new minimum solvency requirements to be achieved based on a phased in approach will be as follows:

Description	31/12/2016	31/12/2017	31/12/2018
Common Equity Tier 1 Ratio	8.5%	9%	10%
Tier 1 Ratio	11%	12%	13%
Total Capital Ratio	14%	14.5%	15%

(*) including the Capital Conservation Buffer required by Basel Committee equivalent to 4.5%

As of December 31, 2016, the Bank's capital adequacy ratios were in line with the requirements set forth by the Central Bank whereby the Net Common Equity Tier 1 Ratio reached 10.39%, the Tier 1 Ratio was equivalent to 13.42% and the Total Capital Ratio reached 15.60%.

As at December 31, 2016, the Bank's staff consisted of 229 employees and its network consisted of 8 branches in Lebanon and one branch in Limassol.

SELECTED CONSOLIDATED FINANCIAL INFORMATION & OPERATING DATA

The selected financial information for the Bank (including financial ratios and statistical data) set forth below as at and for the years ended December 31, 2014, 2015 and 2016 has been derived from, should be read in conjunction with, and is qualified in its entirety by reference to the audited consolidated financial statements of the Bank included on Page 103. The condensed interim consolidated un-audited financial information and review report for the six month period ended June 30, 2017 were also included for information purposes. Analysis of performance and financial results is conducted on the audited results of 2015 and 2016 with indicative information provided on the performance as of June 30, 2017.

BALANCE SHEET DATA	**AUDITED**			**UNAUDITED**
LBP Thousand	**2014**	**2015**	**2016**	**June 2017**
ASSETS				
Cash and Central Banks	373,339,089	440,213,601	549,560,119	446,152,887
Deposits with banks and financial institutions	201,795,055	201,242,051	298,217,095	173,246,680
Financial assets at fair value through profit or loss.	23,560,908	25,700,650	85,253,068	51,641,425
Loans to banks and financial institutions	63,356,463	48,867,483	17,512,310	39,698,117
Loans and advances to customers	968,310,441	1,016,269,785	1,037,927,223	1,133,050,578
Loans and advances to related parties	1,364,224	1,855,871	2,646,345	2,160,004
Investment securities	513,744,517	638,556,400	594,523,821	653,472,310
Customers' liability under acceptances	31,980,838	25,296,152	6,936,955	15,476,543
Investments in associates	18,860,293	17,645,342	18,052,156	19,449,762
Assets acquired in satisfaction of loans	2,259,705	2,046,944	2,046,944	2,046,944
Property and equipment	15,332,940	16,698,002	23,967,744	29,672,233
Intangible assets	726,239	618,201	981,680	889,520
Other assets	9,948,097	8,243,257	12,924,894	13,698,652
Total Assets	**2,224,578,809**	**2,443,253,739**	**2,650,550,354**	**2,580,655,655**
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK				
-Documentary and commercial letters of credit	19,901,750	25,232,406	31,295,824	13,764,332
-Guarantees and standby letters of credit	64,389,556	85,545,223	90,464,323	106,522,059
-Forward contracts	569,068,283	433,508,634	246,224,821	320,511,314
FIDUCIARY DEPOSITS& ASSETS UNDER MANAGEMENT	20,547,094	40,387,852	45,197,457	77,302,040
LIABILITIES				
Deposits and borrowings from banks	104,971,005	111,351,617	126,651,112	126,798,548
Customers' accounts at amortized cost.	1,772,008,426	1,949,950,909	2,078,192,028	2,004,395,243
Related parties' accounts at amortized cost	60,436,511	89,000,514	110,953,534	106,555,384
Acceptance liability	31,980,838	25,296,152	6,936,955	15,476,543
Other term borrowings	6,221,860	7,530,780	9,315,863	10,037,369
Other liabilities	12,061,102	13,510,433	30,860,467	26,440,210
Provisions	7,248,568	6,042,789	7,496,647	7,069,268
	1,994,928,310	**2,202,683,194**	**2,370,406,606**	**2,296,772,565**
Subordinated bonds	37,718,476	37,687,500	37,687,500	37,687,500
Total Liabilities	**2,032,646,786**	**2,240,370,694**	**2,408,094,106**	**2,334,460,065**
EQUITY				
Share capital	62,248,000	62,248,000	62,248,000	62,248,000
Treasury shares	(2,344,459)	(2,696,018)	(2,931,915)	(2,970,486)
Preferred shares	52,641,854	52,641,854	52,641,854	52,641,854
Shareholders' cash contribution to capital	29,104,984	29,104,984	29,104,984	29,104,984
Reserves	32,755,595	39,540,019	50,065,272	56,137,562
Retained earnings	22,205,984	25,795,153	27,384,124	36,619,295
Currency translation adjustment	(22,032,426)	(23,440,267)	-	314,842
Profit for the year	17,128,792	19,490,701	23,842,788	11,989,712
Equity attributable to the Group	191,708,324	202,684,426	242,355,107	246,085,763
Non-controlling interests	223,699	198,619	101,141	109,827
Total Equity	**191,932,023**	**202,883,045**	**242,456,248**	**246,195,590**
Total Liabilities and Equity	**2,224,578,809**	**2,443,253,739**	**2,650,550,354**	**2,580,655,655**

INCOME STATEMENT DATA

	Audited			Un-audited
LBP Thousand	**2014**	**2015**	**2016**	**June 2017**
Interest income	101,807,844	107,867,838	116,755,051	58,620,053
Interest expense	(64,919,000)	(72,425,574)	(79,240,335)	(40,250,262)
Net interest income	**36,888,844**	**35,442,264**	**37,514,716**	**18,369,791**
Fee and commission income	8,437,618	9,751,500	20,175,935	4,009,577
Fee and commission expense	(567,442)	(376,959)	(309,957)	(167,981)
Net fee and commission income	**7,870,176**	**9,374,541**	**19,865,978**	**3,841,596**
Net results and other gain/(loss) on financial assets at fair value through profit or loss	4,858,999	6,706,383	4,531,743	6,889,092
Gain on exchange	1,930,269	2,527,958	2,856,686	1,855,509
Gain from derecognition of assets at amortized cost, (net)	1,856,492	2,575,456	1,934,797	117,217
Other operating income/(loss)	5,827,584	2,965,009	4,709,925	2,841,108
Net financial revenues.	**59,232,364**	**59,591,611**	**71,413,845**	**33,914,313**
Allowance for impairment of loans and advances and other receivables	(262,838)	(515,456)	(1,605,560)	(121,568)
Write-back of provision for collectively assessed loans (net)	(928,807)	140,597	-	2,206
Net financial revenues after net impairment charge	**58,040,719**	**59,216,752**	**69,808,285**	**33,794,951**
Staff costs	(20,567,047)	(20,579,175)	(22,620,527)	(11,687,841)
Administrative expenses	(15,494,618)	(14,789,388)	(15,684,416)	(7,052,705)
Depreciation and amortization	(1,361,205)	(1,428,069)	(1,518,618)	(1,094,287)
Recovery of principal of financial assets at FVTPL		-	75,256	-
(Provision for)/Write-back of provision for contingencies	(386,605)	1,071,567	(1,524,478)	(40,650)
Total expenses	**(37,809,475)**	**(35,725,065)**	**(41,272,783)**	**(19,875,483)**
Profit before income tax	20,231,244	23,491,687	28,535,502	13,919,468
Income tax expense	(3,306,413)	(3,991,541)	(4,790,192)	(1,921,070)
Profit for the year/period	**16,924,831**	**19,500,146**	**23,745,310**	**11,998,398**
Attributable to:				
Equity holders of the group	17,128,792	19,490,701	23,842,788	11,989,712
Non-controlling interest	(203,961)	9,445	(97,478)	8,686
	16,924,831	**19,500,146**	**23,745,310**	**11,998,398**
Basic and diluted earnings per share	**235/44**	**257/11**	**328/28**	**135/43**

SELECTED FINANCIAL RATIOS AND STATISTICS

	2014	2015	2016
Rankings*			
Ranking in total assets	21	19	19
Ranking in customer deposits	20	19	19
Ranking in loans and advances to customers	18	18	18
Ranking in total corporate & SME loans	15	15	15
Ranking in shareholders' equity	20	20	21
Ranking in L/C openings for the year	19	16	19
Ranking in fiduciary accounts and Assets Under Management	9	9	13
Ranking in doubtful loans/gross loans	4	4	5

	2014	2015	2016
Asset and Liability Management			
Interest earning assets to total assets	98.05%	90.16%	86.57%
Interest bearing liabilities to total liabilities	96.87%	96.76%	92.44%
Profitability and Efficiency			
Net interest margin[1]	36.23%	32.86%	32.13%
Return on interest earning assets[2]	0.78%	0.89%	1.03%
Return on earning assets[3]	0.79%	0.82%	0.92%
Return on Assets[4]	0.76%	0.80%	0.90%
Return on average Assets[5]	0.76%	0.84%	0.93%
Return on Equity[6]	9.67%	10.63%	10.86%
Return on average Equity[7]	9.00%	10.88%	11.81%
Cost-to-income[8]	65.14%	60.33%	59.12%
Staff expenses to total operating expenses[9]	57.03%%	58.18%	59.05%
Capital Adequacy, Liquidity and Solvency			
Basle II Capital Adequacy Ratio[10]	14.30%	14.44%	15.59%
Equity to assets[11]	8.63%	8.30%	9.15%
Loans to deposits[12]	52.92%	49.93%	47.53%
Loans to total assets[13]	43.59%	41.67%	39.26%
Net liquid assets to deposits[14]	54.64%	58.58%	63.99%
Net liquid assets to total assets[15]	45.01%	48.88%	52.85%
Doubtful loans to gross loans[16]	0.73%	0.84%	1.92%
Loan loss provisions to doubtful loans	94.40%	97.15%	63.17%
Loan loss provisions to gross loans	0.69%	0.82%	1.21%
Net doubtful loans to equity[17]	0.23%	0.13%	3.42%

Notes: Rankings are provided by Bilanbanques 2016 & 2017 (as published by BankData)*

1. Net interest income after provisions/Interest revenues

2. Net income/(Cash & Central Bank; Lebanese Government securities; fixed income securities; deposits with other institutions; loans and advances to customers)

3. Net income/(Total Assets less fixed assets and Regularization accounts)

4. Net income/Total Assets

5. Net income/Average total assets

6. Net income/Total Shareholders' equity

7. Net income/Average Shareholders' equity

8. Salaries and general operating expenses/net financial revenues

9. Total salaries and related expenses/total operating expenses (excluding depreciation and losses on investment properties)

10. Central Bank of Lebanon BIS capital adequacy ratio (Basel II Calculations)

11. Shareholders' Equity/Total Assets

12. Net loans/Customer deposits

13. Net loans/Total Assets

14. Net liquid assets/customer deposits; net liquid assets include cash; deposits at Central Bank and other institutions; investments in securities maturing within one year

15. Net liquid assets/Total Assets

16. Doubtful loans/Gross loans

17. Doubtful loans/Shareholders' equity

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions of the Bonds (the "Conditions"), which will be attached to the Subordinated Bonds Certificate in registered form.

The issue of registered Subordinated Bonds due January 4th, 2024 (the "Bonds") was duly authorized by a resolution of the Ordinary General Assembly of the Bank held on September 5th, 2017. The Bonds are issued in accordance with Lebanese regulations which require the prior approval of both the Central Bank of Lebanon and the Lebanese Capital Markets Authority on such issuance (as defined below).

For the purposes hereof, "Lebanese Regulations" means (i) articles 122 and seq. of the Code of Commerce, (ii) Law No. 308 dated April 3, 2001; (iii) Central Bank Directive 6856 dated December 19, 1997 on bonds issued by banks, (iv) Central Bank Directive 6830 dated December 6, 1997 on subordinated bonds, (v) Central Bank Directive 6939 dated March 25th, 1998, (vi) Capital Markets Authority Decision No 16 dated February 13, 2014 on financial instruments and products, (vii) Capital Markets Authority Offers of Securities Regulation dated July 27, 2017 and (viii) any other relevant laws, regulations and directives applicable to Lebanese banks which issue, or propose to issue bonds.

1. Form, Title, Transfer and Denomination

(a) Form, Title and Transfer

The Bonds shall be represented by a global Bonds Certificate in registered form, issued in the names of the subscribers who have been accepted, and signed by the Issuer. The Bonds Certificate will be deposited, as soon as practicable after the issuance of the Bonds, with Midclear SAL; and accordingly, the names of the respective Holders shall be entered in the Bonds register maintained with Midclear (the "Register"). No subsequent Bonds Certificates will be issued or printed, and the Bonds shall thereafter always be represented by the initial Bonds Certificates and by the entries in the Register.

The Bonds may be acquired, and transfers thereof may be effected, exclusively through Midclear. For all purposes, the securities account records of Midclear representing the Bonds Register shall, in the absence of manifest error, be conclusive evidence of the identity of the owners of the Bonds and of the respective nominal amounts of such Bonds credited to the securities accounts of such owners (but without prejudice to any other means of producing such records in evidence). Midclear shall have sole responsibility for maintaining, supervising or reviewing any such securities account records relating to the Register and /or to the Bonds.

Title to the Bonds passes by registration in the Register maintained by Midclear. The person in whose name a Bond is registered (the "Holder") will (except as otherwise required by law) be treated as the absolute owner for all purposes (regardless of any notice of ownership, trust or any interest in it or any writing on it, or the theft or loss of the Bond), and no person will be liable for so treating a Holder. A Bond may be transferred by virtue of an instrument of transfer in approved form duly completed and signed by both the transferor and the transferee, and notified to Midclear at its specified office.

No Holder may request the transfer of a Bond to be registered during the period of 15 days ending on the due date for any payment of principal on that Bond.

(b) Denomination

Each Bond will be issued, in denomination of US$ 10,000 and integral multiples of US$ 10,000 in excess thereof. The Bond is not divisible.

2. Status, Ranking and Guarantee

The Bonds will constitute direct, general and unsecured obligations of the Bank, subordinated as described herein. They are not convertible in shares or in any other form of stake. In the event of bankruptcy, suspension of payments, reorganization, dissolution, winding up, liquidation or composition or arrangement with creditors of the Bank, the claims of the Bondholders will rank junior in right of payment to the claims of holders of unsecured and unsubordinated payment obligations of the Bank, *pari passu* with the claims of holders of all other subordinated indebtedness of the Bank and senior to the claims of shareholders of the Bank.

The Bonds shall at all times rank *pari passu* and without any preference among themselves.

The Bonds issued (a) are not guaranteed, insured or otherwise backed, by the credit of any Government or any agency or political subdivision thereof; (b) are not guaranteed or insured by any private deposit insurance corporation or agency; and (c) are not guaranteed by the Bank or any other related party (including the mother company, affiliated units and companies in Lebanon and abroad, sister companies or any other related party).

The Bonds issued do not enjoy any legal or economic privileges as a result of any agreements or side and separate contracts which may reduce their seniority towards depositors and/or other creditors of the Bank.

3. Interest

Each Bond bears interest from the closing date at the rate of 6.50-7.25 per cent per annum, payable semi-annually on June 30th and December 31st of each year, and only from the profits of the Bank. Payment of interest is not affected by any change in the creditworthiness of the Issuer. Each Bond will cease to bear interest from the due date for redemption unless, after surrender of such Bond, payment of principal is improperly withheld or refused by the Bank. In such event it shall continue to bear interest at such rate (both before and after judgment). The final interest rate shall be determined by the Board of Directors that will resolve the Notice of Article 126 Code of Commerce and define the Subscription Period

4. Redemption and Purchase

(a) Final Redemption

The Bonds will be redeemed on January 4th, 2024. The Bonds may not be redeemed prior to that date.

(b) Notice of Final Redemption

No notice of redemption will be given, and the Holders should spontaneously present their Bonds for redemption on January 4th, 2024 at the Registrar, Paying Agent and Custodian.

(c) Purchase

The Issuer may not, directly or indirectly, discount or purchase any Bonds issued by it and the holders of the Bonds cannot request the Issuer to purchase them back, discount them or otherwise.

5. Payments

(a) Principal Payments

Payments of principal in respect of the Bonds shall be made on January 4th, 2024. Payment shall be made at the specified office of the Registrar, Paying Agent and Custodian and in the manner provided in paragraph *(b)* below. The Bonds Certificates pertaining to the redeemed Bonds shall be forthwith cancelled and returned to the Issuer.

(b) Interest Payments

Interest in respect of the Bonds shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "*Record Date"*). Payments of interest shall be made in US Dollar by Midclear to Midclear's participants holding the Bonds on behalf of their respective clients, upon receipt of funds from the Bank. Upon application by the Holder to the specified office of the Registrar, Paying Agent and Custodian before the Record Date such payment of interest may be made by transfer to an account in US Dollar maintained by the payee with a bank in Lebanon.

(c) Payments on Business Days

If any date for payment in respect of the Bond is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as specified as "Business Day Jurisdictions" where payment is to be made by transfer to an account maintained with a bank in US Dollar, on which foreign exchange transactions may be carried on in US Dollar.

(d) Registrar, Paying Agent and Custodian

The initial Registrar, Custodian, and Paying Agent and its initial specified address is:

Custodian and Clearing Centre of Financial Instruments for Lebanon and the Middle East SAL, Midclear S.A.L Aresco Center, 14-15-16th Floor, Justinien Street – Sanayeh, Beirut, Lebanon. P.O.Box: 11-7971 Beirut, Lebanon. Telephone Number: 01-759200. Fax: 01-759208. Email addresses: midclear@cyberia.net.lb; midclear@dm.net.lb

The Issuer reserves the right at any time to vary or terminate the appointment of any Registrar, Custodian and Paying Agent and/or appoint additional or other Registrars, Custodians and Paying Agents, provided that it will maintain a Registrar, a Paying Agent and a Custodian. Notice of any change in the Registrar, Paying Agent and Custodian or their specified address will promptly be given to the Holders of the Bonds.

6. Taxation

The following is a summary of taxation rules and terms pertaining to holders of Bonds issued by a Lebanese corporation.

This summary is not intended to constitute a full analysis of the tax consequences under Lebanese law of the acquisition or sale of bonds.

Potential investors should, therefore, consult their own tax advisers on the tax consequences of such acquisition or sale, including specifically the tax consequences under Lebanese law, laws of the jurisdiction of their countries of residence and any tax treaty between Lebanon and their country of residence.

Tax on interest and capital gains

Under Lebanese Law No. 497 dated January 30, 2003, a tax on earned interest income is applied to all financial instruments with an interest component, such as time deposits, certificates of deposit, treasury bills, bonds, notes, and others. This tax which is presently at a rate of 7% on earned interest for or on account of taxes of the Republic of Lebanon is withheld at the source of payment, and is applicable to all issues held in custody in Lebanon.

In this Offering, interest yield on the Bonds is subject to the above mentioned 7% withholding tax on earned interest for or on account of taxes of the Republic of Lebanon. Any future rate increase of this tax will reduce the net yield after tax on the Bonds by the incremental tax effect.

Under applicable Lebanese Law and regulations, taxes withheld on bonds and deposit certificates held by banks, financial institutions and trading entities subject to an income tax in the Lebanese Republic pursuant to Chapter I of the Income Tax Code may be credited against the holder's annual corporate income tax.

Capital gains received by resident and/or non-resident individuals, whether foreign or Lebanese, and amounts paid back to creditors or shareholders, are exempted from capital gains tax.

7. Events of Default

There is an event of default in any of the following situations:

(a) Non-Payment
the Issuer fails to pay the principal of or interest on the Bonds when due and such failure continues for a period of seven days in the case of principal and 14 days in the case of interest; or

(b) Breach of Other Obligations
the Issuer does not perform or comply with any one or more of its other obligations in these Bonds which default is incapable of remedy or is not remedied within 14 days after notice of such default shall have been given to the Registrar, Paying Agent and Custodian and to the Issuer at its specified office by any Holder of this Bond; or

(c) Insolvency
the Issuer is (or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts; or

(d) Winding-up
an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer, or the Issuer ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed

by a reconstruction, amalgamation, reorganization, merger or consolidation on terms approved by a Resolution of Holders of Bonds, or

(e) Authorization and Consents

any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds, (ii) to ensure that those obligations are legally binding, valid and enforceable and (iii) to make the Bonds admissible in evidence in the courts of Lebanon, is not taken, fulfilled or done and, in any such case, if the matter is capable of remedy, it is not so remedied within 15 days of the Issuer becoming aware of it; or

(f) Illegality

it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under the Bonds; then the Bonds may, by notice in writing given to the Registrar, Paying Agent and Custodian at its specified office by the Holder of the Bonds (or the Issue Trustee, if appointed), be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further formality unless such event of default shall have been remedied prior to the receipt of such notice by the Registrar, Paying Agent and Custodian.

8. Prescription

Claims in respect of principal and interest will become void unless made as required by law within a period of 10 years from the principal, and 5 years for the interests from the relevant date.

9. Holders' Assembly, Holders' Representative and Meetings

(a) Holders' Assembly

The Code of Commerce stipulates that an assembly shall be formed by right from amongst the Holders (the "Holders' Assembly") which shall be responsible for safeguarding the rights of the Bond Holders.

(b) Holders' Representative

The Holders' Assembly shall appoint a representative (the "Holders Representative") who shall assume the following responsibilities:

a. represent the Holders before the courts or before any other authority;
b. perform all necessary works for protecting the Holders and safeguarding their interests;
c. undertake any other duties entrusted to the Holders Representative by the Holders Assembly; and
d. attend the Issuer's General Assemblies of Shareholders and express his opinion without having the right to vote on any resolution

(c) Meetings

Pursuant to Article 138 of the Code of Commerce, meetings of General Assemblies of Holders shall be convened by two consecutive insertions, within eight days of each other, in the Official Gazette, in an economic newspaper and in a local daily newspaper, indicating the subjects on the agenda which, alone, may be debated.

Meetings of Ordinary and Extraordinary General Assemblies of Holders shall be deemed legally held if attended by Holders representing two-thirds of the Bonds at least. If this quorum is not secured, a new meeting may be convened following two insertions made, at a week's interval, in the Official Gazette, an economic newspaper and a local daily newspaper. The convocation must state the agenda of the preceding meeting and the results obtained. This second meeting deliberates validly if it is composed of Bond Holders representing at least one-half of the Bonds. If this quorum is not secured, a third Assembly can be convened according to the above-mentioned rules, and it deliberates validly if Holders representing one-third at least of the Bonds are present or represented. If such quorum is not obtained at this last meeting, the meeting shall be cancelled (articles 139 and 193 of the Code of Commerce).

However, meetings of Extraordinary General Assemblies of Holders called upon to discuss and take appropriate resolutions regarding the following matters require a non-reducible quorum of Holders representing at least two-thirds of the Bonds:

a. Liquidation or the merger of the Issuer,
b. Modification of the maturity or the interest payment date of the Bonds,
c. Reduction or cancellation of the principal amount of, or the interest on, the Bonds,

d. Change of the Bonds currency,
e. Increase or decrease in the quorum required at any meeting of the Holders assemblies, or the majority required to adopt a resolution,
f. Amendment of the Conditions of the Bonds; and
g. The taking of any measure that materially affects the rights of the Holders.

In General Assemblies of Holders, resolutions must be passed by Holders representing a majority of at least two-thirds of the Bonds represented at such Assemblies (articles 139 and 195 of the Code of Commerce).

10. Further Securities Issuance

The Issuer may from time to time without the consent of Holders create and issue further securities of whatever form or nature either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding Bonds, or upon such other terms, more or less favorable than the present Offering and Bonds, as the Issuer may, at its entire discretion, determine at the time of their issue.

11. Notices

(a) Further and above the legal publication provided for in the Article 138 of the Code of Commerce, notices to the Holders by the Issuer will always be made, to each Holder, only through the Registrar, Paying Agent and Custodian.

(b) Notice to be given by Holders and/or Holders Representative to the Issuer shall be in writing and given by forwarding same to the Registrar, Paying Agent and Custodian.

12. Governing Law and Jurisdiction

(a) Governing Law
The Bonds and the Offering are governed by, and shall be construed in accordance with the substantive Lebanese law.

(b) Jurisdiction
The tribunals and courts of Beirut, Lebanon are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and the Offering and accordingly any legal action or proceedings arising out of or in connection with the Bonds (*"Proceedings"*) and the Offering may be brought in such courts. The Issuer and each Holder irrevocably submit to the jurisdiction of such courts and waive any right or objection to Proceedings in any such tribunals and courts whether on the ground of venue or on the ground that the proceedings have been brought in an inconvenient forum.

CLEARING AND SETTLEMENT OF THE BONDS

Midclear SAL will be the Registrar, Custodian and Paying Agent for the Bonds and administer the records of transfer and ownership of Bondholders as well as assume the responsibility for the regular disbursement of interest payments to the Bondholders. The Bank is a registered member of Midclear, and the Bank's shareholders' register is deposited with Midclear pursuant to Law No. 308 dated April 3, 2001.

Midclear was established in June 1994 in Lebanon as a central clearing house for financial instruments and to provide efficient safeguarding for subscribers, traders and investors in Lebanon and the Middle East. Midclear is a Lebanese joint-stock company, owned currently at over 98 % by the Central Bank, established and governed by the provisions of the Lebanese Commercial Code and regulations in force in the Lebanese Republic.

By Law No. 309 of October 1999, Midclear was appointed Central Depository for Lebanon.

The main functions of Midclear include:

- Safekeeping of securities for participants.
- Immobilization of physical securities.
- Book-entry clearing and settlement of transactions in a secure and cost effective environment.
- Accurate, timely and cost effective means of collecting, distributing and accounting for dividend and interest payments.
- Maintaining shareholders registers. By Law No 308 of April 3rd 2001, Midclear was appointed Central Registrar for all Lebanese banks shares.
- Administering Mutual Funds.
- Official numbering agency for Lebanon (ANNA member).
- Repo transactions.

It is worth noting that:
i) All orders transmitted to Midclear for clearing and settlement are considered irrevocable,
ii) Midclear will not settle trades partially, and
iii) Settlement is delivery versus payment and takes place on trade date plus three.

Through its links with sister organizations in other countries and international clearing organizations, Midclear ensures the smooth transfer of securities outside Lebanon.

All notifications to Bondholders will be made through Midclear/Midclear Participants.

LEBANESE TAXATION

The following is a summary of taxation rules and terms pertaining to holders of bonds issued by a Lebanese corporation. This summary is not intended to constitute a full analysis of the tax consequences under Lebanese law of the acquisition and sale of bonds and each potential purchaser should consult its own tax advisor before making a decision to purchase Bonds. This summary is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (perhaps with a retroactive effect). The summary below does not include any description of the tax regulations of any state, local or foreign governments (other than Lebanon) that may be applicable to the Bonds or the holders thereof. For advice relating to the tax consequences to holders of Bonds in countries outside the Lebanese Republic, including countries in which they may be resident or domiciled and any tax treaty between Lebanon and such countries of residence or domicile, potential purchasers are urged to consult their own tax advisors. The legal authorities on which this summary is based are subject to various interpretations, and no rulings have been or will be sought from any tax agency with respect to the matters herein described.

Tax on interest and capital gains

Under Lebanese Law No. 497 dated January 30, 2003, a tax on earned interest income is applied to all financial instruments with an interest component, such as time deposits, certificates of deposit, treasury bills, bonds, notes, and others. This tax which is presently at a rate of 7% on earned interest for or on account of taxes of the Republic of Lebanon is withheld at the source of payment, and is applicable to all issues held in custody in Lebanon.

In this Offering, interest yield on the Bonds is subject to the above mentioned 7% withholding tax on earned interest for or on account of taxes of the Republic of Lebanon. Any future rate increase of this tax will reduce the net yield after tax on the Bonds by the incremental tax effect.

Under applicable Lebanese Law and regulations, taxes withheld on bonds and deposit certificates held by banks, financial institutions and trading entities subject to an income tax in the Lebanese Republic pursuant to Chapter I of the Income Tax Code may be credited against the holder's annual corporate income tax.

Capital gains received by resident and/or non-resident individuals, whether foreign or Lebanese, and amounts paid back to creditors or shareholders, are exempted from capital gains tax.

Prospective subscribers to the Bonds should consult their own tax advisers on the tax consequences of such acquisition or sale, including specifically the tax consequences under Lebanese law, laws of the jurisdiction of their countries of residence and any tax treaty between Lebanon and their country of residence

DESCRIPTION OF THE BANK

History

Banque BEMO SAL is a Lebanese joint-stock company registered in the Beirut Commercial Registry under No. 17837, on the Central Bank of Lebanon's banks list under No. 93 and on the Beirut Stock Exchange List No 1111. The Bank's Head Office is located in 96 Pasteur Street, Medawar Area, Beirut, Lebanon, and the General Management Offices in the Esseily Building, Riad el Solh square, Beirut Central District. The Obegi Family, major shareholder of the Bank, has a long and successful banking history. In 1961, the Obegi Family founded "Crédit Libanais S.A.L.", one of the leading commercial banks in Lebanon and in which they sold out their majority shareholding in 1985. In 1973, they founded "Banque de l'Europe Méridionale S.A." currently "BEMO Europe-Banque Privée", in Brussels-Belgium with offices and operations in Paris (1976), Luxembourg (1982) and Cyprus (1986).

In 1994, the Obegi family through "Sharikat Al Istismarat Al Oropia Lil Shark Al Aousat (Holding) SAL", (hereinafter referred to as "Istismarat"), re-entered the banking sector in Lebanon by acquiring "Future Bank SAL" a small, problem-free commercial bank and renamed it first "BEMO - Banque Européenne pour le Moyen-Orient SAL" and then "Banque Bemo SAL".

Since its takeover by the current owners in 1994, the Bank has established itself as one of the leading providers of Private, Corporate, Trade-oriented, and Wealth Management banking services for the Lebanese and the neighbouring Arab markets. Istismarat, the controlling shareholder of the Bank, includes among its founding shareholders the Obegi Family and other prominent industrialists. Additional shareholders of the Bank include major business figures from Lebanon and Saudi Arabia. In 1993, the Obegi Family established "BEMO Securitization SAL", a leading debt securitization financial institution in Lebanon and the Gulf Region and in which the Bank holds 96%.

In 1999, Banque BEMO SAL listed its shares on the Beirut Stock Exchange. Banque de l'Europe Méridionale S.A ceases its activities in Brussels and concentrates its European activities in Paris and Luxembourg emphasizing on offering its clients customized private banking services. In 2003, the Bank was the first Lebanese bank to enter the Syrian market by establishing in partnership with Banque Saudi Fransi, a leading player in the banking industry in Saudi Arabia, the first privately held commercial bank in Syria "Banque Bemo Saudi Fransi". In April 2003, Banque Saudi Fransi acquired a 10% stake in the Bank.

In June 2006, the Bank issued USD 20,000,000.-(US Dollars twenty million) perpetual non-cumulative preferred shares callable starting the fifth year. In November 2006, Bemo Group and Oddo et Cie., the first independent French financial company, incorporated a joint venture called Bemo Oddo Investment Firm Ltd. in Dubai aimed at selling European investment opportunities to Gulf investors. In November 2013, Oddo et Cie decided to withdraw from the established joint venture in Dubai as a result of the financial crisis and refocusing of strategy on the European market. The share of Oddo was acquired by Banque BEMO SAL and the firm was renamed as BEMO Investment Firm Ltd.

In May 2009, the Bank successfully issued USD 40,000,000.-(US Dollars forty million) subordinated bonds maturing in 5 years. In 2011, the Bank's capital funds were further strengthened through a capital increase of LBP 46 billion of which LBP 30 billion fresh cash injection. In November 2011, Banque Saudi Fransi KSA is no longer a member of the Board of Directors of the Bank.

In October 2012, a large explosion targeting a highly ranked Lebanese security official largely impacted the headquarters of the Bank in Ashrafieh where severe damage and losses occurred. The Business Continuity Plan was immediately activated and the Bank was able to ensure resumption of business activities and services to clients within 24 hours where IT servers/systems and operations staff immediately relocated to the Bank's Disaster Recovery Site in Rabieh. It is important to note that the Bank rented a new prime location in Pasteur Street-Gemmayzeh area consisting of 2 floors (presently) where commercial staff were relocated and started operating since early December 2013. The next phase of the relocation process involved moving the Operations Units (Transfers/Trade Finance) from Rabieh to Riad El Solh which was accomplished during the month of January 2014. During this period, the damaged premises in Ashrafieh were undergoing a full refurbishment and reconstruction. Senior Management decided to relocate the Central Operations Units and Compliance Team to the refurbished Ashrafieh premises during 2015-2016 in view of the continuous demonstrations that were occurring during the said period near Riad El Solh premises. It is to be noted that in September 2013, and acknowledging the imminent challenges facing the Bank requiring change, the Bank mandated

an external consulting firm "CDS Consultants" to assist in launching a change management effort in order to align activities with the Client Centric strategy. As such, and in order to bring about the required change, the Project Management Office (PMO) was established as a unit within the Bank, in order to lead the development and execution of the 25 initiatives it had identified. For each initiative identified, a team owner and a team leader were selected. Since its initiation in September 2013, this change management effort has mobilized more than 80 staff members who were involved in finalizing the deliverables identified under each initiative.

In December 2013, the Bank successfully issued USD 35,000,000.-(US Dollars thirty five million) non-cumulative perpetual preferred shares after obtaining the necessary regulatory authorities approval. During the same year, the Bank recalled the preferred shares issued in 2006. In November 2014, the Bank successfully issued USD 25,000,000.-(US Dollars twenty five million) Tier II subordinated bonds maturing on January 4, 2021.

In 2015, the Bank's Senior Management held a strategy retreat and proposed to the approval of the Board of Directors a new five-year business plan (BEMO 2020). The latter plan was prepared through a consultative process that included inputs from all departments in the Bank and other key stakeholders. Beyond setting the broad direction for the Bank's work up to 2020, the Strategy Plan revisited and refined many aspects of the Bank's product offerings, business mix, customer base, and operational structures and systems.

In October 2016 and in order to better serve the Bank's customers and streamline operations, the Bank acquired new premises which will house the Bank's new headquarters consisting of around 6,000 square meters where the objective once the relocation is completed in 2019 is to achieve full consolidation and centralization of operations and activities from within one central location enabling the Bank to provide a dedicated, unique and luxurious Client Centric experience.

The Bank's contact details are as follows:

Head Office	**General Management**	**Website**
96 Pasteur building, Pasteur street Medawar area, Beirut, Lebanon	Beirut Central District, Riad el Solh square, Esseily bldg., Bloc A, 7th floor	http://www.bemobank.com/* Email: bemo@bemobank.com
Tel: +961 1 568 250/350	Tel: +961 1 992 600	**Link on Beirut Stock Exchange** http://www.bse.com.lb/ Click on Listed Securities – Issuers – Banque BEMO
Fax: +961 1 568 365	Fax: +961 1 983 368	

**The Bank's website provides any prospective buyer with additional details such as Annual Reports including audited financial statements since 2012, unaudited quarterly financial statements (latest being June 2017) as well as a recent copy of the Bank's Corporate Governance Manual and other relevant information*

Strategy

Since its establishment, the Bank's objective has been to develop into a specialized quality bank, by building on the long-established professional expertise of its shareholders and management team. The Bank's vision is to be the Reference in Corporate and Private Banking in Lebanon and Syria while its mission statement is stated as follows:" Live our Values while achieving high return on equity and offering our customers outstanding Quality".

Banque BEMO SAL is active on two pillars: **Private and Corporate Banking**, two well-defined market niches with a strong potential for growth in the local and regional markets. The Bank is committed to offering outstanding services to leading corporations and high-net worth individuals based on a deep understanding of their needs.

The Bank's Private Banking offering emphasizes one-to-one services that are essential for high net worth individuals and their families. The private banking division adopts a client driven approach that aims at taking a comprehensive view of the clients' needs and offering informed advice and creative solutions. Within the framework of the Client Centricity approach, the Bank strives to make efficient use of customer profiling and business processes in order to provide value-added services leading to a higher level of customer satisfaction and loyal customer base.

The Bank aims at helping customers strengthen and grow their business for the next generations while managing risk and maintaining personal wealth.

The Bank's Board of Directors and Senior Management are entirely committed to apply the Bank's core values of **Professionalism**, **Conservatism**, **Honesty** and **Family Spirit** which constitute their driving force aiming at achieving

the Bank's long term success while maintaining the highest standards of responsibility in partnering with all its stakeholders.

Operations

Principal Banking Activities & Services

The Bank's principal banking activities consist of (i) private banking / financial advisory to both corporate and individual clients, providing access to capital and money markets; (ii) corporate banking, which, in conjunction with the financial advisory unit, extends credit facilities to leading corporate clients; (iii) trade finance, which encompasses the issuance of letters of credit, letters of guarantee, and other forms of documentary credits to commercial and trading entities to finance their needs in imports and business projects.

Private Banking and Wealth Management

The Bank's Private Banking Division is keen to build long term relationships with its clients based on the fundamental values of professional commitment, integrity and reliability that constitute the foundation of the adopted Client Centric business approach. The interests of clients, being at the center of the Bank's priorities, the Private Banking division consists of a team of confirmed financial advisors who identify and structure clients' personal financial objectives, understand their constraints and always aim at designing strategies that assist them in enhancing and improving their asset allocation in accordance with their risk tolerance, financial goals, time horizon and unique circumstances. The division's commitment is to foster relationships based on trust through insightful and impartial advice to clients in making informed investment decisions according to defined priorities.

The Bank's network in Lebanon and Cyprus, equipped with the necessary sophisticated tools, guided by the rigorous policies and procedures, and inspired by the Client Centric approach, offers a diverse array of personalized and superlative products and services covering the core personal banking areas.

Family Office: Since 2012, the Bank initiated the setup of the "Family Office" department. The Family Office at Banque Bemo is structured as a Multi-Family Office aiming at assisting clients in preserving their wealth by offering support with wealth protection, growth, and succession planning which will enable clients to handle issues pertaining to generational planning, implementing broader succession, leadership, and governance plans. It provides efficient means of monitoring and managing families' wealth and investments and will provide legal structures that help to smooth the transfer of wealth between generations while at the same time secure a steady income for a decent life style during their retirement. Banque Bemo - Family Office seeks as well to provide clients with a reliable and stable assistance in every aspect of their daily lives through a diverse array of services that simplify their matters. Along with the services and investment advice provided, clients benefit from the services of a team of specialists with legal, fiscal and financial technical skills to safeguard the present and to build for the future.

Corporate Banking

Corporate banking services provided by the Bank encompass corporate loans, discounting of commercial drafts, working capital financing, foreign exchange transactions, domestic and international transfers, direct debits and standing orders, in addition to special subsidized programs for corporate capital expenditure.

The Corporate Banking Division, after its continuous success throughout the past 15 years, escalated its strategic vision level "To be the Reference in Corporate Banking". To achieve this new vision level, Corporate Banking Division had to revisit and update its "Relationship Management Model", and adopt the "Client Centric" approach. The Relationship Management aimed to strengthen the relationship with the client, to stay closer to them, to better plan their business, and to attain maximum level of client satisfaction.

Client Centricity led to a better understanding of customers' needs, and respecting their interest. This necessitated a continuous review of business processes to further improve the Bank's services and to reach higher competitive advantage. Client Centricity, enhanced profitability per customer through exploiting cross selling with the other services offered by the Bank.

A prudent and conservative lending policy has proved successful as is manifested in the low level of non-performing loans out of the total loan portfolio adequately covered by sufficient specific and collective provisions while the remaining uncovered amount is shielded by first mortgages on properties held in Lebanon.

Treasury and Capital Markets

Treasury and Capital Markets Unit undertakes the responsibility under the guidance of the ALCO Committee of the Bank to manage the assets and liabilities of the Bank, thus allowing it to capitalize on market opportunities, while at the same time monitoring and hedging against risk exposure. Funds not utilized for lending are placed with prime banks overseas and with other Lebanese banks or the Central Bank of Lebanon. The Bank also prices foreign exchange transactions for its individual clients, corporate clients and other local banks

Financial advisory services to corporate clients are provided as a complementary service to corporate banking and trade finance services by structuring creative financing solutions for specific corporate clients' needs. This is achieved through a close relationship between the client and a team of specialized financial advisors, who advise clients on hedging against foreign exchange and other market risks, while offering tailor-made financial products to implement such hedging strategies. Moreover, the financial advisors assist corporate clients in optimizing their borrowing strategies.

The Securities Sales Desk offers clients access to international stock exchanges, fixed income products, derivatives products, commodities and both off-the-shelf and tailor-made investment products. The team is highly trained and undergoes frequent training and development programs. The unit is equipped with a state-of-the-art trading floor, providing real-time monitoring of global financial markets, in addition to swift and accurate execution for 16 continuous hours every week day.

Trade Finance

The Bank's managerial skills, its strong ties with the local merchant and trading communities and its network of Correspondent Banks contribute to its competitive advantage in trade finance. This banking niche is complemented by the Bank's adequate knowledge of the geographic areas, the industry segments and the growing community of traders and merchants it services. The Bank's trade finance operations in the Lebanese and the neighbouring Arab markets depend to a large extent on the long established reputation of the clients and the specific nature of the goods traded. In Lebanon, the Bank's trade finance services have focused on imports of finished and non-perishable goods such as machinery, electronics, auto parts, other specialized products, raw materials such as fibres for the textile industry, heavy machinery and equipment used in manufacturing plants in agro-business, and pharmaceuticals, in addition to the exports of finished products such as textiles and cotton.

The Bank's growing trade finance activities include the issuance of Documentary Letters of Credit, Letters of Guarantees, Forex and Trading Advisory Services, Foreign Credit Investigations, and Documentary Collections. To promote export trade business especially between the Arab Countries, the Bank's industrial corporate clients benefit from diversified funding programs. In addition, the Bank provides companies and financial institutions with special expertise when structuring or negotiating complex trade finance transactions. The Bank's network of International Correspondents has played a major role in maintaining long-term client relations whilst attracting new ones.

Investment and Research

Established in 2016, the Investment & Research mission is to be a source of independent knowledge and advice that supports Relationship Managers and helps clients make better decisions. The role of the Investment & Research extends beyond the conscientious advice, to be complemented with customizable and optimized investment solutions. The Investment & Research provides advice across the full spectrum of investment classes, ranging from equities, fixed income and multi-asset class products, to alternative investments such as Real estate, ETFs and funds, with a conservative approach based on risk management and optimization. Client focus, Value creation, Quality Research, Objectivity and investment suitability are the cornerstones of the investment advice.

Where once investors and advisors lacked enough investment news and data, today there is an abundance of unstructured information. Investors need a filter to identify appropriate investments and those that best fit into their strategies and gets them closer to meeting their personal goals. The Investment & Research has therefore refocused and rebranded its research publications to offer all investors a filtered and structured analysis by asset class, investment horizon, and key financial happenings.

The premise of innovation and disruption in financial services is relatively new. Mobile internet is changing the dynamics of clients' relationship with their banks. The implication is that banks must become digitized. The Investment & Research has championed this digital transition since its establishment, digitizing its research publications to be available in a cloud based library. The publications were converted from a static document into an interactive page design for clear and meaningful communications with the audience.

The impetus for the drive to remain updated with the state-of-the-art mediums is to offer our clients customized investment advice while adapting to changing cognitive flexibility and relational communication. The Investment & Research has the potential to be one of the first in the region to introduce an automated investment advisory solution to help investors determine their investment risk profile and receive an optimal portfolio allocation based on their risk aversion using a complicated in-house developed algorithm.

With a commitment to service clients on all aspects of their wealth, the Investment & Research has expanded its services to offer a comprehensive support in connection with real estate investments and transactions, asset and portfolio management, risk management, optimization and financing. The ambition is to help clients maximize the value of their real estate holdings, and make important decisions with confidence.

Financial Institutions and Correspondent Banking

The Financial Institutions activity is a core line of business within the Bank. Its strategy consists in catering for all types of Financial Institutions such as Deposit Taking and Non-Deposit Taking, by maintaining an effective Relationship Management Model, taking into consideration the main risk factors such as Market risk, Political risk, Economic risk, Country rating and, Bank rating.

The Financial Institutions Department is committed to building and maintaining strong relationships with local and international Correspondent Banks. In line with Banque BEMO's client centric approach, the team synergizes with the business lines by aiming to supply tailored and personalized financing solutions. The Financial Institutions Department analyzes, plans and implements a formulated strategy that focuses on customer retention and loyalty.

The Department strives to provide the adequate international coverage in order to ensure a smooth experience to private and corporate clients when dealing with cash management, brokerage services, trade finance and treasury activities.

Financial Institutions is constantly developing its activity among its correspondent banking network, aiming to provide always a high quality of services to clients and other Financial Institutions in the treasury services, investment and trading, global payment services, international trade finance services, syndication and structured products.
Financial Institutions is in the process of applying and implementing sophisticated automated solutions that can reduce administrative time consumption and add real value to the final outcomes and results.

List of Correspondent Banks

Country	City	Correspondent Bank
Austria	Vienna	UniCredit Bank Austria AG
Belgium	Brussels	KBC Bank NV
China	Beijing	Bank of China Limited
Cyprus	Nicosia	Bank of Cyprus Public Company Limited
France	Paris	BEMO Europe – Banque Privée
France	Paris	Union de Banques Arabes et Francaises - UBAF
Germany	Frankfurt	Deutsche Bank AG Commerzbank AG
Italy	Milan	Intesa Sanpaolo SPA
Japan	Tokyo	KBC Bank NV
KSA	Riyadh	Banque Saudi Fransi
Luxembourg	Luxembourg	BEMO Europe – Banque Privée
Qatar	Doha	Doha Bank QSC
Spain	Madrid	Banco Sabadell SA
Switzerland	Zurich	UBS AG
Turkey	Istanbul	Yapi ve Kredi Bankasi AS
UAE	Abu Dhabi	Abu Dhabi Commercial Bank
UAE	Dubai	MashreqBank PSC
UK	London	Deutsche Bank AG
USA	New York	The Bank of New York Mellon

Operations

The mission of Operations is to build and maintain an appropriate set of infrastructure and processes to support the Bank's Strategic Objectives, the current and future Organizational needs, and to ensure the delivery of an outstanding Quality customer focused service. Being at the execution end of clients' transactions, Operations are at the final stage of the Bank's value creation chain. Due to this situation, Operations plays an important role in ensuring that the Bank is capable of effectively processing its clients' requests in compliance with the required due diligence, speed and high quality standards. Operations division plays a key role in ensuring that required controls are effective and that ultimately, transactions processed are in line with local and international requirements.

Operations staff members enjoy an extensive set of background and experience in banking activities in addition to being supported by an infrastructure that ensures high level of accuracy, speed and quality of service while maintaining adequate levels of flexibility to tailor the Bank's response to clients' needs.

As a result of Operations commitment to excellence that derives directly from the Bank's strategy, efforts were exerted to reduce the errors rate that have been curving down over the past three years from 0.03% in 2014 to 0.01% in 2016. External and internal failures were monitored where every failure was an opportunity to learn and improve the laid down processes, making the models more robust.

In 2016, the main focus was on setting the ground for a flexible structure that can adapt to the continuously changing regulatory and business environment where lean tools and techniques are being used to continuously optimize and improve systems. More meticulous alignment of existing processes to the ever-increasing international and local regulations have been put in place. Therefore, the Operations Department collaborated to deploy a new payment filtering system: Eastnets-en.SafeWatch which is ranked as a top filtering solution. Under the circumstances, the Operations Department was able to accelerate decision-making processes and improve collaborative working through innovative tools, hence reducing cost while enhancing processes, controls and compliance practices.
New innovative and superior quality projects have been implemented and brought to life. In 2016, the Operations Department introduced two new programs mainly revolving around the following:
1-Operations Quality Performance Program to award clients for the Operational Efficiency of their Commercial Orders, specifically the Import Letters of Credit and/or Outgoing Payments. This program provides corporate clients with guidance on how to ensure outstanding quality and completeness of their Payment Orders and Trade Finance requests. Consequently, by following the directives described in the guidelines clients will enhance the quality of their orders by filling complete information and providing appropriate documentation. Clients with an exceptional Operations quality performance were rewarded with a Trophy- the highest award recognition. This program aims at smoothing processes' handling and raising transparency.
2- BEMO Incentive Program (BIP), aiming to value client for the large volume of transactions performed with the Bank. This special reward program is offered in form of cash back refund on commissions paid under Transfers and Trade Finance activities.

Government Entities Business Development

The Government Entities Business Development Unit's activities come within the framework of the strategy as approved by the Bank's Board of Directors. Hence, it has achieved significant progress in building awareness, on the significance and necessity of the banking sector engaging in financing infrastructure projects. The Unit has worked strenuously, throughout 2016, to create a large network that includes but is not limited to, local governments, public administrations, rating agents, legal experts, technical advisors, and development agencies of diplomatic missions.

The Government Entities Business Development Unit focuses its efforts on the markets' needs. Still unresolved, the solid waste (SW) crisis remains the top issue. Therefore, the Unit initiated meetings with federations of municipalities, pooling them with contractors, potential investors and experts in the SW field and participated in various think tanks, round tables and conferences, aiming at finding solutions to the problem. The Unit committed itself, as a strategic partner, to offering financial advice and lending facilities, for building up solid waste treatment plants across Lebanon.

Moreover, the Unit has expanded its scope of work to include NGOs, universities and schools, by offering a high level of professional services directed at strengthening their institutional best practices, developing proficiency and balancing the interests of the pertaining stakeholders.

Communication and Quality Management

The Communication department aims to continuously reflect a strong and sound corporate image of the Bank focusing on the Relationship Management business model and the Client-Centricity approach where the quality of the services offered to customers constitute the cornerstone of the Bank's Vision and Mission Statement.

The Communication department is responsible for ensuring the Bank's visual identity is preserved, as well as for communication of accurate corporate information and a standard representation of the brand elements in all forms of internal and external communication.

In line with its commitment to live the Bank's values, Banque BEMO continues to spread the Family Spirit amongst its employees through supporting social activities. As well, in its responsibilities toward the community, the Bank continues to deploy all efforts to contribute to the welfare of its customers, shareholders, and the society guided by the Sustainability and Corporate Responsibility strategy.

Through its collaboration with devoted NGOs, the Bank strives to support various causes related to children, youth, elderly, healthcare, wellness, drug addiction rehabilitation, dysfunctional families and environment protection, in addition to awareness initiatives targeting both internal and external stakeholders.

Banque BEMO joined the United Nations Global Compact – Lebanon Network, the world's largest corporate sustainability initiative aiming to promote sustainable development based on universally accepted principles. This demonstrates further commitment to embed the UN Global Compact ten principles in the Bank's strategy, culture and day-to-day activities, and to advocate these principles via the available communication channels; in addition to communicate annually the efforts exerted to implement and support the UN Global Compact principles, and publish the "Communication on Progress" on the UN Global Compact website.

The Quality Management aims to deliver an outstanding client experience by identifying the end-to-end clients' journeys, understanding their expectations across all touch points and interactions, designing the related key processes and institute continuous improvements to sustain them and optimize clients' satisfaction.

Since its inception, the Bank is demonstrating its commitment to the highest ethical standards, professional integrity and transparency in its day-to-day business conduct with the clients. In order to ensure these standards are consistently maintained and treat our clients fairly, those have been embedded in the Bank's culture and business model through the development of a set of policies and procedures governing the business ethics and clients' protection guidelines.

Banque BEMO obtained ISO 9001:2015 certification on the Bank's Compliance department (Compliance with Laws and Regulations). This certification further highlights the Bank's commitment to consistently abide by local and international laws and regulations, and embed a strong culture of compliance; in addition to its ability to demonstrate conformity to the requirements of the quality management system standards and drive continuous improvement of its competences, processes, and systems. The Bank is committed to adopting the quality management system as a strategic initiative (1) to consistently implement the applicable local and international laws and regulations, (2) to meet customers' needs and expectations and enhance customers' satisfaction, (3) to address risks that could cause processes to deviate from the planned results and put in place preventive controls to minimize negative effects, (4) to make maximum use of opportunities as they arise, (5) to ensure the processes are adequately resourced and managed, and (6) to adopt continual improvement to meet requirements and address future needs and expectations in an increasingly dynamic and complex environment.

Branch Network

A refocused management strategy aims at increasing the responsibilities of the Bank's branches, to better capitalizing on the relationship oriented nature of the Bank's clientele. As of the date of this Offering Circular, the Bank's network of branches comprised 8 branches in Lebanon with a concentration on the Greater Beirut area, in addition to a fully-fledged branch located in Limassol, Cyprus.

The following lists the Bank's current branches by areas/locations:

LEBANON		**CYPRUS**
Riad El Solh	**Sin El Fil**	**Limassol**
Ashrafieh	**Rabieh**	
Dora	**Gemmayzeh**	
Zouk	**Verdun**	

Subsidiaries and Affiliates

Bemo Securitization SAL – BSEC (www.bsec-sa.com)

Bemo Securitisation SAL (BSEC), the investment banking arm of Banque BEMO SAL, was established in 1993 asa regulated financial institution by the Central Bank of Lebanon, the Capital Markets Authority and the Banking Control Commission. It is also member of the Association of Financial Institutions in Lebanon. BSEC provides innovative solutions to corporates with special funding requirements and caters to companies in Lebanon and the MENA region aiming to be the reference financial advisor in these markets. Since its inception, BSEC was able to provide advanced structures and has built a solid track record by offering to the market numerous transactions with a high level of professionalism and technical know-how. The mission of BSEC is to be at the heart of the creation and development of the local financial ecosystem, by providing tier one corporates with adapted financing solutions that would be adequate investment opportunities.

BSEC has developed a specific expertise in structured finance and securitization in particular, and has built on such expertise to widen the spectrum of its services, in line with the growing clients' needs. BSEC offers the following products and services:
1. Securitization (off balance-sheet financing)
2. Issuance of corporate bonds and commercial papers (on balance sheet financing)
3. Equity solutions including mergers and acquisitions and capital raising.

BSEC also offers transaction banking services mainly for the deals it structures; this includes management and monitoring of funds operations and assets performance in line with transaction documentation, and reporting regularly to investors and other market participants.

The company ensures that clients are served with the utmost dedication and commitment and always put their interest as its top priority. Clients are at the center of BSEC business mindset and this was translated by the confidence clients have shown over the years, proven by the repeat deals arranged for them. BSEC conducts its business with the highest ethical standards; the company strives to offer its clients transparent and efficient structures tailored to their needs and reflects such standards in all its business systems and procedures. In addition, BSEC makes sure to appoint distinct team members on transactions where clients operate in the same business sector and includes Chinese walls within the groups working for such clients. Furthermore, BSEC working methodologies are developed using the latest market trends and up-to-date technologies and are designed around the specificities of each transaction.

BSEC team members always seek to offer a complete financing solution to the clients. Specific alliances are contemplated with other market players in particular cases and in markets where BSEC does not have a direct presence. BSEC also works closely with the other entities of the Banque BEMO group in their various operating markets, in the view of providing a 360° solution to the clients. BSEC has aligned its strategy and growth prospects to those of Banque BEMO, and continues to be a specialized and dedicated investment banking institution offering tailor-made financing solutions.
In 2016 BSEC has closed some notable transactions, among which:
• TGF Star II SIF: The second securitization issuance arranged by BSEC for T. Gargour & Fils SAL. The transaction is a USD 15M issuance for the exclusive distributors in the Levant region of Mercedes Benz, Jeep and Chrysler passenger and commercial vehicles.
• DHC Healthcare 2 SIF: The second securitization issuance arranged by BSEC for DIMA Healthcare SAL. The transaction is a USD 16M issuance for one of the leading distributors of healthcare material and equipment in Lebanon.
• RYMCO Drive IV SIF: The fourth securitization transaction arranged by BSEC for RYMCO SAL, the distributor in Lebanon for Nissan, Infiniti, GMC and other car brands. The transaction is an LBP 16 B. issuance and was the first Lebanese pounds denominated securitization issuance in Lebanon.
• Cylinder III SIF: The third securitization issuance arranged by BSEC for Bassoul & Heneine. The transaction is a USD 7.58M issuance for Lebanon's exclusive distributor of BMW, Renault, Mini Cooper and Dacia car brands and auto parts.
• BSEC also assisted in the debt restructuring of a major Lebanese retail group.
Its head office is located at: 3rd Floor, Two Park Avenue Building, Park Avenue, Beirut Central District, Minet El Hosn

Banque Bemo Saudi Fransi SA – Syria (www.bbsfbank.com)

Banque Bemo Saudi Fransi (BBSF) was the first private bank to be established in Syria after almost 40 years of publically owned and managed banking sector and remains the pioneer in the private banking sector until today. Founded in 2004, BBSF adopted the names of its two founders, Banque Saudi Fransi (BSF) and Banque Bemo S.A.L., both of which offer extensive experiences in banking aspects.

BBSF has always been very keen on offering a full range of banking products and services and to cover all demands in Syria which helped build the name of BBSF as a key player in financing corporate, commercial, industrial, and contracting activities, hence largely contributing to the development of those sectors and the overall economy of Syria. This has been true since the establishment of BBSF and until today, despite the challenging circumstances, where excellence and professionalism remain at the core of BBSF business principles and the essence of its relationships with its clients.

40 branches of BBSF are spread across Syria, however, due to the prevailing situation, 16 branches in hot zones are presently non-operational. The BBSF family includes 584 employees allowing BBSF to remain the largest Private Banking network in the country.

BBSF founded Bemo Saudi Fransi Finance (BSFF), a brokerage firm, in 2008 and currently holds 74.67% of its shares. BBSF also owns 21.14% from United Insurance Company (UIC), one of the most successful in its field in Syria, as well as 4.23% of shares from FransaBank Syria. Throughout the years BBSF has always been providing high level service to its clients through its diverse products and services, continuously staying up to date on current developments and striving to maintain its leadership in Syria's banking sector, with a strong focus on both Corporate and Retail banking. BBSF still manages to maintain a high ethical level despite the unfortunate circumstances of the country thus participating in the sustainable development of the community which is why, among many other reasons, BBSF is considered to be the 'number 1 Bank for all Syrians'.

Ownership Structure as of 31/12/2013:

Shareholders	Country	Shares in Capital
Banque Saudi Fransi (BSF)	Saudi Arabia	27%
Banque Bemo Sal	Lebanon	22%
Obegi Family	Syria	7.51%
Other shareholders	Syria	43.49%

BBSF Head Office is located at: Damascus - Salhia - Cham Palace Hotel P.O.Box: 31117 Damascus Palace, Syria

Bemo Investment Firm Ltd. – Dubai *(Formerly BEMO Oddo Investment Firm Ltd)*

Bemo Investment Firm ltd (BIF) is a Dubai based asset management company established in 2007. BIF is a subsidiary to Banque BEMO and is registered and regulated by the Dubai International Financial Center (DIFC). Its location in the heart of the DIFC, which is considered an important regional financial and banking hub, has provided BIF with visibility and access to a wide network of institutional and private investors as well as other service providers and market counterparts. BIF was able to build strong relationships in the region with various participants and has therefore contributed to promoting the BEMO brand within the international finance industry.

BIF works closely with all the entities of the BEMO Group: on the investment banking side, BIF helps in originating and placing deals jointly with BSEC, whereas on the private banking side, BIF assists in building ties with existing and potential clients to offer the state of the art private banking solutions developed by BEMO Europe.

The BEMO vision is to leverage on BIF presence in the region in line with the group strategy and to put all of its built relationships at the disposal of the BEMO clients, in order to help them get access to new products and markets thereby achieving their financial goals.

BIF Head Office is located at: Gate Village, Bldg. 1, Level 1, Unit 109, DIFC, Dubai, UAE

Bemo Europe - Banque Privée (www.bemo.lu)

BEMO EUROPE – Banque Privée is a Private Bank, headquartered and registered in Luxembourg and supervised by the Financial Sector Supervisory Commission (CSSF).
The Paris branch is similarly supervised by the CSSF. Registered in France, it is also supervised by the French Banking Supervisory Authority (ACPR), and by the French Financial Markets Authority (AMF).

The mission of BEMO EUROPE – Banque Privée is to offer its Clients the personalized solutions and the best service to help them preserve and increase their wealth. The wide range of expertise provided by its team of highly qualified professionals enables BEMO EUROPE to offer tailor-made investment advisory and financing solutions guided by the fundamentals of each client's specific financial priorities.

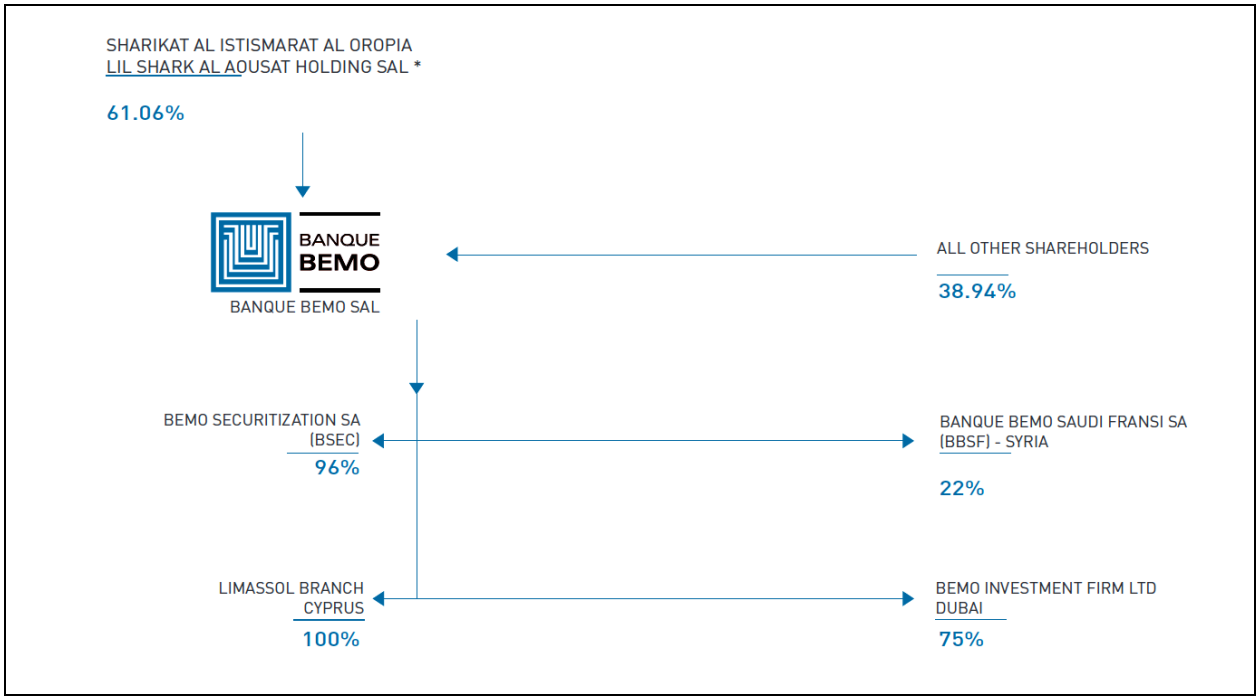
The values of BEMO EUROPE are: Integrity, Excellence, Conservatism, Family spirit. BEMO EUROPE was founded as a universal bank in Brussels in 1973. Since then the Bank has constantly evolved.
• 1976: Establishment of the financial company EMIC in Luxembourg. Owner of the Bank, EMIC's sole shareholders are private families. The Paris office opened in the same year.
• 1984: Establishment of the Bank in Luxembourg.
• 1998: The Board of Directors adopted Private Banking as the main business activity.
• 1999: The Bank closed its Brussels office and transferred the activities to Luxembourg and Paris.
• 2007: Opening of an office in Dubai through a joint venture with Oddo & Cie banking group.
• 2011: The Bank expands its scope of activities and offers Wealth Management services.
• 2013: BEMO EUROPE moves its head office to the European financial center of Luxembourg.
• 2015: The Bank inaugurates its new office located at 26 Boulevard Royal in Luxembourg.
• 2016: In response to the increasing needs and demand of its clients, BEMO EUROPE strengthens its Wealth Engineering services.

BEMO EUROPE Banque Privée offers the following services:
• Wealth engineering
• Multi-currency financial investments and advisory
• Real estate financing and Lombard credit
• Banking services
• Conciergerie services.

BEMO EUROPE Head Office is located at: 26 Royal Boulevard, L 2449 Luxembourg

Organization's Structure

The Bank's capital is equivalent to LBP 62.248 billion, consisting of 62,000,000 shares of common stock ("Ordinary" Shares). Out of the total 62,000,000 shares, 51,400,000 shares are publicly held and listed on the Beirut Stock Exchange (BSE). The listing of shares on the Beirut Stock Exchange has been initiated since January 1999. Following is a chart showing the present Group structure as at September 30, 2017:



Management and Human Resources

Board of Directors
Board's Mission and Prerogatives

Mission

The Board of Directors shall primarily be responsible for the Bank's good Corporate Governance that will set the Bank's pursued goal, foster the long term success of the institution and sustain its competitiveness and profitability. The Board of Directors shall cause the establishment of its mission and vision, strategic objectives, as well as policies. The Board's other main responsibility is to supervise the Senior Executive Management of the Bank's business and affairs. The Board must provide effective governance over the Bank's business affairs. In doing so, it must strive to balance the interests of the Bank's diverse constituencies.

The Board will be the main decision making forum of the Bank. It will consider strategic issues and risks in respect of the Bank's principal businesses. The Board will ensure competent and prudent management, sound planning and proper procedures for the maintenance of adequate accounting and other records and for systems of internal control as well as for compliance with statutory and regulatory obligations.

In all actions taken by the Board, and in order for the Directors to fulfill their duties of care, they are expected to exercise their independent business judgment in what they reasonably believe to be in the best interest of the Bank while abiding by the Bank's culture and mission. In discharging those obligations, Directors may rely on the honesty and integrity of the Bank's Senior Executive Management, its external advisors and auditors.

Governance Functions

Without prejudice to the provisions contained in the Articles of Association, and in order to ensure a high standard of Corporate Governance practice for the Bank, the Board of Directors shall:

- Implement a process for the selection of the Board members who can add value and meaningfully contribute independent judgment to the formulation of sound corporate strategies and policies
- Establish clear corporate objectives and formulate sound business strategies for achieving them. Periodically evaluate and monitor the implementation of such strategies and policies, including the business plans, and operating budgets
- Select and appoint officers who are qualified to administer the Bank's affairs effectively and soundly, and to establish an adequate selection process. The Board shall apply at all times the fit and proper rule on the selection of key management personnel. Integrity, technical expertise, and experience in the Bank's line of business shall be the key considerations in the selection process. Moreover, an effective succession plan to ensure management continuity
- Monitor, assess and control the performance of the Management
- Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Bank to anticipate and prepare for possible threats to its operational and financial viability
- Ensure the Bank's faithful compliance with all applicable laws, regulations and best business practices
- Review financial statements and other disclosures, with a focus on the integrity and clarity of these disclosures
- Ensure the integrity and transparency of related party transactions between and among the Bank, and its subsidiaries, affiliated companies, directors, officers, shareholders and related interests
- Conduct the affairs of the Bank with a high degree of integrity. For this purpose, the Board of Directors has prescribed corporate values, codes of conduct and other standards of appropriate behavior for itself, senior management and other employees
- Keep the individual members of the Board and the shareholders fully informed with balanced and understandable assessment of the Bank's performance, financial condition and prospects
- Keep the activities and decisions of the Board within its authority under the Bank's Articles of Incorporation and Bylaws, and in accordance with existing laws, rules and regulations
- Prescribe a clear assignment of responsibilities and decision-making authorities. The Board of Directors shall establish in writing the limits of the discretionary powers of each officer, committee, and such other groups for the purpose of lending, investing or committing the Bank to any financial undertaking or exposure to risk at any time
- Adopt and maintain an adequate risk management policy – assisted by the Board Risk and Compliance Committee. The Board of Directors shall be responsible for the formulation and maintenance of written policies and procedures relating to the management of risks throughout the Bank. In that respect, the Board shall approve and oversee the implementation of the Bank's overall risk strategy, risk tolerance and risk appetite and ratify the Bank's risk management framework
- Ensure that the Bank has a beneficial influence on the economy. The Board shall identify the sectors in the community in which the Bank operates, or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them
- Constitute Board Committees it deems necessary to assist the Board in the performance of its duties and responsibilities

<u>Oversight Functions</u>

In fulfilling its duties and functions, and also without prejudice to the provisions contained in the Articles of Association, the Board shall exercise its oversight over the following:

- Strategic Management: The Board shall establish the business objectives of the Bank, consider and approve the Bank's business strategy and its business plans for significant operations, and review at least once per year to ensure the strategic plans remain appropriate
- The Board shall frequently evaluate actual operating and financial results against forecasted results, in light of the Bank's business objectives, business strategy and business plans
- Risk Management: A sound system of risk management is critical to the profitability and the ongoing viability of the Bank. The Board shall ratify appropriate and prudent risk management policies for the Bank
- Liquidity and Funding Management: The Board shall ratify appropriate and prudent liquidity and funding management policies to meet the Bank's needs
- Capital Management: The Board shall ratify appropriate and prudent capital management policies for the Bank to meet the required needs
- Internal Audit Function: The Board shall establish the mandate of, and allocate sufficient resources for the Bank's Independent internal audit group and approve its annual plan. The Board shall seek from the Independent audit group, on a regular basis, validations that the Bank's processes, policies, procedures and controls are being

monitored and adhered to, and that appropriate action is being taken to address any significant weaknesses or breakdowns that have been identified

- Confirming Adequacy of Control Environment: Assisted by the Board Audit Committee, the Board shall obtain reasonable assurance, on a regular basis, that the Bank has a sound control environment that supports the appropriate, effective and prudent management of the Bank's operations and the risks to which it is exposed, and that contributes to the achievement of the Bank's business objectives. The internal audit group, the external auditors and the Senior Executive Management shall report to the Board on the state of the Bank's control environment
- Compliance: Assisted by the Board Risk and Compliance Committee, the Board of Directors is responsible for overseeing and for assessing how the compliance risk is managed in the Bank. The Board approves the compliance policy and Charter. The Chairman of the Board is responsible for communicating the compliance charter for implementation and ensuring that it is observed and that the management of the compliance risk is reported to the Board of Directors

Role and Responsibility of the Chairman of the Board of Directors of the Bank:

The Chairman shall be elected by the Board of Directors. Without prejudice to the provisions contained in the Articles of Association, the Chairman shall:

- Ensure that the Board acts efficiently, fulfills its responsibilities and discusses all material issues in a timely manner;
- Approve the agenda of every Board meeting taking into consideration any matter proposed by the other Board Directors;
- Encourage all Board Directors to fully and efficiently participate in handling the affairs of the Board for ensuring that it is working in the best interests of the Bank;
- Take the proper actions for ensuring efficient communication with shareholders and communicating their opinions to the Board;
- Allow efficient participation of the independent and the non-executive Directors in particular and to develop constructive relations between all Directors
- Be available to shareholders as representative of the Bank and its principal voice on all matters

The following table sets forth the names of the members of the Board of Directors, as of September 30, 2017:

Dr. Riad Bechara Obegi	Chairman, General Manager	Executive
Mr. Samih Halim Saadeh	Vice Chairman, General Manager	Executive
Sharikat Al Istismarat Al Oropia Lil Sharek Al Aousat (Holding) SAL represented by Mr. Jean Victor Hajjar	Member	Non Executive
Mr. Antoine Youssef Mansour Wakim	Member	Independent
Sheikh Hassan Isam Mohamed Kabbani	Member	Independent
Mrs. Karine S. Mansour Obegi	Member	Non executive
Dr. Derek Abdelkader El Zein	Member	Independent
Mr. Peter Ara Hrechdakian	Member	Non executive

Dr. Riad Bechara Obegi – Chairman, General Manager. Born in 1958, Dr. Obegi holds a PHD degree in economics from Université Lyon Lumière, a Master's degree in Business Administration from Université Paris IX Dauphine, a Bachelor Degree in Business Law from Université Paris II Panthéon-Assas, a Master's degree from IEP-Paris.

Dr. Obegi is the Chairperson of BEMO EUROPE – Banque Privée (formerly Banque de l'Europe Meridionale) since 1994. In addition, he presides the Board of Directors of Banque Bemo Saudi Fransi SA in Syria.

On the other hand, Dr. Obegi chairs the boards of two holdings: Unifert Holding sal and Sharikat Al Istismarat Al Oropia Lil Sharek Al Aousat Holding sal. He acts also as Vice Chairman of Obegi Chemicals Group SA – Luxembourg and serves as Board Member of Obegi Group Holding sal. Dr. Obegi was first appointed member of the Board of Directors in 2003. He continues to serve as Chairperson of the Board of Directors of Banque BEMO sal – General Manager following his re-election in 2016. He is also a member of the Board Risk and Compliance Committee in addition to chairing the Bank's Executive Committee.

Mr. Samih Halim Saadeh – Vice Chairman, General Manager. Born in 1952, Mr. Saadeh graduated from the American University of Beirut with a Master's Degree in Business Administration and from the Lebanese University with a degree of Law.

Mr. Saadeh's work experience started with American Express Bank Ltd New York in 1978 then moved to the bank's branch in Beirut. He joined Bank of Beirut, in 1993, as Senior Credit Manager for 1 year. In 1994, he pursued his banking career with ABN AMRO Bank in Beirut as First Vice President Corporate and Private Banking Manager. Mr. Saadeh joined Banque BEMO SAL in 2003 as General Manager. In 2010, he was appointed Managing Director – General Manager and Board Member. In 2013, he was elected Vice Chairman & General Manager.
Mr. Saadeh has previously served as an Appointed Lecturer at the Lebanese American University and acted as an Appointed Lecturer at the Association of Banks in Lebanon and member of the Deliberating Jury for the Masters' Degree in Banking Studies. In addition, he delivered seminars and courses at the Higher Institute for Banking Studies at St. Joseph University (USJ). Mr. Saadeh is a member of the Board of Directors of Bemo Securitization (BSEC), and he represents Banque BEMO sal in the Board of Directors of Banque Bemo Saudi Fransi SA in Syria, in addition to his membership in the Board of Directors of an international company.
Currently, Mr. Saadeh continues to serve as Vice Chairman of the Board of Directors of Banque BEMO sal – General Manager since his re-election in 2016.

Mr. Jean Victor Hajjar – Member *(Representing Sharikat Al Istismarat Al Oropia Lil Sharek Al Aousat Holding sal)*. Born in 1930, Mr. Hajjar was the Deputy General Manager at Credit Libanais sal till 1985. In 1986, he joined Banque de L'Europe Meridionale in Paris, Brussels and Luxembourg and served as General Manager. In 1994, he was appointed General Manager of Banque BEMO sal – Lebanon until 2001. Mr. Hajjar was a member of the Board of Directors from 2001 till 2015. Sharikat Al Istismarat Al Oropia Lil Sharek Al Aousat Holding sal is a holding company that was established in 1994. It is the major shareholder at Banque BEMO sal where it owns 61.06% of the Bank's shares.

Mr. Antoine Mansour Wakim – Member. Born in 1945, Mr. Wakim, holds an AMP from INSEAD (1978) and an ADD from Chartered Insurance Institute – United Kingdom in addition to being certified as an Actuary from Lausanne University – Switzerland Mr. Wakim worked in the Insurance industry for more than 40 years – mainly with Allianz SNA where he occupied the position of the company's Chairman and CEO from 1987 until his retirement in 2008. He was also a professor of financial and actuarial mathematics at various universities in Lebanon.
Since 1990, he committed himself to issuing a new retirement law and restructuring the National Social Security Fund in Lebanon. In April 2006, he received "Le PRIX de la Francophonie Economique" – Prague. He also received the Lebanese Republic Presidential merit decoration for the social activities performed. Mr. Wakim serves as a member on several Boards of Directors which include: Allianz SNA Holding and Allianz SNA Lebanon, Jordan Eagle; Bank of Beirut SAL; the National Social Security Fund in Lebanon; Hotel Dieu de France – Lebanon; and Broumana High School.
He is also a member of the Advisory Board of the Business School at the Lebanese American University; member of the International Association of Actuaries (IAA); and former member of the Swiss Association of Actuaries (SAA).
Mr. Wakim was first appointed member of the Board of Directors in 2010.

Sheikh Hassan Isam Mohamed Kabbani – Member. Born in 1966, Sheikh Kabbani graduated from Pepperdine University, UCLA-USA. He started his professional career in 1992 when he joined the IKK Group of Companies (a leading business group operating from Saudi Arabia which encompasses many companies in the MENA Region) as their Business Development Manager. In 1999, Sheikh Kabbani was assigned the post of Vice Chairman of the IKK Group of companies, and was promoted in 2015 to that of Chairman, a position that he continues to hold at present, which involves the management of all aspects related to this business group.
He serves on several Boards of the Group's companies, in addition to being a Board member of Ijada Al-Mutahida and Walaa Insurance. Sheikh Kabbani is also member of the American Businessmen Association of Jeddah and of the Cercle d'Affaires Français de Jeddah.

Dr. Derek Abdelkader El Zein – Member. Dr. El Zein holds a Ph.D. in Information and Communication Sciences from University of PARIS 2 – Panthéon Assas, a Master's Degree in Media & Multimedia IFP from University of PARIS 2 – Panthéon Assas, Law Studies Institute from University of PARIS 2 – Panthéon Assas and a Master of Law from University of PARIS 2 – Panthéon – Assas.
Dr. El-Zein is a member of the Paris Bar and has been a practicing lawyer since 2003. He is also a teacher in Media Geopolitics and International Economics at HEI-HEP. In 2011, he became a Senior Lecturer at the Department of

Political Science at Paris Descartes University. Furthermore, Dr. El-Zein is a member of the Central European Academy of Sciences, Humanities and Arts and is also a member of the Geographical Society of Paris.
He was first appointed member of the Board of Directors in 2015.

Mrs. Karine S. Mansour Obegi – Member. Born in 1973, Mrs. Obegi finalized her studies and obtained her HEC Diploma – Hautes Etudes Commerciales, Jouy en Josas – France (Majeur Entrepreneur).
In 1995, Mrs. Obegi started her career at Mckinsey Consulting Firm in France as an Analyst and Junior Engagement Manager. In 1998 she moved to Banque Saradar, which later became Bank Audi Saradar, where she served as Organizational Consultant till 2002, to become later the General Secretary till 2005. Mrs. Obegi has been a Managing Partner at Obegi Home LLC, in UAE and Obegi Better Home SAL in Lebanon since 2006. She was first appointed member of the Board of Directors in 2015.

Mr. Peter Ara Hrechdakian – Member. Born in 1958, Mr. Hrechdakian earned his Master's in Business Administration from Harvard Graduate School of Business Administration, Boston, Massachusetts, USA as well as a Bachelor of Arts in Economics and Philosophy from Cornell University, Ithaca, New York, USA.
Mr. Hrechdakian started in 1980 as a credit analyst at Manufacturers Hanover Trust in New York before moving in 1985 to UNIFERT USA Inc. to serve as Vice President – Finance till 1988 and later as Executive Vice President till 1991. Afterwards, Mr. Hrechdakian moved to UNIFERT Group S.A in Brussels as Director of Management Control till 2006, to occupy the position of the CEO since then until this date. He is currently the Chairperson of the Board of Directors of Fertitrust S.A., Luxembourg since his appointment in 2006; as well, he serves as a member of BEMO EUROPE Board of Directors. He was first appointed member of the Board of Directors in 2015.

Specific duties of Directors
A Board Director specific duties center around the following:
- Conduct business transactions with the Bank fairly and ensure that personal interest does not bias Board decisions
- Devote the time and attention necessary to properly discharge his/her duties and responsibilities on the Board and in any Committee(s) to which he/she is appointed
- Have a working knowledge of the statutory and regulatory requirements affecting the Bank
- Observe confidentiality
- Ensure the continuing soundness, effectiveness and adequacy of the Bank's control environment
- Adhere to loyal behavior taking into consideration the Bank's and the shareholders' interests, take such due care and diligence as taken by a normal person in similar circumstances
- Notify the Board of all the positions he/she holds at the time of his/her appointment to the Board and promptly update the Board of any changes thereto

Duties and Responsibilities of Non-Executive Directors /Independent Directors
In addition to the above duties and responsibilities, a Non-Executive Director/Independent Director shall have the following duties and responsibilities:
- Participate in the meetings of the Board and provide independent opinion on strategic matters, policy, performance, accounting, resources, key appointments and standard operations
- Give priority to the interests of the Bank and its shareholders if and when any conflict of interest situation arises
- Control the Bank's performance in realizing its agreed objectives and goals and monitor its performance reports
- Develop procedural rules for the Bank's governance and supervise and monitor their implementation in compliance therewith
- Provide the Board and its different Committees with his/her skills, experience, diversified specialties and qualifications through regular presence and efficient participation in the General Assembly meetings and through the acquisition of a balanced understanding of shareholders' opinions

Board's Members Remuneration
As per the decision of the Annual Ordinary General Assembly meeting, the remuneration of board members is structured as follows:
1- USD 10,000 paid to each member as one annual payment
2- USD 2,000 paid as attendance fees for each Board of Directors meeting
3- USD 1,000 paid as attendance fees for each Board Committees meeting
The Ordinary General Assembly mandated the Board of Directors to distribute additional remuneration to board members based on the financial achievements which shall be measured using Key Performance Indicators where the total remuneration should not exceed the sum of USD 100,000

Balances/Transactions with Related Parties

Article 152 of the Code of Money and Credit provides that advances and credit facilities to directors or managers of banks, or to companies having common directors with the Bank's or to principal shareholders or their close relatives, must be authorized by the Ordinary General Assembly of Shareholders of the bank and must not exceed, in aggregate, 2% of the shareholders' equity of the Bank, provided that unsecured loans do not exceed 1% of the shareholders' equity. The Bank is in strict compliance with Article 152 of the Code of Money and Credit. Balances with related parties excluding accrued interest and balances eliminated on consolidation consist of the following:

	Audited			Unaudited
	2014	**2015**	**2016**	**2017**
Shareholders, directors and other key management personnel and close family members: (LBP million)				
Direct facilities and credit balances:				
- Secured loans and advances	326	655	602	976
- Unsecured loans and advances	764	756	1,440	671
- Deposits	12,918	17,496	42,077	38,345
Associated companies:				
Direct facilities and credit balances:				
- Unsecured loans and advances	274	445	603	513
- Deposits	47,122	71,504	68,877	68,211
Indirect facilities:				
- Letters of guarantee	28	29	2,498	2,043

Interest rates charged on balances outstanding are the same as applicable rates that would be charged in an arm's length transaction. Secured loans and advances are covered by real estate mortgages to the extent of LBP678million as at December 31, 2016 (LBP448million as at December 31, 2015).

Corporate Governance

Corporate Governance at Banque BEMO SAL has never been perceived as a set of rules or best practices solely, but rather it is profoundly inspired by the Bank's values in order to fulfill its mission and to pursue its vision in such a manner that serves all its stakeholders – be specifically client centric – and at the same time, enhance efficiency.

The Board of Directors, thus, establishes and promotes the Bank's business strategy and objectives through making decisions in a controlled manner, furnishing the Management with adequate guidelines, fostering keen follow up, and conducting rigorous review. As customer centricity remains a priority on the Bank's agenda, the Board urges the Management to develop the pertaining strategy that puts clients' interests pivotal in all the financial and advisory products and services that the Bank offers them.

While the Board seeks to complete its role as a reliable corporate representative committed to best practices, it supports the Management in preserving clients' interests; nonetheless, it also trusts that the Management will, at the same time, act as a trustee of the shareholders' capital.

One of the Board's main objectives remains to maximize and deliver long-term shareholder value. To pursue this objective, however, the Board continuously seeks to provide the proper environment, which enables recognizing the importance of addressing and safeguarding the concerns and interests of its stakeholders, and simultaneously, maintaining a customer-centric focus while sustaining the success of the Bank over the longer term. Hence, good corporate governance practices become an essential part of how the Bank aims at running its business activities and harmonizing its goals – shareholder value, customer centricity and Bank success.

The Board realizes, though, that success is not achieved through looking only outwards, but rather more through looking inwards. This is when corporate governance becomes the reflection of the Bank's core values and ethical business practices. On the other hand, it creates the foundation for the Board, being well informed and independent, to thoroughly commit to defining and practicing the highest levels of governance across all its business functions.

The Board's philosophy on corporate governance accentuates achieving high levels of transparency, integrity, and accountability in all of the Bank's activities and communications – both internal and external. Consequently, the Board engages in several matters that support fulfilling the Bank's corporate responsibility towards all its stakeholders within the customer-centric framework that Banque BEMO has long adopted.

Hence, in accordance with the corporate governance standards and the fulfillment of good governance practices, the Board of Directors main focus during the past years has centered on the following:
• Sustaining high standards of corporate governance
• Restructuring the Board and Board Committees to have a balance of expertise, knowledge, experience and effective views among the hired members
• Implementing more thorough Board related evaluations
• Setting up a vigorous succession plan in addition to developing and promoting future leaders

Sustaining high standards of corporate governance: The Board of Directors has always aimed at encouraging sound corporate governance and high standards of ethical behavior, which are vital to the Bank to grow and succeed, and thus, earn the stakeholders' trust. Adherence with the Bank's business principles, policies and procedures are crucial as far as the Board of Directors is concerned in order to achieve high standards of corporate governance. For this reason, the Board continuously directs the Management to sustain the set internal control framework, uphold the risk management system, and abide by the regulatory requirements, in addition to ensuring timely and accurate disclosure of information to the public.

Restructuring the Board and Board Committees to have a balance of expertise, knowledge, experience and effective views among the hired members: The Board of Directors is the cornerstone of the Corporate Governance. On June 07, 2016, a new Board consisting of 8 members was elected for a 3-years mandate to include the suitable mix of directors that maintains its independence and separates its functions of governance and management: three independent directors (37.5%), three non-executive directors (37.5%), and two executive directors (25%).
All of the Board members have wide experience in a variety of fields in addition to sufficient understanding of the banking sector and the financial markets. They incorporate their knowledge and their expertise, thus to add value to the Bank and to provide active direction and leadership. On September 07, 2016, the Board approved the new composition of each of the Board Audit Committee, the Board Nominating, Remuneration and Corporate Governance Committee, and the Board Risk and Compliance Committee, where each is chaired by an independent director in compliance with the regulatory requirements.

Implementing more thorough Board related evaluations: The key part of the process of implementing good governance practices was to monitor the Board evaluation framework through updating the questionnaire, in a manner that better reviews the functioning and effectiveness of the Board and the Board Committees, in order to identify any possible paths for improvement. The survey includes questions relating to creating an effective Board, running an effective Board, creating value, implementing stewardship, enhancing strategic foresight, assessing performance, instigating professional development and overseeing Management. The Board collective self-assessment for the year 2016 has been successfully completed, where feedback from each Board member was highly encouraged to be provided as part of the survey.

Setting up a vigorous succession plan in addition to developing and promoting future leaders: Board leadership succession planning is an essential, though, critical task that the Board Nominating, Remuneration and Corporate Governance Committee has to fulfill within the frame of good governance practices. The Committee collaborates closely with the Board in order to prepare contingency plans for succession, and at the same time, to ensure a smooth transition in case of any exigencies whether in terms of Board, Board Committees or Management positions.

Banque BEMO will continue to invest its efforts in implementing a sound governance framework based on the industry's requirements and best practices. The Bank shall continue emphasizing the following during the coming period:
• Shaping the corporate governance landscape
• Promoting better corporate reporting for stakeholders
• Building solid relationships with shareholders

Management Structure
The structure of the Bank relies on a focused management and an organizational platform enabling swift reaction to changing market opportunities, yet without jeopardizing the existing operations of the Bank.

Management Conduct
Proper conduct, control, and professionalism in management are the basis of the Bank's operational standards. In addition to several policies, the Bank follows a "Code of Conduct" to ensure the prevention of and the retribution

against any self-dealings, preferential treatments, privileged transactions or political abuse. The primary duty of the Bank's management and other key officers and employees is to the Bank, its welfare and success. The success of the Bank, in the management's view, will protect and enhance the shareholders' investments. In a general sense, the Board of Directors and the Bank's management are responsible to the shareholders (present and future) who assess their performance and conduct through the means of corporate democracy at the annual shareholders' ordinary and extraordinary meetings. The Bank's management is fully aware that it has responsibilities to other constituents of the Bank including its regulators, clients, employees, and to the community at large. These are fiduciary responsibilities that must, however, be exercised in the context of the management primary objective to operate the Bank in the best interests of its shareholders.

Management Professionalism

Whilst the Bank is currently owned at majority by Istismarat, which includes amongst its founders prominent family groups from Lebanon and Saudi Arabia, the management of the Bank is nonetheless entrusted to a group of independent senior executives. The independence of management is ensured through the trust gained by the owners throughout the years in the business, its focused banking skills and its knowledge of the markets in which it operates.

The decision-making process of the Management Team is not subject to any interference by the controlling shareholder in the Bank's day-to-day operations nor is yet disrupted by the lack of any inter-locking positions between the controlling shareholder and the management team. However, the management significantly benefits from the collective business experience of the Board of Directors which comprises financiers, traders and prominent industrialists. This interaction between an independent management and a seasoned diversified Board allows for a free exchange of ideas and the setting of far reaching strategies in an increasingly challenging banking environment.

Management Approach

The Bank's management approach is geared towards productivity and aims at achieving the highest level of quality throughout the hierarchy of the workforce. As such, the Bank's aim is to promote the required know-how among employees as part of its competitive strategy. The Management strives to strengthen the sense of partnership among all of its staff members. All members of the workforce are encouraged to contribute to the growth of the Bank, and for that end, are assisted through training seminars to improve their skills. On the other hand, every employee is equally responsible and accountable for his/her actions on the job, as part of an overall performance management approach.

Senior Executive Management

The Bank's Senior Executive Management Team consists of the following:

Mr. Riad Obegi	Chairman – General Manager
Mr. Samih Saadeh	Vice Chairman – General Manager
Mr. Georges Matloub	Assistant General Manager
Mr. Gaby Frangieh	Assistant General Manager
Ms. Karine Asso	Senior Manager – Internal Audit
Mr. Antoine Chamandi	Chief Financial Officer
Ms. Claudine Feghaly	Executive Director – Communication, Quality and Organization Management
Ms. Maria Haraoui	Chief Risk Officer
Ms. Lina Ghantous	Senior Director - Corporate Banking
Mr. Farid Meshaka	Director- Government Entities Business Development
Mr. Joseph Mikhael	Acting Director - Treasury and Capital Markets
Mr. Antoine Miskawy	Director – Corporate Banking
Mr. Kamal Nader	Executive Director - Corporate Banking
Ms. Hala Nasr	Executive Director - Human Resources Management
Mr. Fares Sawaya	Executive Director - Financial Institutions
Mr. Talal Shaykha	Senior Executive Director- Corporate Banking
Ms. Myrna Soufan	Chief Operating Officer
Ms. Annie Tchouboukjian	Compliance Officer
Mr. Sami Ziadé	Director -Private Banking I

The remuneration of executive management amounted to LBP2.51billion during 2016 (LBP2.16billion during 2015).

The business address of all the members of the Board and managers is: 96 Pasteur building, Pasteur street, Medawar area, Beirut, Lebanon

Bank Committees

The Bank operates through a number of committees are established with clear missions, authorities and responsibilities. Each specialized Committee has a detailed charter indicating the aforementioned.

Audit Committee: The Audit Committee acts on behalf of the Board of Directors and provides oversight on the Bank's financial reporting and control, as well as, internal and external audit functions. It shall have the following specific functions:

- Review the qualifications and independence of external and internal auditors
- Review and control of financial statements including the disclosure principles adopted by the Bank
- Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system
- Follow up on the execution of the recommendations put in place by the Internal Audit Department, supervisory authorities and external auditors
- Monitor the abidance of the Bank by the requirements and recommendations issued by the regulatory authorities

Risk Committee: The Risk Committee is responsible for the development and oversight of the Bank's overall risk management framework. Its role is the continual review and approval of the Bank's credit and risk policies, and the consideration and approval of related limit applications. The Committee reviews and makes recommendations to the Board regarding the medium-term and annual risk strategy/appetite, within which business strategy, objectives and targets are formulated.

Board Compliance and AML/CFT Committee: The role of this committee centers on the following:
-To support the Board of Directors in its functions and supervisory role with respect to fighting money laundering and terrorist financing and understanding the related risks, and to assist it with making the appropriate decisions in this regard.
-To review, from a risk-based approach, the reports submitted by the Compliance Unit and the Internal Audit Unit on adopted procedures, unusual operations and high-risk accounts, regarding cash deposits and withdrawals, transfers, exemptions from filling Cash Transaction Slips (CTS) and the link between these operations and economic activities, and to also take the relevant decisions.

Nominating Remuneration and Corporate Governance Committee: The Nominating, Remuneration and Corporate Governance Committee assists the Board of Directors in shaping the Bank's Corporate Governance policies and practices, recommending applicable guidelines and monitoring compliance with said policies and practices. In addition, it assists the Board by providing oversight on the qualifications of all the people nominated to the Board, as well as, those nominated to other positions in the Bank requiring an appointment by the Board of Directors. It also establishes formal and transparent procedure for developing a policy on executive remuneration, remuneration packages for Directors, and oversight on the remuneration of senior management, thus, ensuring that the compensation is consistent with the Bank's culture, strategy and control environment.

Executive/Strategy Committee: The Executive Committee's main task is to implement the decisions of the Board of Directors concerning the Bank. Its main authorities are as follows:

- Monitoring of the Bank's operations and its management and take all measures needed to ensure the running of the Bank's affairs and improve its performance and profitability
- Preparing the yearly budget plans and submit to the Board of Directors

The Executive Committee acts as an advisory body to the Chairman-General Manager on all issues relating to the Bank's general policies. During monthly meetings, this Committee reviews all operational activities and establishes the objectives and actions needed.

Credit Committee: The Credit Committee meets weekly and ensures that the Bank's lending policies are adequate and that lending activities are conducted in accordance with the Bank's policy and with applicable laws and regulations. It approves new credit facilities. It is also entrusted with the vital function of monitoring the Bank's loan portfolio quality. This Committee ensures that management follows adequate procedures to identify problems early, recognize adverse trends, take appropriate corrective actions, and maintain adequate provisions for estimated loan losses.

Real Estate Investments, Participation and Association Committee: The Committee is responsible for reviewing with the Bank's management any and all strategies, plans, policies and actions related to real estate investments, participation and association. It shall recommend to the Board for consideration and approval the following:
(a) Real Estate Investments, Purchase and Renting: the Committee shall review and, in its judgment, recommend appropriate Board action related to the purchases, rentals and dispositions of real fixed assets property

(b) Participation: the Committee shall review and recommend appropriate Board action with respect to capital structure plans and strategies and specific equity or debt financings as well as strategic and financial investment plans and strategies and specific investments
(c) Divestitures: the Committee shall review and recommend appropriate Board action with respect to the dissolution of any direct or indirect subsidiary of the Bank
(d) Associations and Acquisitions: the Committee shall review and recommend appropriate Board action with respect to acquisitions and divestitures of assets

Assets and Liabilities Committee (ALCO): The ALCO meets monthly and is responsible for identifying, measuring and managing the financial risks and exposures (including market risk, liquidity risk, currency exposure and interest rate risk). It also determines interest rates and pricing strategies, reviews and determines assets and liabilities structures.

Anti-Money Laundering/CFT Management Committee. The Committee meets quarterly and is responsible for (i) reviewing and updating the KYC form and cash-exemption list, (ii) ensuring proper application of the due diligence money laundering procedures, (iii) reviewing and assessing the reports submitted by the Anti-Money Laundering Reporting unit and the Internal Audit Department and (iv) ensuring proper training of the staff on AML/CFT requirements.

Information Technology Security Committee (ITSC): The Committee is responsible to revise, approve and implement the Information Security Policy while ensuring sound implementation and execution of recommendations or corrective measures proposed by the IT Security Officer. In addition, it is responsible to put in place and ensure abidance to necessary security regulations to destroy or terminate old data where the latter is no longer of any operationally or legally viable to the Bank. It handles also setting of policies that address the most imminent IT security risks and ensure their implementation while discussing and evaluating information security incidents and providing recommendations on the actions to be taken in case of any security violations. Among its critical roles is also to review and approve IT Contingency Plan and Disaster Recovery Plan (Beirut and Limassol) ensuring successful outcome of the ITCP/DRP testing on a yearly basis and enhancing IT security awareness amongst staff of the Bank.

Other committees duly established include: Procedures Approval Committee, BDL 110 Steering Committee, Real Estate Advisory Committee, Customer Acceptance Committee, New Product Approval Committee, Senior Executive Management Committee (SEMC), Financial Institutions Credit Committee, Private Banking Credit Committee, Corporate Banking Credit Committee and Social Committee.

Employees, Training and Human Resources Management

Family Spirit, Professionalism, Conservatism and Honesty represent the Bank's core values and the cornerstone of its policies. All employees are expected to demonstrate the highest level of professional and ethical conduct in the performance of their duties. The Bank's Code of Professional Ethics, Code of Conduct and the Employee Handbook set forth the standards and guidelines that all employees are bound by and expected to adhere to at all times.
Spreading the transparency culture over the organization is promoted by the Bank's Management. Furthermore, the "Whistle Blowing policy" has been tailored to promote a culture of open communication that enables staff members to voice their concerns at the earliest opportunity, while preserving the confidentiality of the staff member disclosing the malpractice.

The "Code of Business Conduct" coupled with "The Anti-Bribery and Corruption policy" aim to reduce the risk of the Bank from offering, receiving or extorting bribes, or conducting an act of corruption thus to mitigate the risk of the Bank being subject to legal or regulatory sanctions and reputational damage.

The HR Management department was successful in bringing the Bank Values into life through its overall activities and spreading the Human Resources Culture within the organization, with a priority focus on Clients satisfaction. The purpose of the department is centered on promoting an environment of transparency and fair treatment by providing equal opportunities where employees can demonstrate their skills, knowledge and abilities according to each one expertise and job profile.
The focus is on attracting, developing, engaging, motivating and retaining employees to better assist in the long-term vision of the Bank. Commitment of the department was maintained to strengthen employees' competencies and equip them with the needed developmental tools to face the unpredicted changes and challenges to support the business and deliver advanced services to Clients.

Strategic objectives were translated into actions that included the recruitment and talent acquisition, learning and development, compensation and benefits, digitalization and many others.

HR Management Actions

During the past two years, activities were in line with the Bank business strategy towards 2020, through the implementation of:

BEMO Online Evaluation System: A new digitalized Staff Competencies Assessment in-house solution developed in close collaboration between the Human Resources Management and the IT department. The purpose of the solution was to replace the traditional approach of evaluation based on one-on-one meetings by a digital and advanced approach enabling employees to show their competencies level and skills, using automated tests consisting of multiple choice questions related to 12 transversal and 7 specific competencies presently in force at the Bank. Several test sessions were created enabling different set of questions for each employee.

This project was set to better understand the employees' suitability, define their level of knowledge, identify their areas of improvement, enable ongoing development and determine the grade and promotion.

BEMO E-Learning Solution: In order to respond to the immense market changes, the global digitalization mindset and the need to cope with the new generation developmental aspirations, the HR Management introduced the digital learning to its entire workforce, with access from inside as well as outside the Bank premises. Individualized development plans were created according to each employee's needs, whereby selection of courses was made as per the gap analysis study previously conducted.

Recruitment and On-Boarding: Recruitment efforts were focused on attracting and selecting the "Reference" people who have the adequate educational background, knowledge, experience and capabilities to contribute to the achievement of the Bank vision "To be the Reference in Private and Corporate Banking".

New talented employees were successfully integrated within different departments of the Bank. During 2016 Recruitment rate reached 7% of the entire workforce whereby new recruits are all holders of University degrees or above. In order to complement our investment efforts in the recruitment process, the induction program that proved to be successful was maintained where the purpose has always been to ensure that our new recruits are feeling comfortable in their new working environment, and on good terms with their superiors and colleagues, having the needed material, tools and equipment to get ready for the job. Internal mobility rate reached 4.37% during the same period.

Learning & Development

In order to allow employees to gather the needed skills and knowledge required for their current job and enabling them to be well prepared for future challenges, continuous implementation of learnings associated with prime global universities, educational institutions, local and international reputed trainers was ensured.

Reward of Achievements

The performance management system, combined with the 360 degree evaluation for managers' level and above, remains the main tool to evaluate performance and grant Rewards. It was further enhanced to respond to business needs and to align the personal and departmental objectives with the Bank strategic goals.

Re-directing objectives towards our goals was maintained through the mid-year review, and acknowledging employees' contribution to the overall success of the Bank was detected through the year-end appraisal.

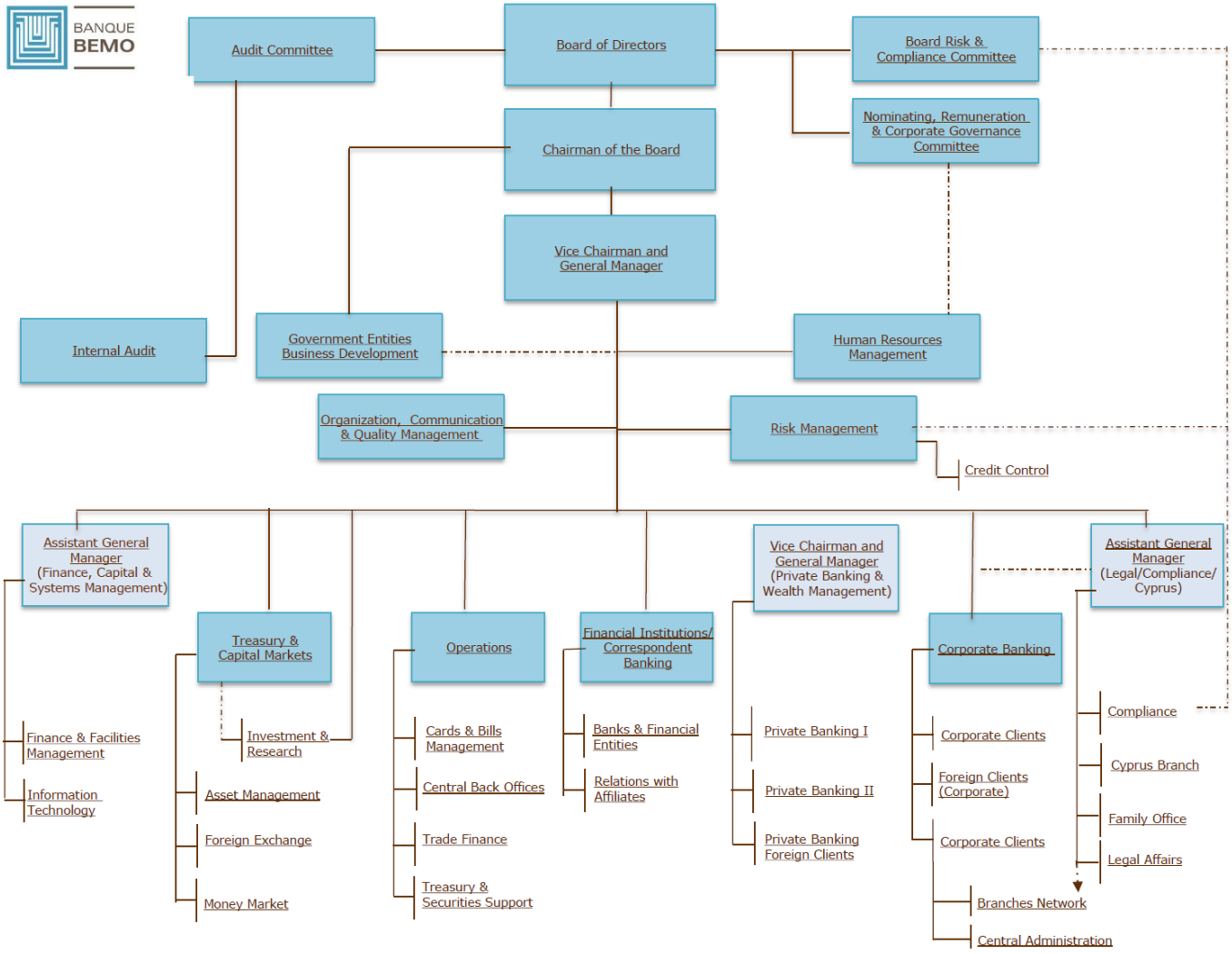
Accordingly, a reward scheme was designed and linked to the final results. New recruits induction program was launched during 2012, providing new recruits with needed information enabling them to integrate into the organization smoothly and hence allowing them to become efficient and effective quicker. Throughout the induction period, new employees are ingrained with the Bank's culture, organizational structure, as well as the Bank's orientation and strategic goals.

For the period ending December 31, 2016, the Bank's workforce consisted of 229 full time employees. The Bank is currently undergoing an expansion of its workforce with highly selective hiring procedures to strengthen its various departments.

Age Structure	**Number of Employees**
< 25 years old	13 employees
From 26 to 35	90 employees
From 36 to 45	59 employees
From 46 to 55	42 employees
> 55 years old	25 employees
Total	**229 employees**

Organization Chart

The Bank's organization chart as of September 30, 2017 was as follows:



Certain Transactions

No executive or senior manager at the Bank has an interest in any contract, arrangement or transaction entered into by the Bank which is or was unusual in its nature or conditions or significant in relation to the business of the Bank as a whole, and which was effected during the current or immediately preceding financial year, or was effected during an earlier financial year and remains in any respect outstanding or unperformed. Presently, the Bank does not have a stock option plan for its senior managers, officers, or other employees.

Information Technology

Management has carefully considered factors such as hardware and software selection, phasing of programs and its ability to absorb new technology in order to support its future growth and development plans. Currently, the Bank's branches are connected through an online system. In addition, the Bank offers its clients easy access to their account through "eBemo", its online banking product. Proper controls are exercised over the systems relating to authorized access, uninterrupted power supply, daily backups and safe-keeping of backups in separate locations. Contingency plans and Disaster Recovery plans have been devised to deal efficiently with any situation that might disrupt the normal functioning of the Bank.

The Bank uses IBM's "iSeries" as its main hardware platform and has a continuous contact with the leading IBM local vendor to maintain and update its systems.

The Bank is currently using the SAB core banking system (SAB France) to support the principal banking applications. The SAB system is used to maintain all customer accounts and manage the general ledgers with separate modules to handle the Trade Finance and Foreign Exchange transactions. In addition, the Bank utilizes personal computers which interface with the main SAB system and at the same time support most of the office functions for word-processing, special worksheet management reports and other separate functions such as payroll processing. In addition, the Bank is undergoing ongoing and regular upgrades to its SAB systems, installing additional modules to provide customers with more services and products, and undertaking the development of new applications in relation to risk management, financial reports, and other internal procedures.

Starting 2017, the Bank has embarked on a core banking system transformation project. For this purpose, and in line with the Strategy and Business Plan 2020 objectives, the bank has prepared a comprehensive Request for Proposal (RFP) that was relayed to prime and globally reputed core system vendors. Responses were received and evaluated. Product demonstrations are scheduled to occur before end of year 2017 where final selection shall take place. The objective is to achieve a robust IT architecture that is both agile and secure enabling the Bank to achieve its digital targets and plan.

Litigation

The Bank has been, in the normal course of its business, subject to certain litigations either as claimant or as defendant. The Bank's legal counsel has represented the interests of the Bank on all said actions. The Bank's counsel provides the Bank's senior management, on a regular basis, with progress reports regarding all claims whether settled or pending.

Insurance

The Bank maintains ongoing insurance policies with prime insurers for its real estate properties, office fixtures, civil liability, motor vehicles and electronic equipment. The Bank has policies to cover the risk of fire, flood and natural catastrophes. Additionally, the Bank has insurance coverage regarding theft, forgery, and counterfeit, transport of funds, robbery, employees' infidelity, and other business risks. In order to safeguard and better insure the Bank's interests in the best way possible, the Bank has chosen to go through insurance coverage deals via a professional insurance consultant to negotiate term and conditions of each policy on his behalf.

Statutory Auditors

In accordance with Lebanese banking regulations, the Bank is required to have joint statutory auditors appointed by the Ordinary General Assembly. The audit is conducted in accordance with the International Standards on Auditing ("ISA") and banking regulations in Lebanon. The Bank has appointed Deloitte and DFK-Fiduciaire du Moyen Orient as statutory auditors for 2016 and 2017. Deloitte and DFK-Fiduciaire du Moyen Orient have been the statutory auditors of the Bank since more than 3 years.

Basis of presentation

The following discussion has been prepared by the Bank's management using for comparison purposes the audited consolidated financial statements of the Bank as at December 31, 2014, 2015 and 2016. The unaudited balance sheet and income statement as at June 30, 2017 were also included for information purposes. The discussion and analysis should be read in conjunction with the audited consolidated financial statements as at December 31, 2015 and 2016 and the condensed review as at June 30, 2017 included elsewhere in this Offering Circular under "Selected Consolidated Financial Information".

The Bank's consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission, and include the results of the Bank and its consolidated subsidiaries BEMO Securitization SAL, BEMO Investment Firm Limited, Ferticed Limited Holding (liquidated during December 2016) and Depository & Custody Company SAL. Where appropriate in the context, references to the Bank include the Bank and such consolidated subsidiaries.

The Bank maintains its accounts in Lebanese Pounds. Accordingly, U.S. Dollar amounts stated in this Offering Circular have been translated from Lebanese Pounds at the rate of exchange prevailing at the relevant balance sheet date, in the case of balance sheet data, and at the average rate of exchange for the relevant period, in the case of income statement data, and are provided for convenience only. In each case, the relevant rate for both balance sheet data and income statement data was LBP 1,507.5 per USD 1.00, as, throughout the periods covered by this Offering Circular, the Central Bank has maintained its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed rate of LBP 1507.5 per USD 1.00. Banking sector information has been derived from Central Bank statistics, Bankdata Financial Services WLL and the Bank's internal sources.

Unless otherwise stated, reference in this Offering Circular to the Bank's customer deposits and loans and advances *(other than such references in the audited consolidated financial statements of the Bank and its consolidated subsidiaries included elsewhere herein)* shall be deemed to include deposits of, loans and advances to related parties.

Financial Results

Net Income

The Bank's net interest income after provision reached LBP 35.91 billion (US$ 23.820 million) in 2016 as compared to LBP 35.07 billion (US$ 23.26 million) for 2015 reflecting an increase of 2.4%. The rise in net income was mainly due to the growth witnessed in the Interest Earning Assets (mainly Financial Assets at amortized cost in 2016) coupled with an increase in fee based income while expenses grew at a slower pace. In addition, the impact of higher international reference rates during 2016 had a positive impact on the overall interest income received especially in terms of deposits held outside Lebanon with correspondent banks. Other fee based income also witnessed a large growth mainly stemming from several transactions generating higher fee income than reported in 2015:

The following table sets forth a breakdown of the Bank's net income for the periods under analysis:

		Audited		***Variation***	***Unaudited***
LBP Million	**2014**	**2015**	**2016**	***16-15***	***June 2017***
Interest income	101,808	107,868	116,755	*+8.2%*	***58,620***
Interest expense	(64,919)	(72,426)	(79,240)	*+9.4%*	***(40,250)***
Net interest income (after provisions)	35,697	35,067	35,910	*+2.4%*	***18,250***
Other fee based income	7,870	9,374	19,866	*+111.9%*	***3,842***
Gain on exchange and other operating income*	14,473	14,775	14,032	*-5.0%*	***11,703***
Salaries	(20,567)	(20,579)	(22,621)	*+9.9%*	***(11,688)***
General operating expenses	(15,495)	(14,789)	(15,684)	*+6.1%*	***(7,053)***
Other expenses (including tax expenses)	(5,054)	(4,348)	(7,758)	*+78.4%*	***(3,056)***
Minority interest	(204)	9	(97)	-	***9***
Net Income	**16,925**	**19,491**	**23,842**	***+22.3%***	***11,998***

** Includes gains/loss on securities and exchange transactions*

Net Interest Income

Interest income increased by 8.2% to LBP 116,755 million (US$ 77.45 million) in 2016 as compared to LBP 107,868 million (US$ 71.55 million) in 2015, while interest expense increased by 9.4% to LBP 79,240 million (US$ 52.56 million) in 2016 as compared to LBP 72,426 million (US$ 48.04 million) in 2015. As a result, net interest income received by the Bank for 2016 increased by 5.8% as compared to 2015. The increase was mainly due to the ability of the Bank to enhance its interest earning assets while maintaining an adequate cost of funding enabling a satisfactory rise in overall interest income generated exceeding the growth in interest expenses.

Interest and Similar Income

The following table sets forth a breakdown of the Bank's interests and similar income for the years ending December 31, 2014, 2015 and 2016 (Audited) and June 30, 2017 (Unaudited):

		Audited		***Variation***	***Unaudited***
LBP Million	**2014**	**2015**	**2016**	***16-15***	***June 2017***
From loans and advances to customers	61,438	64,085	66,701	*+4.1%*	***33,439***
From deposits with banks, financial institutions and Central Bank..	7,731	9,579	10,263	*+7.1%*	***5,193***
From investment securities *(Amortized cost)*	32,492	34,068	39,607	*+16.3%*	***19,783***
Other	147	136	184	*+35.3%*	***205***
Total	**101,808**	**107,868**	**116,755**	***+8.2%***	***58,620***

Total Interest received was equivalent to LBP 116,755 million (US$ 77.45 million) in 2016 as compared to LBP 107,868 million (US$ 71.55 million) in 2015 reflecting a year-on-year increase of 8.2%. This increase was primarily due to an increase in the interest received from Financial assets at amortized cost which reached LBP 39,607 million (US$ 26.27 million) in 2016 and constituted 33.9**%** of total interest and similar income as compared to LBP 34,068 million (US$ 22.6 million) and 31.58% in 2015. This increase was mainly due to the growth witnessed in investment securities.

Interest received from deposits with banks, financial institutions and Central Bank reached LBP 10,263 million (US$ 6.8 million) in 2016 and constituted 8.8% of total interest and similar income as compared to LBP 9,579 million (US$ 6.3 million) and 8.9% in 2015 reflecting a year-on-year increase of 7.1%. Interest earned on loans and advances reached LBP 66,701 million (US$ 44.2 million) in 2016 and represented 57.1% of total interest and similar income as compared to LBP 64,085 million (US$ 42.5 million) and 59.4% in 2015 reflecting a minimal year-on-year increase of 4.1%.

Interest and Similar Charges

The following table sets forth a breakdown of the Bank's interests and similar charges for the years ending December 31, 2014, 2015 and 2016 (Audited) and June 30, 2017 (Unaudited):

		Audited		***Variation***	***Unaudited***
LBP Million	**2014**	**2015**	**2016**	***16-15***	***June 2017***
Banks and financial institutions	2,784	3,733	3,661	*-1.9%*	***696***
Customers' deposits	60,002	66,432	73,312	*+10.4%*	***38,433***
Subordinated bonds	2,133	2,261	2,267	*+0.3%*	***1,121***
Total	**64,919**	**72,426**	**79,240**	***+9.4%***	***40,250***

Interest and similar charges reached LBP 79,240 million (US$ 52.56 million) in 2016 as compared to LBP 72,426 million (US$ 48 million) in 2015 reflecting a year-on-year increase of 9.4%. The increase is mainly due to the growth witnessed in interest paid on customers' deposits which grew from LBP 66,432 million (US$ 44.06 million) in 2015 to LBP 73,312 million (US$ 48.63 million) in 2016 constituting 92.5% of total interest and similar charges compared to and 91.72% in 2015. The growth is a reflection of the increase witnessed in terms of client deposits during 2016.

Commissions, Fees and Other Revenues

The following table sets forth a breakdown of the Bank's commissions, fees and other revenues for the years ending December 31, 2014, 2015 and 2016 (Audited):

		Audited		***Variation***
LBP Million	**2014**	**2015**	**2016**	***16-15***
Commissions on documentary credits……..	1,144	1,205	756	*-37.3%*
Commission on customers' securities transactions……..	-	-	9,568	
Service fees on customers' transactions……	5,895	8,093	9,501	*+17.4%*
Other commissions (including LGs)…….....	1,399	453	351	*-22.5%*
Fees and Commissions expenses…….	*(567)*	*(377)*	*(310)*	*-17.8%*
Total…….	**7,871**	**9,374**	**19,866**	***+111.9%***

Total commissions, fees and other revenues rose by 111.9% reaching LBP 19,866 million (US$ 13.17 million) in 2016 as compared to LBP 9,374 million (US$ 6.21 million) in 2015. The major contributors to commissions, fees and other revenues in 2016 were service fees on customers' transactions and commissions on customers' securities transactions both representing 95.98% of the total (86.33% in 2015), while commissions on documentary credits represented 3.8% (12.85% in 2015), other commissions were equivalent to 1.7% (4.8% in 2015), and fees and commissions expenses constituted 1.5% (4% in 2015). With respect to commission on customers' securities transactions, the Bank's customers entered into sales transaction of certificates of deposit in Lebanese Pounds against purchase of Lebanese Government bonds in U.S. Dollar through the Bank and as a result the Bank recorded commissions in the amount of LBP9.57billion.

Net Profit from Financial Operations

The following table sets forth a breakdown of the net profit from financial operations for the years ending December 31, 2014, 2015 and 2016 (Audited) and June 30, 2017 (Unaudited):

		Audited		***Variation***	***Unaudited***
LBP Million	**2014**	**2015**	**2016**	***16-15***	***June 2017***
Net interest and other (losses)/gains on FVTPL portfolio…..	4,859	6,706	4,532	*-32.4%*	***6,889***
Foreign exchange income……..	1,930	2,528	2,856	*+13.0%*	***1,856***
Other operating income …….	7,684	5,541	6,644	*+19.9%*	***2,958***
Total gain on exchange and other operating income…..	**14,473**	**14,775**	**14,032**	***-5.0%***	***11,703***

Total gain on exchange and other operating income declined to LBP 14,032 million (US$ 9.31 million) as at December, 31 2016 as compared to LBP 14,775 million (US$ 9.8 million) as at December, 31 2015 reflecting a year-on-year decrease of 5.0%.

This was mainly due to the decrease in net interest and other (losses)/gains on FVTPL portfolio which regressed from LBP 6,706 million (US$ 4.45 million) in 2015 to LBP 4,532 million (US$ 3.0 million) as at December 31, 2016 declining by 32.4%. With respect to the foreign exchange income generated, the latter grew to LBP 2,856 million (US$ 1.89 million) as at December, 31 2016 reflecting a year-on-year increase of 13.0% as compared to December, 31 2015 (LBP 2,528 million or US$ 1.67 million).

Net loan loss provisions

The following table sets forth a breakdown of the Bank's net provisions for loans and advances to customers for the years ending December 31, 2014, 2015 and 2016 (Audited) and June 30, 2017 (Unaudited):

		Audited		***Unaudited***
LBP Million	**2014**	**2015**	**2016**	***June 2017***
Allowance for impairment of loans and advances……...	(263)	(515)	(1,605)	***(122)***
Collective provision for loan impairment /Write back …….	(929)	140	-	***2***
Total…….	**(1,192)**	**(375)**	**(1,605)**	***(120)***

General Expenses

The following table sets forth a breakdown of the Bank's general expenses for the years ending December 31, 2014, 2015 and 2016 (Audited) and June 30, 2017 (Unaudited):

		Audited		*Variation*	*Unaudited*
LBP Million	**2014**	**2015**	**2016**	**16-15**	***June 2017***
Staff costs……..	20,567	20,579	22,621	*+9.9%*	***11,688***
Administrative expenses……..	15,495	14,789	15,684	*+6.1%*	***7,053***
Depreciation & amortization……	1,361	1,428	1,519	*+6.4%*	***1,094***
(Provision for)/write-back of provisions for contingencies……	386	(1,071)	1,449	*-235.3%*	***41***
Total……	**37,809**	**35,725**	**41,273**	**+15.5%**	***19,875***

The Bank's total general expenses reached LBP 41,273 million (US$ 27.38 million) in 2016 as compared to LBP 35,725 million (US$ 23.7 million) in 2015 increasing by 15.5%. This increase was mainly due to an increase in staff costs, which reached LBP 22,621 million (US$ 15.0 million) in 2016 as compared to LBP 20,579 million (US$ 13.65 million) in 2015 reflecting a year-on-year increase of 9.9% and mainly due to the hiring of new staff members and impact of salary increase. On the other hand, administrative expenses increased by 6.10% to LBP 15,684 million (US$ 10.4 million) in 2016 from LBP 14,789 million (US$ 9.8 million) in 2015.

The Bank's cost-to-income ratio decreased to 63.5% in 2016 compared to 64.68% for 2015.

Analysis of Financial Position

The Bank's consolidated assets grew by 8.48% as at December 31, 2016 in comparison to December 31, 2015 noting that during the same period and according to data released by the Association of Lebanese Banks, total assets growth of the Lebanese Banking Sector reached 9.85%. Consolidated Total assets by end of 2016 reached LBP 2,660,550 million (US$ 1,758.24 million) as compared to LBP 2,443,254 million (US$ 1,620.73 million) as at December 31, 2015 growing by LBP 207,296 million (US$ 137.51 million).

Major Balance Sheet Items

		Audited		*Change*	*Unaudited*
LBP Million	**2014**	**2015**	**2016**	***16-15***	***June 2017***
Cash, compulsory reserve and central banks	373,339	440,214	549,560	*24.84%*	***446,153***
Deposits with banks and financial institutions	201,795	201,242	298,217	*48.19%*	***173,247***
Loans to banks	63,356	48,867	17,512	*-64.16%*	***39,698***
Loans and advances to customers*	969,675	1,018,126	1,040,573	*2.20%*	***1,135,211***
Investment securities and financial assets	537,305	664,257	679,777	*2.34%*	***705,114***
Bank acceptances	31,981	25,296	6,937	*-72.58%*	***15,477***
Other assets and investment in associates	47,127	45,252	57,974	*28.11%*	***65,756***
Total Assets	**2,224,578**	**2,443,254**	**2,650,550**	***8.48%***	***2,580,656***
Customer Deposits*	1,832,445	2,038,951	2,189,145	*7.37%*	***2,110,951***
Engagement by acceptances	31,981	25,296	6,937	*-72.58%*	***15,477***
Deposits from banks and financial institutions	111,193	118,882	135,967	*14.37%*	***126,798***
Subordinated Bonds	37,718	37,688	37,688	*0.00%*	***37,688***
Other Liabilities	19,310	19,554	38,357	*96.16%*	***43,547***
Total Liabilities	**2,032,647**	**2,240,371**	**2,408,094**	***7.49%***	***2,334,460***
Total Shareholders' Equity	**191,932**	**202,883**	**242,456**	***19.51%***	***246,196***
Total Liabilities & Equity	**2,224,579**	**2,443,254**	**2,650,550**	***8.48%***	***2,580,656***
Net Income for the Year/Period	**16,925**	**19,500**	**23,745**	***21.77%***	***11,998***

**Loans and advances to customers as well as customer deposits include related parties accounts.*

Assets Breakdown

Loans and advances to customers constitute the largest uses of funds in terms of total assets where their share stood at 39.26% of total assets in 2016 (41.67% in 2015) followed by Financial assets and Investment securities where the share was equivalent to 25.65% in 2016 (27.19% in 2015). Cash, compulsory reserve and central banks constituted 20.73% in

2016 as compared to 18.02% in 2015. Deposits with Banks and Financial Institutions reached 11.25% of total assets in 2016 as compared to 8.24% in 2015. The breakdown of assets of the Bank and the distribution indicated is in line with the Bank's business model.

Loans and advances to customers (including related parties) increased by 2.20% reaching LBP 1,040,573 million (US$ 690.26 million) as at December 31, 2016 as compared to LBP 1,018,126 million (US$ 675.37 million) as at December 31, 2015. Placements with banks and financial institutions amounted to LBP 298,217 million (US$ 197.82 million) in 2016 as compared LBP 201,242 million (US$ 133.49 million) in 2015. Other assets were equivalent to LBP 57,974 million (US$ 38.46 million) as compared to LBP 45,252 (US$ 30.02 million) in 2015.

This increase is mainly due to the additions to advances on capital expenditures during the year 2016 in the amount of LBP 6.5billion, which represents an advance payment on plot number 660 located in Medawar where the Bank is acquiring new premises in a building under construction for the purpose of housing the Bank's headquarters, and an addition of LBP 1 billion being the purchase of an additional plot for the purpose of expanding the premises and services currently operational at Rabieh Branch.

Loan Portfolio

The Bank's loans and advances to customers (excluding related parties) were equivalent to LBP 1,037,927 million (US$ 688.51 million) as at December 31, 2016 growing from LBP 1,016,270 million (US$ 674.14 million) in December 31, 2015 reflecting a year-on-year increase of 2.13%. Loans and advances to related parties (as defined by Article 152 of the Code of Money and Credit and governing Central Bank of Lebanon circulars) are equivalent to LBP 2,646 million (US$ 1,755 thousand) as at December 31, 2016 increasing from LBP 1,856 million (US$ 1,231 thousand) in 2015 reflecting a year on year growth of 42.59%.

Analysis of the Loan Portfolio by type of Borrower and Loan Classification (including related parties)

The following table sets forth the breakdown of the bank's loans (Gross), by classification, as at December 31, 2014, 2015 and 2016 (Audited) and June 30, 2017 (Unaudited):

		Audited		***Variation***	***Unaudited***
LBP million	**2014**	**2015**	**2016**	***16-15***	***June 2017***
Regular Loans	962,984	1,011,891	1,016,929	*0.50%*	*1,106,377*
Substandard Loans	9,905	8,730	17,475	*100.17%*	*21,386*
Bad & Doubtful Loans	7,210	8,671	20,308	*134.21%*	*21,286*
Accrued Interest receivable	1,160	1,173	1,263	*7.67%*	*1,190*
Total Gross Loans	**981,259**	**1,030,465**	**1,055,975**	***2.48%***	***1,150,239***
Unrealized Interest on Substandard Loans	(381)	(1,032)	(443)	*-57.07%*	*(1,261)*
Unrealized Interest on Bad & Doubtful Loans	(3,418)	(3,586)	(6,200)	*72.89%*	*(7,093)*
Provision Allowance on Substandard Loans	-	(754)	-	*-100.00%*	-
Provision allowance on Bad & Doubtful Loans	(3,389)	(4,837)	(6,629)	*37.05%*	*(6,704)*
Collective Provision for Loan Impairment	(4,396)	(2,130)	(2,130)	*0.00%*	*(2,130)*
Total Net Loans	**969,675**	**1,018,126**	**1,040,573**	***2.20%***	***1,153,051***
Unrealized interest & Provisions /substandard loans (%)	*3.85*	*20.46*	*2.53*		*5.90*
Unrealized interest & Prov/ doubtful and bad loans (%)	*94.41*	*97.14*	*63.17*		*64.82*
Net Doubtful & Bad Loans / Total loans (%)	*1.01*	*0.02*	*0.71*		*0.65*

While noting the prevailing economic stalemate and deteriorating credit situation in the sector, the Bank's conservative and prudent credit policy as well as the continuous monitoring of the Bank's asset quality resulted in maintaining the ratio of "Net doubtful & bad debts/Total loans" at a low of 0.71% by the end of 2016 as compared to 0.02% in 2015 as highlighted in the table above. Despite the increase registered spurred mainly by the downgrading of mainly real estate related facilities, the share of net doubtful and bad loans to total loans remains below 1% of the total loan portfolio. It is to be noted that on top of existing provisions, such facilities are secured by prime collateral where necessary foreclosures and liquidations are being applied.

The Bank's doubtful and bad loans amounted to LBP 20,308 million (US$ 13.47 million) as at December 31, 2016 compared to LBP 8,671 million (US$ 5.75 million) as at December 31, 2015 reflecting an increase of 134.21%. Unrealized interest on doubtful and bad debts totalled LBP 6,200 million (US$ 4.11 million) as at December 31, 2016 compared to 3,586 million (US$ 2.38 million) as at December 31, 2015 reflecting an increase of 72.89%. The coverage

ratio *(Unrealized Interest and Provisions/Doubtful and bad loans)* for 2016 was equivalent to 63.17% as compared to 97.14% for 2015.

Substandard Loans net of unrealized interest and provision allowance reached LBP 17,032 million (US$ 11.30 million) at the end of 2016 as compared to LBP 6,944 million (US$ 4.61 million) at the end of 2015, reflecting a 145.28% year-on-year increase. With respect to the collective provision for loan impairment, it remained unchanged in 2016.

Analysis of the Loan Portfolio by Currency

The following table sets forth the breakdown of the Bank's loan portfolio by currency as at December 31, 2014, 2015 and 2016:

Bank's loan portfolio	**December 31, 2016 (C/V in LBP)-Audited**			
	LBP (million)	**US$ (million)**	**Euro (million)**	**Other (million)**
Loans and advances to customers……	60,778	844,379	111,532	21,238
Loans and advances to related parties……..	15	2,577	54	0
Total Loans…….	**60,793**	**846,956**	**111,586**	**21,238**
Bank's loan portfolio	**December 31, 2015 (C/V in LBP)-Audited**			
	LBP (million)	**US$ (million)**	**Euro (million)**	**Other (million)**
Loans and advances to customers……	37,214	869,930	82,189	26,937
Loans and advances to related parties……..	14	1, 833	9	0
Total Loans…….	**37,228**	**871,763**	**82,198**	**26,937**
Bank's loan portfolio	**December 31, 2014 (C/V in LBP)-Audited**			
	LBP (million)	**US$ (million)**	**Euro (million)**	**Other (million)**
Loans and advances to customers……	41,600	831,670	86,714	8,326
Loans and advances to related parties……..	30	1,165	169	-
Total Loans…….	**41,630**	**832,835**	**86,883**	**8,326**

The Bank's loan portfolio is characterized by a high level of dollarization matching the currency composition of the sources of funds. In December 31, 2016, 94.16% of total loans were denominated in foreign currencies versus 96.34% in December 31, 2015 while the Lebanese banking sector average reached 72.60% as at December 31, 2016 *(as per the figures released by the Association of Banks in Lebanon & BDL's December 2016 Economic Bulletin).*

Analysis of the Loan Portfolio by Economic Sector

The following table sets forth the breakdown of the Bank's loan portfolio by economic sector as at December 31, 2014,2015 and 2016 **(excluding the collective provision for loan impairment):**

	Audited			***Variation***
Sector	**2014**	**2015**	**2016**	***15-16***
Financial Services……..	8,804	9,111	6,673	*-26.77%*
Real Estate…….....	198,899	194,840	195,780	*+0.48%*
Manufacturing……	159,800	155,184	147,757	*-4.78%*
Consumer Goods……	429,860	459,295	470,397	*+2.42%*
Services……..	69,850	66,375	59,900	*-9.76%*
Private Individuals…….	106,858	135,445	160,931	*+18.82%*
Total…….	**974,071**	**1,020,256**	**1,042,703**	***+2.20%***

The Bank seeks to diversify the credit risk of its loan portfolio by distributing loans among the different sectors of the economy, with a focus on sectors that are considered to be as representing acceptable risks. As at December 31, 2016, up to 45.11% of the loans are extended to businesses with trading activities in various consumer products, 14.17% to manufacturing, 18.85% to real estate development (including prime contractors of private residential and commercial buildings duly covered by first degree mortgages and assignment of project proceeds), and the remaining 21.87 % to other economic sectors.

With respect to the Lebanese Banking Sector, and as per the Central Bank's December 2016 Economic Bulletin, 32.3% of the credits are extended to trade and services activities, 10.0% to manufacturing, 18.1% to real estate development and 39.6% to other economic sectors (including individuals) as at December 31, 2016. The main difference between the Bank and the sector is the Bank's minimal share related to retail/individual lending as it does not fall under the Bank's Target Market Criteria.

Analysis of the Loan Portfolio by Maturity

The following table sets forth the breakdown of the Bank's loan portfolio by maturity as at December 31, 2014, 2015 and 2016 (Audited):

LBP Million		**Audited**		***Variation***	***Share***	
Maturity	**2014**	**2015**	**2016**	***16-15***	***2016***	***2015***
Accounts with no maturity	573,102	672,851	690,093	*2.56%*	*66.32%*	*66.08%*
Up to 3 months	368,539	329,624	328,726	*-0.27%*	*31.59%*	*32.37%*
3 to 12 months	26,263	14,680	20,758	*41.41%*	*1.99%*	*1.44%*
12 months and above	1,771	970	997	*2.78%*	*0.10%*	*0.09%*
Total	**969,675**	**1,018,125**	**1,040,573**	***+2.20%***	***100%***	***100%***

Similar to the current market practice in Lebanon, the major portion of the Bank's loan portfolio is of short-term nature (overdrafts), with maturities rarely exceeding the 12 months period reflecting a credit management strategy that aims at matching the maturities of the Bank's sources of funds and its corresponding uses of funds, while maintaining adequate levels of liquidity. Additionally, more than 97% of loans granted by the Bank carry floating interest rates with minimum floor rates applied mitigating the Bank's exposure to interest rate risk.

Analysis of the Loan Portfolio by Size (excluding related parties, accrued interest, unearned interest and collective provisions)

The following table sets forth below classifies the outstanding loan balances by size as at December 31, 2016 and 2015:

Outstanding Loan Balances	**Audited – 2016**				**Audited - 2015**			
Bracket	# of Clients	% to Total Clients	LBP million	**%** to Total Loans	# of Clients	% to Total Clients	LBP million	**%** to Total Loans
Less than LL 500 mln*	958	74.44%	67,201	6.47%	1,003	75.53%	63,245	6.22%
From LL 500 mln – LL 5 bln	272	21.13%	456,868	43.98%	268	20.18%	445,769	43.82%
Over LL 5.0 bln	57	4.43%	514,724	49.55%	57	4.29%	508,213	49.96%
Total	**1,287**	**100.0%**	**1,038,793**	**100.0%**	**1,328**	**100.0%**	**1,017,227**	**100.0%**

Audited - 2014

# of Clients	% to Total Clients	LBP million	**%** to Total Loans
985	76.30%	60,666	6.24%
259	20.06%	456,557	47.00%
47	3.64%	454,324	46.76%
1,291	**100.0%**	**971,547**	**100.0%**

**including numerous incidental debtor accounts*

The total loan portfolio (excluding related parties) is spread over 1,287 clients, with 25.56% of the clients covering 93.53% of the loan portfolio as at December 31, 2016. The Bank manages the diversification of its portfolio to avoid undue credit risk concentrations. Industry and sectorial analyses are also incorporated within the overall credit risk management framework. In this respect, the Bank seeks to continually update lending and financing guidelines based on periodic reviews and updates of industry and sectorial risk factors and economic outlooks. This facilitates the better management of credit concentration risks.

Analysis of the Loan Portfolio by Counterparty type

The following table sets forth below classifies the outstanding loan balances by counterparty type as at December 31, 2014, 2015, and 2016 (Audited) and June 30, 2017 (Unaudited) (carrying amount net of unrealized interest and impairment allowance and excluding related parties):

LBP Million	Carrying amount net of unrealized interest Audited			*Variation*	Carrying amount net of un.interest Unaudited
Counterparty type	**2014**	**2015**	**2016**	***16-15***	**June 2017**
Performing Retail Customers……	**71.056**	**100,362**	**111,663**	***11.26%***	**115,950**
- Mortgage loans……	*39,979*	*52,884*	*61,204*	*15.73%*	*61,025*
- Personal loans……	*6,578*	*11,373*	*9,347*	*-17.81%*	*8,452*
- Overdrafts……	*17,571*	*28,471*	*32,180*	*13.03%*	*33,926*
- Other……	*6,928*	*7,634*	*8,932*	*17.00%*	*12,547*
Performing Corporate Customers……	**890,563**	**909,674**	**902,621**	***-0.78%***	**990,426**
- Large enterprises……	*706,287*	*621,481*	*632,131*	*1.71%*	*699,946*
- Small and medium enterprises……	*184,276*	*288,193*	*270,490*	*-6.14%*	*290,480*
Non-Performing Retail Customers……	**0**	**0**	**1,509**	***0***	**1,511**
- Substandard……	-	-	*1,509*	-	*1,511*
- Bad & Doubtful……	-	-	-	-	-
Non Performing Corporate Customers……	**9,927**	**7,191**	**23,001**	***219.86%***	
- Substandard……	9,523	6,944	15,522	*123.53%*	*18,614*
- Bad & Doubtful……	404	247	7,479	-	*7,488*
Allowance for Impairment for Collectively Assessed Loans	**(4,396)**	**(2,130)**	**(2,130)**	***0%***	**(2,130)**
Accrued interest receivable……	**1,160**	**1,173**	**1,263**	***7.67%***	**1,190**
Total……	**968,310**	**1,016,270**	**1,037,927**	***2.13%***	**1,133,051**

Building on the Bank's strategic direction to mainly service prime corporations (locally & regionally) – mainly top ranked tiers in each respective industry – the table above is an indication of the Target Market Criteria of client selection whereby nearly 87% of the overall Loans & Advances exposure is allocated to corporate customers as at December 31, 2016.

Collateralization of Loans

The following table sets forth the breakdown of the fair value of collateral held by the Bank covering the performing loans and advances granted to customers as at December 31, 2014 ,2015 and 2016 (Audited):

		Audited		***Variation***
(LBP Million)	**2014**	**2015**	**2016**	***15-16***
Pledged funds……	171,659	173,271	164,507	*-5.06%*
Equities……	13,524	29,193	28,755	*-1.50%*
Real Estate Mortgage……	139,759	174,327	156,767	*-10.07%*
Total……	**324,942**	**376,791**	**350,028**	***-7.10%***

The table above shows that the Bank is still maintaining adequate coverage on loans and advances extended to customers.

Distribution of Loan Portfolio by Geographical Area

The following Graph shows the distribution of the Bank's Loan Portfolio (excluding related parties) by geographic area as at December 31, 2014 ,2015 and 2016 (Audited):

(LBP Million)	**2014**	**2015**	**2016**
Lebanon……	*91.68%*	*88.67%*	*92.82%*
Middle East and Africa……	*3.09%*	*5.31%*	*3.18%*
North America……	*0.00%*	*0.02%*	*0.00%*
Europe……	*5.20%*	*5.38%*	*3.98%*
Other…….....	*0.03%*	*0.62%*	*0.02%*
Total……	***100%***	***100%***	***100%***

As per the breakdown of the above table, the main concentration in terms of the Loan Portfolio is in Lebanon where 92.82% of loans and advances are granted.

The following tables sets forth the breakdown of the Bank's investment securities portfolio, by classification (amortized cost and trading assets at fair value through profit or loss) as at December 31, 2014 ,2015 and 2016:

Trading Assets at Fair Value through Profit or Loss (FVTPL) excluding accrued interest:

(LBP Million)	**Audited 2014**	***Share***	**Audited 2015**	***Share***	**Audited 2016**	***Share***	***Unaudited June 2017***	***Share***
Quoted equity securities	4,999	*21.55%*	5,406	*21.40%*	7,099	*8.43%*	*9,795*	*19.2%*
Lebanese treasury bills	9,117	*39.3%*	14,166	*56.08%*	16,778	*19.92%*	*25,310*	*49.7%*
Foreign treasury bill	-	-	328	*1.30%*	0	*0%*	*0*	*0%*
Lebanese government bonds	1,568	*6.76%*	608	*2.41%*	20,114	*23.89%*	*8,257*	*16.2%*
CD issued by Central Bank	5,178	*22.31%*	1,036	*4.10%*	37,568	*44.62%*	*7,058*	*13.9%*
CD issued by comm. Banks	303	*1.31%*	0	*0%*	754	*0.90%*		
Corporate Bonds	2,036	*8.77%*	3,716	*14.71%*	1,885	*2.24%*	*498*	*1.0%*
Total Trading Assets at FVTPL	**23,201**	***100%***	**25,260**	***100%***	**84,198**	***100%***	***50,918***	***100%***

Total Trading Assets at FVTPL reached LBP 84,198 million (US$ 55.85 million) for the year 2016 compared to LBP 25,260 million (US$ 16.76 million) in 2015 reflecting an increase of 233.33%. At the end of 2016, 88.43% of the latter assets are sovereign investments (Central Bank of Lebanon and Treasury Bills issued by the Lebanese Government) compared to 62.59 % at the end of 2015. FVTPL assets represented respectively 3.22% and 1.05% of total assets at the end of 2016 and 2015.

With respect to the currency composition of Trading Assets at FVTPL, the share of LBP Base Balances accounted for 26.95% of total trading assets held at FVTPL in 2016 compared to 60.18% at the end of 2015. In comparison, the share of Foreign Currency Base Balances increased from 39.82% in 2015 to 73.05% by the end of 2016.

Financial assets held at Amortized Cost and at Fair Value through Other Comprehensive Income (FVTOCI):

(LBP Million)	**Audited 2014**	***Share***	**Audited 2015**	***Share***	**Audited 2016**	***Share***	***Unaudited June 2017***	***Share***
Lebanese treasury bills	206,628	*40.27%*	170,611	*26.75%*	149,290	*26.75%*	*170,052*	*26.1%*
Lebanese government bonds	78,135	*15.23%*	151,731	*23.79%*	115,685	*23.79%*	*138,057*	*21.1%*
CD issued by Central Bank	186,027	*36.26%*	270,385	*42.38%*	301,835	*42.38%*	*316,806*	*48.5%*
CD issued by Comm. Banks	-	-	-	-	-	-		
Notes issued by Securitization Funds	33,522	*6.53%*	34,847	*5.46%*	19,820	*5.46%*	*19,456*	*3.0%*
Accrued interest receivable	8,791	*1.71%*	10,343	*1.62%*	7,255	*1.62%*	*8,461*	*1.3%*
Total Financial Assets held at Amortized Cost	**513,103**	***100%***	**637,917**	***100%***	**593,885**	***100%***	***652,832***	***100%***
Financial assets at fair value through other comprehensive income	**642**		**639**		**638**		***640***	

Total Financial Assets held at Amortized Cost were equivalent to LBP 593,885 million (US$ 393.95 million) for the year 2016 compared to LBP 637,917 million (US$ 423.16 million) in 2015 decreasing by 6.90% year-on-year.
Around 45% of the latter assets are investments in Lebanese Treasury Bills and Government Bonds, while 50% are investments with the Central Bank of Lebanon (Certificates of Deposits) at the end of 2016. Total financial assets held at Amortized Cost represented respectively 22.41% and 26.11% of total assets at the end of 2016 and 2015.

With respect to the currency composition of Financial Assets held at Amortized Cost, the latter reveals that the share of LBP Base Accounts accounted for 35.20% of total financial assets held at Amortized Cost in 2016 compared to 57.25% at the end of 2015. In comparison, the share of Foreign Currency Base Accounts increased to 64.80% in 2016 coming from 42.75% by the end of 2015.

It is to be noted that the Bank has documented an investment policy approved and reviewed regularly by ALCO and the Board of Directors detailing the investment strategy and subsequent asset allocation and limits in line with the Supervisory Authorities prerogatives.

During the year 2016, the Bank entered into sales transactions of Lebanese Treasury bills and certificates of deposit denominated in Lebanese Pounds designated between fair value through profit or loss and amortized cost securities and having a nominal value of LBP37billion and LBP80.5billion respectively, concluded in conjunction with the acquisition of certificates of deposit denominated in U.S. Dollars with longer maturity designated between FVTPL and amortized cost with a nominal value of USD21million and USD57million respectively. The resulting surplus of the inter-related transactions derived from the arrangement and transactions with the Central Bank of Lebanon was equivalent to LBP41.25billion (deferred net of tax in the amount of LBP6.19billion).

As per BDL Intermediary circular number 446 detailing the usage of the above surplus, the Bank allocated an amount of LBP 24.11billion to offset currency translation losses on the investment in an associate (namely BBSF). The remaining amount from the surplus registered totalled LBP 10.95billion and was assigned to collective provision for IFRS 9 requirements.

Funding Sources

The Bank's funding resources continue to be mainly driven by customers' deposits accounting for 82.59% of the Bank's total liabilities and shareholders' equity at December 31, 2016, while the remaining are accounted for by bank deposits (5.13%), other liabilities (1.71%), subordinated debt (1.42%) and shareholders' equity (9.15%).

Time Deposits represent the largest portion of the Bank's deposits, owing to the private and corporates that are selected by the nature of the banking operations and the business model of the Bank.

The following graph depicts the breakdown of the Bank's Customers' Deposits *(excluding related parties deposits)* by currency as at December 31, 2014 ,2015 and 2016 (Audited):

Bank's Customers' Deposits by Currency	**LBP (million)**	**US$ (million)**	**Euro million)**	**GBP (million)**	**Other (million)**
			December 31, 2016 (C/V in LBP)		
Customers' Accounts at amortized cost……	328,975	1,489,145	209,801	31,342	18,929
Total Customers' Deposits in LBP (million)……			**2,078,192**		
			December 31, 2015 (C/V in LBP)		
Customers' Accounts at amortized cost……	359,299	1,325,298	226,705	22,835	15,813
Total Customers' Deposits in LBP (million)……			**1,949,950**		
			December 31, 2014 (C/V in LBP)		
Customers' Accounts at amortized cost……	325,790	1,184,078	226,813	21,099	14,228
Total Customers' Deposits in LBP (million)……			**1,772,008**		

Customers' Deposits in Lebanese Pounds accounted for only 15.83% of total deposits as of December 31, 2016, with the remaining balance being in foreign currency deposits. Such an allocation, coupled with the relatively lower interest rates on foreign currency deposits resulted in an acceptable average cost of funds.

The average cost of funds on customers' deposits at amortized cost (including related party deposits) during the last 3 years was as follows:

Year	**Average Rate LBP** (%)	**Average rate FCY** (%)
2016…….	6.17	3.03
2015…….	6.17	2.86
2014…….	6.11	2.65

Customers' Deposits by Size (excluding related parties)

The following table sets forth the Bank's customers deposits (excluding related parties accounts) by size as at December 31, 2014 ,2015 and 2016 (Audited):

			Audited			
Maturity	**2014**	**%**	**2015**	**%**	**2016**	**%**
Accounts with no maturity	351,483	19.84	350,682	17.99	398,021	19.15
Up to 3 months	1,266,205	71.46	1,285,862	65.94	1,259,729	60.62
3 to 12 months	125,528	7.08	269,286	13.81	359,411	17.29
12 months and above	28,792	1.62	44,121	2.26	61,031	2.94
Total	**1,772,008**	**100%**	**1,949,951**	**100%**	**2,078,192**	**100%**

Customers' Deposits by Maturity

The following table sets forth the distribution of the Bank's customers' deposits by initial stated maturity as at December 31, 2014 ,2015 and 2016 (Audited):

	Audited					
Maturity	**2014**	**%**	**2015**	**%**	**2016**	**%**
Accounts with no maturity	351,483	19.84	350,682	17.99	398,021	19.15
Up to 3 months	1,266,205	71.46	1,285,862	65.94	1,259,729	60.62
3 to 12 months	125,528	7.08	269,286	13.81	359,411	17.29
12 months and above	28,792	1.62	44,121	2.26	61,031	2.94
Total	**1,772,008**	**100%**	**1,949,951**	**100%**	**2,078,192**	**100%**

Short-term deposits with maturities up to 3 months and accounts with no maturity accounted for around 80% of total customers' deposits while deposits with maturities of up to 12 months exceeded 97% of total customers' deposits as at December 31, 2016.

Capital and Capital Adequacy

The major current components of Tier One and Tier Two Capital of the Bank are as follows:

1. Eligible share capital: The issued and outstanding share capital of the Bank consists of 62 million nominative common shares authorized and fully paid with a par value of LBP 1,004 per share and divided as follows:

Listed Shares: 51,400,000
Unlisted Shares: 10,600,000

2. Shareholders' cash contribution to capital: This caption represents capital injection of USD 19,306,789 made by shareholders, in the form of shareholders' cash contribution to capital, each to the extent of his/her shareholding in the Bank's equity. Effective 2011, the General Assembly of shareholders approved to call-off interest on cash contribution to capital. This sort of equity instrument consists of non-refundable capital injection which could be converted into share capital and it has the advantage of being booked and maintained in foreign currencies which allows for hedging against national currency fluctuation.

3. Reserves: Reserves consist of the following as at December 31, 2014 ,2015 and 2016 (Audited):

(LBP Million)	**Audited 2014**	**Audited 2015**	**Audited 2016**
Legal reserve……..	3,518	5,048	6,846
Reserve for general banking risks…….…….	22,997	26,524	31,904
General reserve for performing loans……	-	1,500	4,054
Reserve for assets acquired in satisfaction of loans…….……..	723	768	870
Reserve from disposal of assets acquired in satisfaction of loans…….	-	182	182
Other reserves…….	5,518	5,518	6,209
Total Reserves…….	**32,756**	**39,540**	**50,065**

Eligible reserves are created by accumulated appropriations of profits and are maintained for future growth, to reach 2% of total risk weighted assets in 2017. In accordance with the requirements of Lebanese Money and Credit Law, the Bank transfers since its inception 10% of its net income to the legal reserve account. This reserve is not available for distribution but can be used for capital increase. The reserve for general banking risks is constituted according to local banking regulations from income on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies to the extent of LBP 2.84 billion and LBP 29.06 billion, respectively, in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

General Reserve for performing loans: In compliance with Central Bank Basic Circular No 81, the Bank is required to transfer from net profit the equivalent of (a) 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; (b) 0.25% of performing corporate loans 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.

4. Eligible retained earnings: This represents the accumulated undistributed profits

5. Currency Translation Adjustments: This mainly represents the currency translation adjustment related to the investment in an associate incorporated in Syria where the carrying value was readjusted for the effect of prolonged decline in exchange of the Syrian Pound against the US Dollar caused by the ailing economic situation as a result of the hostilities initiated in 2011. As of December 31, 2016, the Bank fully provisioned the amount of losses emanating from currency translation adjustments.

6. Subordinated Bonds (Tier II Capital): Subordinated bonds in the amount of USD25milion (divided into 2,500 bonds of USD10,000 each) were issued on December 15, 2014 and mature on January 4, 2021 and are subject to an annual interest of 6% payable on December 31, and June 30 of each year.
In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purposes of computation of Risk Based Capital Ratio, to be decreased by 20% on a yearly basis.

Minimum capital requirements:
The Bank is subject to the capital adequacy requirements and guidelines as defined by the Central Bank of Lebanon which are based on the guidelines of the Basel Committee on Banking Supervision.

- after conducting the necessary deductions as directed by BDL and BCC requirements, the new minimum solvency requirements will be as follows (to be achieved in a phased in approach)
  As per BDL intermediary circular number 436 dated September 30, 2016

Description	31/12/2016	31/12/2017	31/12/2018
Common Equity Tier 1 Ratio	8.5%	9.0%	10.0%(*)
Tier 1 Ratio	11.0%	12.0%	13.0%(*)
Total Capital Ratio	14.0%	14.5%	15.0% (*)

(*) including the Capital Conservation Buffer required by Basel Committee equivalent to 4.5%

Eligible Capital for Solvency Calculation

	Audited		
Components of Eligible Capital	**2014**	**2015**	**2016**
Common Equity Tier 1			
Common stock – Paid in Capital…….	62,248	62,248	62,248
Cash Contribution to Capital……...	29,105	29,105	29,105
Eligible Reserves……	32,033	38,590	49,195
Retained Earnings……..	346	12,610	43,656
Minority Interests……..	224	199	101
Common Equity Tier 1	***123,956***	***142,752***	***184,305***
Less: Deductions/Regulatory Adjustments			
Less: Treasury Shares……	(2,344)	(2,696)	(2,932)
Less: Intangible assets……	(726)	(615)	(976)
Less: participations…….	(6,794)	(3,721)	(12)
NET Common Equity Tier 1…….	***114,092***	***135,720***	***180,385***
Additional Tier 1			
Perpetual, Non-Cumulative Preferred Shares…….	52,641	52,641	52,641
Less: Minority Interests……..	(224)	(199)	(101)
TOTAL Tier 1 (A)……	***166,509***	***188,162***	***232,925***
Supplementary Capital – Tier 2			
Subordinated Bonds……	37,718	37,688	37,688
TOTAL Tier 2 (B)……	***37,718***	***37,688***	***37,688***
Total Eligible Capital (A+B)…….	**204,227**	**225,850**	**270,613**

Risk Weighted Assets composition:

The Capital Adequacy measurement after application of corresponding risk weights based on the aforementioned approaches is detailed in the following table:

Capital Adequacy	Audited		
(LBP million)	**2014**	**2015**	**2016**
Credit Risk Weighted Assets – Standardized Approach	**1,321,676**	**1,447,389**	**1,544,134**
Sovereign Risk……	278,284	380,917	424,759
Banks Risk…….	128,631	124,128	161,032
Public Sector Entities…….	3	3	3
Loans to Corporate Clients……	517,946	512,488	483,725
Loans to SMEs…….	98,510	128,375	147,152
Other Retail Loans……	19,489	23,523	28,423
Residential Loans…….	14,683	18,674	20,767
Commercial Real Estate Loans……	171,811	164,160	150,014
Securitization ……...	20,541	20,679	15,388
Non-Performing Loans…….	14,488	11,661	32,836
Other Assets…….	57,290	62,781	80,035
Market Risk Weighted Assets – Standard Measurement Approach	**21,821**	**24,588**	**88,601**
Interest Rate Risk (Trading Book)……	9,128	11,460	72,085
Equity Price Risk (Trading Book)……	9,999	10,813	14,198
FX Risk…….	2,694	2,315	2,318
Commodities Risk (Not applicable)……			
Operational Risk– Basic Indicator Approach	**84,228**	**91,747**	**103,047**
Total Risk Weighted Assets……..	**1,427,725**	**1,563,724**	**1,735,782**
Total Capital Ratio……	**14.30%**	**14.44%**	**15.59%**
Tier 1 Capital Ratio……..	**11.66%**	**12.03%**	**13.42%**
Net Common Equity Tier 1……...	**7.98%**	**8.67%**	**10.39%**

The capital base is intended to act as buffer against the risks to which the Bank is exposed to and comprises the sum of Tier-1 and Tier-2 capital. The purpose of the Bank's capital management is to ensure the efficient use of capital in the light of the Bank's overall capital targets. The Bank takes the capital targets into account in the determination of its risk profile. This means that the capital level must be sufficient to cover both organic growth and current fluctuations in the risks taken on.

In addition, the Bank has been performing regular stress tests since 2012 guided by the regulatory authorities to calculate the newly proposed liquidity ratio by the Basel Committee under the new capital standard (Basel III) namely the Liquidity Coverage Ratio (LCR). The liquidity position of the Bank is monitored by the Bank's ALCO, which aims at minimizing risk, while ensuring the best use of funds in the prevailing economic conditions.

The management's efforts with regards to the maturities of funding sources and uses are reflected in the Bank's satisfactory liquidity position. Similar to other banks in the sector, the Bank had negative maturity gaps concentrated in maturities of up to 3 months, while the maturity gaps were positive for maturities of more than 3 months. The table below summarizes the maturity profile of the Bank's assets and liabilities and the related maturity gaps for 2016 and 2015:

- For LBP Base Accounts

In LBP millions	Accounts with no maturity	Up to 3 months	From 3 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	From 5 to 10 years
2016 maturity gap……	64,289	(118,938)	(2,094)	39,356	49,083	95,270
2016 cumulative maturity gap……	64,289	(54,649)	(52,555)	(13,199)	35,884	131,154
2015 maturity gap……	60,395	(273,900)	(65,271)	66,590	80,267	202,482
2015 cumulative maturity gap……	60,395	(213,505)	(278,776)	(212,186)	(131,919)	70,563
2014 maturity gap……	36,351	(217,629)	(46,783)	47,491	69,170	175,509
2014 cumulative maturity gap……	36,351	(181,278)	(228,061)	(180,570)	(111,400)	64,109

- For Foreign Currency Base Accounts

In LBP millions	Accounts with no maturity	Up to 3 months	From 3 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	From 5 to 10 years
2016 maturity gap……	412,414	(616,525)	(269,021)	72,848	110,068	401,518
2016 cumulative maturity gap……	412,414	(204,111)	(473,132)	(400,284)	(290,216)	111,302
2015 maturity gap……	435,706	(652,137)	(97,644)	69,224	182,401	194,769
2015 cumulative maturity gap……	435,706	(216,431)	(314,075)	(244,851)	(62,450)	132,319
2014 maturity gap……	362,216	(633,886)	91,695	104,337	137,734	65,727
2014 cumulative maturity gap……	362,216	(271,670)	(179,975)	(75,638)	62,096	127,823

The basis of the remaining period at the relevant balance sheet date is mainly determinant of the contractual maturities of assets and liabilities not taking into consideration the effective maturities of many of the Bank's liabilities indicated by the track record of deposit retention at the Bank and subsequent continuous availability of liquid funds. The Bank's foreign currency placements maintained with international banks carry a maturity of three months or less. Moreover, the Bank's loans and advances portfolio is mainly of a short-term nature.

Interest Rate Sensitivity

The Bank is exposed to interest rate risk as a result of mismatches in interest rate repricing of assets and liabilities and off-balance sheet items that mature or reprice in a given period. The ALCO monitors interest rate risk through the continual repricing of assets and liabilities on the basis of forecasted rates in both national and international markets, as well as through other traditional risk management strategies.The Central Bank has in the past used interest rates to stabilize the money markets. In times of political uncertainty, some investors withdrew time deposits in Lebanese Pounds with a view of exchanging Lebanese Pounds for US Dollars. This situation created problems for banks which were charged high rates of interest by the Central Bank on repurchase transactions to meet the funding cost of customer withdrawals. A number of developments have occurred in the market to mitigate the risk, including a trend of discouraging customers from breaking term deposits by increasing the associated costs. Customers are generally not permitted to withdraw time deposits prior to their maturity date and the cost of repurchase transactions is now generally passed on to the customers. In addition, the Bank has established the Interest Rate Risk Management Policy which provides for the governance of interest rate whereby sensitivity triggers are applied on earnings for the Bank. Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate in an environment of rapid financial market changes. The interest rate sensitivity position based on contractual re-pricing arrangements for 2016 and 2015 are shown in the table below (Earnings at Risk Impact for one year only):

Consolidated as at 31/12/2016 (amounts in LBP Millions)	Less than 1 Month	From 1 to 3 Months	From 3 to 6 Months	From 6 to 12 Months
Total Assets	1,148,574	317,551	83,636	19,229
Total Liabilities	1,344,935	190,515	125,177	232,805
TOTAL	(196,361)	127,036	(41,541)	(213,576)
Term Position	2,540	1,021	861	2
PERIODIC GAP	(193,821)	128,057	(40,680)	(213,574)
CUMULATIVE GAP	(193,821)	(65,764)	87,377	(254,254)
Earnings at Risk - 2016	***(162)***	***(219)***	***(655)***	***(3,814)***
Consolidated as at 31/12/2015 (amounts in LBP Millions)	**Less than 1 Month**	**From 1 to 3 Months**	**From 3 to 6 Months**	**From 6 to 12 Months**
Total Assets	1,040,547	372,147	76,422	31,457
Total Liabilities	1,295,125	179,841	165,318	44,152
TOTAL	(254,578)	192,306	(88,896)	(12,695)
Term Position	235	(3,327)	128	-
GAP	(254,343)	188,979	(88,768)	(12,695)
CUMULATIVE GAP	(254,343)	(65,364)	(154,132)	(166,827)
Earnings at Risk - 2015	***(212)***	***(217)***	***(1,156)***	***(2,502)***
Consolidated as at 31/12/2014 (amounts in LBP Millions)	**Less than 1 Month**	**From 1 to 3 Months**	**From 3 to 6 Months**	**From 6 to 12 Months**
Total Assets	1,053,836	327,567	137,604	49,656
Total Liabilities	1,505,184	249,659	83,761	61,350
TOTAL	(451,348)	77,908	53,843	(11,694)
Term Position	936	(237)	(1,431)	-
GAP	(450,412)	77,671	52,412	(11,694)
CUMULATIVE GAP	(450,412)	(372,741)	(320,329)	(332,023)
Earnings at Risk - 2014	***(376)***	***(1,243)***	***(2,403)***	***(4,981)***

The above shows that the effect of a 200 basis point change in interest rates upwards or downwards on the earnings of the Bank for the year ended December 31, 2016 is equivalent to LBP 3.81 billion increase/decrease as compared to LBP 2.50 billion increase/decrease for the year ended December 31, 2015.

Lending policies

The Lebanese supervisory authority vested in the Central Bank of Lebanon and the Banking Control Commission imposes several specific lending limits on banks mainly relating to the following:

1. Central Bank of Lebanon Basic Directive No 7055 as amended dated August 13, 1998, sets a maximum allowable weighted credit limit to a single borrower or group of related borrowers. Through its intermediary circular No 311, dated December 20, 2012, the Central Bank introduced new definitions and new limits concerning country risk, the criteria used to define one-obligor exposures, stress testing of credit risk concentrations, internal risk limits, impairment testing and related. In addition to BDL Intermediate Circular No 311, the governing circulars related to the aforementioned are the following: BDL Basic Circular No 48 and its subsequent amendments Intermediate Circulars No 126, 232, 237 & 261 + BCC Circular No 258

   I. DEFINITIONS:

   a) *Interconnected Group of Obligors / One Obligor:* 1- Two persons (moral or individual) or more who have a shared risk because one of them is the main responsible (directly or indirectly) for the other(s) risks. For example: the group of entities where one has the majority of ownership rights or voting rights in the Board or having the ability to influence its management or having the control over its financial and operational management, the group of two or more institutions where one of them contributes in at least 20% of the other entity's capital funds, the group of two or more interrelated guarantors (such as Cross guarantees), two persons or more (where the aforementioned criteria does not apply) but can be considered as a "group of related debtors" as a result of the high level of Interconnectedness between them where the financial difficulties faced by one of the entities affects the other entity, negatively impacting the ability of the latter entity to obtain financing or secure repayment.

   b) *Granted Facilities:* are the banking facilities authorized or utilized (whichever is greater) to one or to a related group of debtors whether funded or non-funded after applying the risk weighting and deducting the amount of provisions constituted by the bank in cover (if existing). The bonds issued by a group of related debtors and purchased by the bank are considered as part of the granted facilities.

   c) *Facilities granted on consolidated level:* Facilities granted by the bank in Lebanon, its branches abroad and its subsidiaries (banks or financial institutions) subject to consolidation.

   d) *Large facilities:* Facilities equivalent to or greater than 10% of the Bank's Core Equity.

   e) *Equity of the Bank for branches in Lebanon and abroad:* Core Tier 1 Equity of the bank calculated in accordance with the regulations issued by BDL and based on the financial statements of the bank for branches in Lebanon and abroad.

   f) *Consolidated Equity:* Core Tier 1 Equity of the bank calculated in accordance with the regulations issued by BDL and based on the consolidated financial statements of the bank in Lebanon and its branches abroad and its subsidiaries (banks and financial institutions in Lebanon and abroad).

   g) *Credit facilities against Spot or Forward transactions:* Credit facilities granted to borrowers to conduct foreign exchange transactions for speculation purposes whether spot or forward in one foreign currency against another foreign currency

   h) *Subsidiaries:* Banks or financial institutions subject to consolidation based on the Global Integration method.

The Bank is currently in compliance with the Directive's provisions in relation to its exposures.

2. Central Bank of Lebanon Intermediary Circular No 126 dated November 9, 2006, sets specific limitations on credit extended to residents/non-residents as well as concentration as per the following guidelines amended as per the prerogatives of Intermediary Circular No 311:

Description	Funds use	Regulatory Limits
1. Maximum Limits of Facilities granted on a consolidated level to one client or a group of interrelated clients	In Lebanon and abroad	*Maximum 20% of Consolidated Core Equity*
2. Maximum Limits of Facilities granted by the Bank from its branches in Lebanon and abroad to one client or a group of interrelated clients	In Lebanon and abroad	*Maximum 20% of Core Equity for branches in Lebanon and abroad*
3. Maximum Limits of Facilities granted by the Bank from its branches in Lebanon and abroad to one client or a group of interrelated clients	Outside Lebanon	*Maximum 10% of Core Equity for branches in Lebanon and abroad*
4. Large Exposures: Total Facilities granted by the Bank (limits or exposures whichever is larger) where each represents 10% of the consolidated core equity	In Lebanon and abroad	*Maximum 4 times the Consolidated Core Equity of the Bank*
5. Maximum Limits of Facilities granted by the Bank from its branches in Lebanon and abroad for usage outside Lebanon (regardless of the sovereign rating of the country where the facilities are used)	Outside Lebanon	*Maximum 4 times the Core Equity for branches in Lebanon and abroad*
Credit Ceiling per one Country outside Lebanon (1)		
6. Maximum Limit of Facilities granted to clients by the Bank from its branches in Lebanon and abroad	Used in a country rated BBB & above	*Maximum 50% of Core Equity for branches in Lebanon and abroad*
	Used in a country rated below BBB or unrated	*Maximum 25% of Core Equity for branches in Lebanon and abroad (1)*
Credit Ceiling per a group of countries outside Lebanon (2)		
7. Maximum Limit of Facilities granted to clients by the Bank from its branches in Lebanon and abroad	Used in all countries rated BBB or unrated	*Maximum 100% of Core Equity for branches in Lebanon and abroad (2)*

(1) In addition to the ceiling imposed, Lebanese banks are allowed to grant an additional 25% of Core Equity in a country rated below BBB or unrated subject to having a presence in this country and that the additional amount is financed from the deposits in that respective country

(2) Similar to above, Lebanese banks are authorized to grant an additional 25% of Core Equity in all countries rated below BBB or unrated subject to the conditions cited above

N.B.: Credit ratings used are the ratings set by S&P or their equivalent published by an International Credit Rating Agency

The Bank is currently in compliance with the Directive's provisions in relation to its exposures

For more information, please refer to "The Banking Sector and Banking regulation in the Lebanese Republic – Credit Limit". The Bank's credit approval process begins with a credit application submitted in a prescribed form as per the directives imposed by the Central Bank of Lebanon and showing the purpose of the requested facility, the proposed source and schedule for repayment, and the proposed collateral. The application is analysed by the relationship manager, who evaluates particularly the purpose of the requested facility and the borrower's creditworthiness through an in-depth analysis of a series of criteria such as the proposed source and method of repayment and the proposed collateral (if any). The collateral may be in the form of asset security, bank, personal or corporate guarantees, cash collateral, or assignment of proceeds derived from contracts. During this preliminary evaluation, the relationship manager confers with the head of the concerned division regarding the creditworthiness and the reputation of the potential borrower as well as to the type of business or activities undertaken by the latter. To proceed further, the head of division must provide the preliminary approval.

In the event of a negative feedback from the head of division, the application will be declined and the file closed. If the feedback is positive, the application is submitted to the Risk Management Department for a technical review and a second independent opinion to assess the quality of the analysis and the risks entailed. This includes a detailed review of the purpose of the requested facility, the source of repayment, the business risks that could inhibit repayment (nature of the business/industry, competitiveness, operating efficiency, management), and the financial analysis of the borrower (financial statement analysis and cash flow analysis, projection, "debt capacity" review and other financial risks). The technical review produces an evaluation report with comments and recommendations. Notwithstanding the amount of the credit requested, the approval process follows the same internal procedure which includes, after the

review by the Risk Management Department, the review and majority approval by the members of the Credit Committee. The decision is passed to the Board of Directors for approval only if the amount of credit requested exceeds different thresholds. Once granted, the ongoing review and accounting for loans becomes the responsibility of the relationship manager who undertakes the "Preliminary Evaluation". The relationship manager and the head of division are both responsible for monitoring the performance of the loan and checking that the funds are employed for the purpose stated in the loan application. Regular visits are made to the premises of borrowers and every account is submitted to a thorough review and reassessment each year by the relationship manager, the Risk Management Department and by the Credit Committee. The renewal of facilities is subject to the same approval procedure as the original initiation and extension of facilities.

The Risk Management Department oversees the review and follow-up procedures performed at the division and bank's level. It is also responsible for monitoring the markets in which the Bank's borrowers operate in order to foresee any significant developments that might affect either beneficially or adversely the performance of borrowers. Within the Risk Management Department, the credit control unit also retains the responsibility for safe keeping and updating, when required, all collateral documentation received with the credit applications from the respective divisions. Article 152 of the Code of Money and Credit provides that advances and credit facilities to directors or managers of banks, or to companies having common directors with the Bank's or to principal shareholders or their close relatives, must be authorized by the Ordinary General Assembly of Shareholders of the bank and must not exceed, in aggregate, 2 % of the shareholders' equity of the Bank, provided that unsecured loans do not exceed 1% of the shareholders' equity. Such advances must be made on normal commercial terms. The Bank is in compliance with Article 152 of the Code of Money and Credit.

In accepting collateral in the form of company shares against loans, the Bank normally requires that the value of the collateral corresponds to at least 200 % of the loan to which it relates noting that top up and close out ratios are included as essential conditions. In addition, and prior to obtaining a pledge on quoted equities, the Bank ensures their quality and characteristics fit within the required prerogatives set by the Central Bank Intermediary Circular No 323 dated May 20, 2013. With respect to mortgages, the value of the collateral should correspond to at least 120% of the loan to which it relates. On the renewal date of each loan, the related file is reviewed by the Bank and the real estate collateral is re-evaluated by independent experts appointed by the Bank.

Classification of loans and provisioning

In 2011, the Central Bank of Lebanon issued an Intermediary Circular Number 256 amending its basic circular No 58 dated October 1998 related to the classification of loans (non-retail) granted by banks. In May 2016, further amendments were introduced by the Central Bank by virtue of an Intermediary Circular No 422.

As per the prerogatives of the basic circular and its subsequent amendments, the classification of Loans (non-retail) in Lebanon revolves around two main categories:

1- Supervisory Credit Rating Classification: the main objective is to differentiate between performing and non-performing loans (NPLs) and to set a uniform scale for the banking sector. This type of classification consists of 6 credit rating grades:

a. 3 credit rating grades are set for performing loans (Normal, Follow up, Follow up and Regularization)
b. 3 credit rating grades are set for NPLs (Substandard, Doubtful, Bad)

2- Bank – specific Credit Rating Classification (Loan Grading System): the main objective of this system is to assist the Bank in terms of managing its credit risk specifically in terms of specifying the risks of the overall loan portfolio. This type of classification takes into consideration the size and the degree of complexity within the Bank's operations where loans are to be classified according to 10 rating grades:

a. 7 credit rating grades are set for performing loans
b. 3 credit rating grades are set for NPLs

A mapping table between the bank specific and supervisory classification is also set by the regulatory authorities.

Noting the above is specifically related to non-retail loans, the Central Bank has also defined the main criteria for rating retail loans and advances where the rating is directly linked to the delay in payment witnessed. For retail loans, the following supervisory classification has been used:

RETAIL LOANS CREDIT RATING FRAMEWORK	
Delay in Payment (Number of Days)	**Supervisory Classification**
Up to 30 days	Normal (A)
Between 31 – 60 days	Follow up (A-)
Between 61 – 90 days	Follow up and Regularization (B)
Between 91 – 180 days	Substandard (C)
Exceeding 181 days	Doubtful (D) or Bad (E)

The supervisory classification for non-retail loans includes 6 credit rating grades. For each credit rating grade, the Central Bank defined the corresponding borrower/facility characteristics.

Rating	Borrower and Facility Characteristics
NORMAL (A)	Strong capacity to fulfill obligations (not taking into consideration the coverage provided by the borrower). A debt is classified as normal in case the following conditions are noted: 1) Credit file constituted by the Bank is considered complete especially in terms of including validated documentation on the borrower's activity and an accurate definition of the purpose of the facility and repayment sources (even if facility granted is covered by a cash collateral) 2) Tenor of facility and size are commensurate with the expected cash flows used for repayment 3) Recent financial statements indicating the following: a. Existence of real cash flows in excess of obligations when maturing (covering both capital and interest) b. Good solvency and liquidity c. Stable or growing turnover and profitability 4) Active movement in the client account with the Bank and especially in terms of using the facility granted in line with its purpose 5) No delays are witnessed in terms of settling the due payments (whether capital or interest) save for exceptional validated cases and for periods not exceeding 30 days 6) No excesses on existing limits of facilities are registered save for exceptional validated cases and for periods not exceeding 30 days whereby the excess should not exceed 10% of the facilities limits 7) Absence of any irregularity/deviation from laws and regulations/directives governing facilities and their granting criteria

Rating	Borrower and Facility Characteristics
FOLLOW UP (A-)	Acceptable capacity to fulfill obligations (Capital and/or Interest). A debt is classified as Follow Up in case the following conditions are noted: 1) Credit file constituted by the Bank is considered incomplete especially in terms of not including validated documentation on the borrower's activity or an accurate definition of the purpose of the facility or its repayment sources or not renewing the facility for a period exceeding 1 year 2) Last available financial statement date back to a period exceeding 2 years 3) Slowdown in the borrower's activity and deterioration in financial indicators / account movement with the bank 4) Registered delays in repaying due bills (capital or interest) for a period of 31-60 days 5) Registered excesses over approved facilities limits and for a period between 31-60 days or the registered excess exceeds 10% of granted facility limits 6) Deviation/Irregularity in terms of laws and regulations governing facilities and their granting criteria
FOLLOW UP AND REGULARIZATION (B)	The Borrower's financial situation shows a deterioration which could impact negatively the future capacity to fulfill obligations (Capital and/or Interest) if no adequate measures are taken. A debt is classified as Follow Up and Regularization in case the following indicators are noted: 1) Absence of financial statements or inability to update financial statements where the

	latest in file date back to more than 3 years 2) The borrower is highly leveraged and dependent on debts and the last financial statements available show an important deterioration in the client's activity and/or financial indicators including cash flows, solvency, liquidity, and profitability which negatively impacts the client's repayment capacity. 3) Deterioration registered in the economic sector where client's activity lies or in the overall market situation or the economic conditions in general negatively impacting client's repayment capacity. 4) Registered accumulated losses leading to the erosion of the company's equity 5) Delays in repayment of due bills (capital and/or interests) for a period of 60-90 days 6) Clear indication of financial difficulties shown in the movement of account (hard core balances always registered) especially during the cash conversion cycle 7) Excesses on limits granted for a period between 60-90 days 8) Restructuring of debt 9) Weaknesses and flaws registered in the management of the company or conflict arising between shareholders/managers which could negatively impact the repayment capacity 10) Lawsuits levied on the borrower which could lead to losses that would impact the overall financial situation and repayment capacity 11) Presence of non-performing loans for the same borrower in other financial institutions
SUBSTANDARD (C)	The Borrower suffers from a clear weakness in terms of repayment. The repayment capacity is mainly based on a noticeable improvement in the borrower's financial situation or liquidation of existing collateral. A debt is classified as Substandard in case the following indicators are noted: 1) Large reduction in current and future cash flows where the latter are insufficient to fulfill obligations 2) Delays in repayment of due bills (capital and/or interests) for a period of 91-180 days 3) Clear indication of financial difficulties shown in the movement of account (hard core balances always registered) especially during the cash conversion cycle in addition to non-conversion of unpaid amounts to a long term loan where the tenor coincides with the expected cash flows of the borrower in a period of 91-180 days. 4) Excesses on limits granted for a period between 91-180 days 5) Non-abidance to repay rescheduled bills for a period between 60-90 days

Rating	Borrower and Facility Characteristics
DOUBTFUL (D)	Possibility of partial non-collection of debt even after the full liquidation of collateral. A debt is classified as Doubtful in case the following indicators are noted: 1) Delays in repayment of due bills (capital and/or interests) for periods of 91-180 days 2) Clear indication of financial difficulties shown in the movement of account (hard core balances always registered) especially during the cash conversion cycle in addition to non-conversion of unpaid amounts to a long term loan where the tenor coincides with the expected cash flows of the borrower in a period of 91-180 days. 3) Excesses on limits granted for a period between 91-180 days 4) Non-abidance to repay rescheduled bills for period exceeding 90 days
BAD (E)	Absence or inability of the Bank to collect any amount pertaining to the facilities granted

Bank Specific Internal Classification

As per Central Bank requirements, an internal classification should be set taking into consideration criteria pertaining to the borrower (Borrower rating) as well as the nature of the facility put at his/her disposal (Facility rating). The criteria should be based on quantitative elements taking into consideration the specific financial indicators pertaining to the borrower and the sector where the borrower is operating. Other criteria should be based on a qualitative assessment where the previous relationship with the borrower and other available elements are assessed.

The minimum criteria should include:

1- Analysis of financial statements (individual or consolidated, where applicable) including assessment of the repayment capacity of the borrower based on data covering the borrower present/past financial situation and the future expectations including:
a. Current and future cash flows (including working capital investments, sufficiency of the latter to cover short/medium term obligations, etc..) in normal and stressful conditions:
i. Sales/Revenues (size and growth)
ii. Profitability (Commercial Margin, return on assets, return on equity, …)
iii. Sources of financing:
(1). Leverage ratio
(2). Working capital and ability of client to collect receivables
iv. Assets quality (level of diversification, ability to liquidate, Current ratio,…)
v. Transparency in terms of the financial statements (availability of audited financials, quality and efficiency of audited reports especially whether notes/necessary details are provided by the auditor…)

2- Assessment of the management at the Borrower level including:
a. Assessment of the expertise and morality of the management team
b. Availability of a succession plan
c. Assessment of reputational and legal risk
d. Reviewing the borrower's strategy (including nature and quality of activities/operations/markets where the borrower is operating
e. Assessment of the future outlook

3- Assessment of the sector where the borrower is operating
a. Profitability and risks of the sector and interdependency with other sectors
b. Volatility of earnings and cyclicality of demand
c. Market share of the borrower and standing/ranking within the sector and information on competition

4- Assessment of the facility put at the disposal of the client:
a. Nature of facilities requested and convenience with the expected cash flows
b. Covenants and clauses
c. Nature of guarantees and collateral

5- Assessment of the country risk where the borrower is operating and impact of specific political/economic factors on client operations and repayment capacity while assessing the cash flows of the borrower.

6- Assessment of the external elements including:
a. Operational risks that could impact the situation of the borrower where the latter has no control such as theft, fire, damage in assets, natural disasters.
b. Regulatory environment through which the borrower operates.

The bank specific rating classification should be structured as per the below grades:

Rating	Description
EXCELLENT (1)	The bank is exposed to virtually no risk Purpose of the facilities granted are economically productive Ability of client and readiness to repay his/her obligations at their respective maturities is undoubted Client unlikely to suffer from any changes in economic conditions or in the situation of respective sector where he/she is operating
STRONG (2)	Quality of the debt is very good. However, the bank is exposed to higher risks than the debt rated excellent mainly related to several factors including a higher risk appetite from the borrower. The risks of the facility is considered as low while the repayment capacity of the client is considered as high and it is unlikely that client would suffer from any expected developments
GOOD (3)	The risks of the debt are considered moderate while the probability of default in the future as a consequence of changes in economic/sectoral conditions is low
SATISFACTORY	The client's ability to repay at respective maturities is still acceptable. However, the

(4)	coverage margin at the bank is somewhat modest. The debt is considered as average risk
ADEQUATE (5)	The client's repayment capacity could be largely impacted as a result of important negative developments in economic/sectoral conditions. The coverage margin provided to the bank is weak. However the debt is considered as acceptable risk
MARGINAL (6)	The quality of the debt is weak The ability of the client to repay could be impacted on the short-term as a result of important negative developments in the economic/sectoral conditions. The risks of the debt are normally at borderline risk
VULNERABLE (7)	The quality of the debt is weak The borrower probability of ceasing payments is very high while the risks of the debt are considered as high. Any negative developments (not only important) within the economic/sectoral conditions could lead to default.
SUBSTANDARD (8)	The ability of client to meet financial commitments is insufficient
DOUBTFUL (9)	A large probability that the debt is not fully recovered (even after liquidation of collateral, if any)
LOSS (10)	There are no possibilities to recover the debt

The Bank has predefined credit file write-up formats and presentation methodology, developed in strict compliance with BDL and BCC requirements. Files are prepared at the level of commercial departments and sent to the credit risk unit within the risk management department in order to perform an independent review and issue recommendations based on specific analysis techniques related to the assessment of the facilities structure, their convenience, their purpose, their pricing, the repayment sources and second ways out in addition to the proposed collateral, while taking into consideration any additional third party information obtained from the CDR, other banks, and other research tools. Recommendations are submitted along with the file to the credit committee for their final decision.

It is to be noted that a loan grading system acquired from S&P (corporate generic model) is adopted by the Bank, this system is mapped to the supervisory classification of loans and is developed in line with regulatory requirements. In January 2016 two additional models and scorecards were acquired from the same provider for the grading of high networth individuals and real estate developers.

A set of reports is prepared periodically (monthly, semi-annual and annual) by the credit risk and credit control units advising on the overall situation of the loan portfolio (excesses, matured files, unutilized facilities, unmoved accounts, concentration reports, follow-up on material exposures, market analysis by sector, non-performing loans and related provisions…).

The following table shows the classification of the Bank's gross loan portfolio as at December 31, 2015 and 2016 (Unaudited):

Loans Classification (in Percent)	**2014**	**2015**	**2016**
Normal…….	*69.04*	*73.53*	*73.41*
Follow up…….	*22.32*	*17.63*	*18.92*
Follow up and Regularization…….....	*7.33*	*7.56*	*4.67*
Substandard……..	*0.98*	*0.73*	*1.61*
Doubtful……	*0.10*	*0.27*	*0.96*
Bad…….....	*0.23*	*0.28*	*0.43*
Total	***100***	***100***	***100***

Source: BEMO - CR1 report remitted to the Central Bank of Lebanon

The above table is a reflection of the Bank's conservative lending policies where ordinary performing loans were equivalent to 97% of the total gross loan portfolio as at December 31, 2016.

The Central Bank of Lebanon retains the right to review the loan portfolio of every bank in Lebanon and has the power to impose provisions upon specified loans if it considers them doubtful or inadequately secured. **Such a review of the Bank's loan portfolio was performed in 2014-2015 and the Bank timely followed through the full abidance to the measures requested by the regulatory authorities noting that no material irregularities were reported to the Bank.**

Investment Securities Portfolio

The Bank classifies its portfolio in line with the requirements of IFRS 9 Financial Instruments which was early applied by the Bank during 2011 with date of initial application being January 1, 2011. According to this standard, all recognized financial instruments are measured in their entirety at either amortized cost or fair value, depending on their classification:

- Debt instruments: Non-derivative debt instruments that meet the following two conditions are subsequently measured at amortized cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):
  - They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  Debt instruments which do not meet both of these conditions are measured at fair value through profit or loss ("FVTPL"). In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL are measured at FVTPL. Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- Equity instruments: Investments in equity instruments are classified as at FVTPL, unless the Bank 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 Bank can make an irrevocable election (on an instrument-by instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI"). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment. Designation at FVTOCI is not permitted if the equity investment is held for trading.

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

Asset and Liability Management

Required Reserves

Pursuant to the Central Bank Directive No 7835 dated June 2, 2001, as amended, all banks operating in Lebanon, except investment banks and specialized banks that only extend medium and long term loans, must maintain a compulsory reserve in cash with the Central Bank equal to the sum of 25% of the weekly average of Lebanese Pound-denominated sight deposits, and 15% of the weekly average of Lebanese Pound-denominated term deposits.

On September 27, 2001, the Central Bank issued Directive No 7935, as amended, implementing Directive No 7926 dated September 20, 2001 pursuant to which all banks operating in Lebanon must maintain in cash with the Central Bank interest-bearing deposits equal to 15% of foreign currency-denominated deposits, notes, certificates of deposit, bank's certificates and other debt instruments and loans granted by the financial sector with a remaining maturity of one year or less, against payment of interest at the rate applied by the Central Bank on foreign currency-denominated deposits.

During its monthly meetings, and in line with its Charter and approved policy guidelines, the Asset Liability Management Committee (ALCO) ensures that above requirements are adhered to. On a daily basis, the Bank's Treasury Unit decides in close co-operation with the Bank's senior management on the uses of funds available while keeping an eye on set limits and regulatory requirements.

Liquidity

Liquidity Risk is the risk that the Bank is not able to meet financial obligations when they fall due. The purpose of the Bank's liquidity risk management is to maintain a sufficient amount of funds to meet present and future financial obligations while managing the use of the funds to generate an appropriate return in light of prevailing market conditions.

Liquidity Risk Management: The Bank diversifies its sources of funds and manages its liquidity through domestic money and capital markets, and through international money and capital markets in currencies such as the US dollar and Euro. The Bank seeks to minimize its liquidity costs and risks in line with market conditions by closely managing its liquidity position on a short-term and long-term basis. The Bank also plans to raise long-term funding as market conditions permit. It is the policy of the Bank to maintain liquidity at a high level; this policy is expected to prevail so long as the current economic weakness continues in the Lebanese Republic and the surrounding region.

The Bank's management strives to maintain a satisfactory liquidity level at the Bank in line with approved policy guidelines and regulatory requirements. The management's efforts with regards to the maturities of funding sources and uses are reflected in the Bank's satisfactory liquidity position.

In addition, the Bank has been performing regular stress tests since 2012 guided by the regulatory authorities to calculate the newly proposed liquidity ratio by the Basel Committee under the new capital standard (Basel III) namely the Liquidity Coverage Ratio (LCR). The liquidity position of the Bank is monitored by the Bank's ALCO, which aims at minimizing risk, while ensuring the best use of funds in the prevailing economic conditions. The management's efforts with regards to the maturities of funding sources and uses are reflected in the Bank's satisfactory liquidity position. Similar to other banks in the sector, the Bank had negative maturity gaps concentrated in maturities of up to 3 months, while the maturity gaps were positive for maturities of more than 3 months.

Exchange Rate Sensitivity

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Bank that it will, at all times, adhere to the limits laid down by the Central Bank as referred to below. It is not the Bank's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

In line with Central Bank regulations, the Bank's management attempts to match foreign currency exposure to the maximum extent possible. On both sides of the balance sheet, assets and liabilities are held in foreign currencies, mainly the US Dollar.. At the outset the Bank's overall currency risk exposures is split into:

- *Open Currency Positions on the Group's trading books:* The management of these risks is done via Trading books under the responsibility of the Treasury and Capital Markets Division.
- *Corporate currency exposure:* This is the foreign currency risk embedded in the Bank's international banking operations. These risks are managed centrally by the ALCO.
- *Structural exchange positions:* The ALCO decides on the level of the structural exchange positions to be held against the LBP denominated equity, to ensure proper hedging.

The treasury department is responsible for monitoring the compliance with the regulatory ratios set by the Regulatory Authorities. ALCO is supported by the finance department, internal audit and risk management through reports on any breach of these ratios.

Risk Management

Banque BEMO SAL recognizes that effective risk management is fundamental to good banking practice. Accordingly, the Bank has established guidelines for managing risk in each area of its business to ensure that it has effective risk management mechanisms in place. Over the past few years, the Bank has continuously analyzed major risk factors which could affect its financial operations and reshaped its organizational structure and risk management processes.

This is to ensure that its risk management system is in line with international standards and is in accordance with the guidelines under the principles of Basel II.

The Bank's Board Risk Committee plays a significant role in prescribing the risk management policy, reviewing the sufficiency of the risk management policy and system, defining the strategy for risk management, and monitoring the Bank's risk to an appropriate level, in compliance with the Bank's risk management policy which has been approved by the Board of Directors. The objectives are to manage the relevant risks within designated boundaries and limits, in particular the maintenance of capital in accordance with the revised capital adequacy requirements under the Basel III guidelines as set forth by the Central Bank of Lebanon.

Important processes in the risk management system comprise the identification of significant risks which may potentially impact the Bank's business operations, the assessment of each type of risk, the monitoring of risks to an appropriate level under the Bank's policy, and the reporting of the status of each type of risk to relevant parties so as to enable them to manage and/or handle the risks in a timely manner.

The key principle of the risk management system is that business units shall be responsible for continuously managing their risk exposures in order to ensure that the risk is within the specified limits and in compliance with the overall risk management policy approved by the Board of Directors, while the Risk Management Unit is responsible for monitoring and controlling the risks on a regular and ongoing basis. The general guidelines were indicated for each type of risk. In addition, and given its significance, the Bank has laid down processes and procedures for the management of operational risks.

Operational Risk Governance

Banque BEMO has a defined operational risk policy, specifying an operational risk appetite and tolerance statement. In addition to a specific operational risk framework developed as part of the global internal control framework adopted by the Bank. The framework adopted consists of the following steps: identification, measurement, treatment and control. The policy and procedures for operational risks detail the roles and responsibilities and define the tools that can be used in each of the steps composing the operational risk framework, including operational risk mitigation techniques. The definitions, structures, business lines are all mapped to the guidelines as stated in Basel II.

Subject policies and procedures are reviewed on an annual basis, and are approved by the Board Risk Committee and ratified by the Board of Directors. Moreover the Operational Risk Management activities and related policies and procedures are periodically assessed by the Internal Audit function.

Operational Risk Management

The Operational Risk unit uses several tools for the management of operational risk. An operational risk matrix (impact/probability) is adopted by the Bank and approved by the Board Risk Committee, it forms the basis for the measurement and rating of events and identified operational risks.

An incident reporting procedure along with an incident reporting form are in place whereby trainings are provided to all staff on a periodical basis, in order to raise awareness and encourage incident reporting. The reported incidents, feed a loss database gathered from the year 2005. Noting that reported events are actively managed and followed-up identifying the causes and recommending action plans to remedy and prevent re-occurrence. A detailed reporting on all operational risk events (direct loss, indirect loss and near miss) is raised on a quarterly basis to the Executive Committee and on semi-annual basis to the Board Risk Committee.

On another note, Risk and Control Self –Assessment exercises are conducted by departments under the guidance provided by the Operational Risk unit, each department lists identified operational risks, and available controls; the risk is then assigned a rating based on our operational risk rating matrix. Whenever the rating is deemed above tolerance, additional controls are proposed to be implemented, and a final rating is assigned for the department, allowing to determine a bracket for the expected annual operational risk losses, the department might sustain. The results of the exercises are reported to the senior management and to the Board Risk Committee.

The Operational Risk unit developed in 2016, a Key Risk Indicators policy whereby a selection of KRIs was identified to be duly followed-up on a periodical basis for proper monitoring and for providing early warning indicators on potentially growing operational risks.

Business Continuity Plan

The Bank has developed a comprehensive Business Continuity Plan in strict compliance to BDL 123 circular, in addition to an exhaustive Disaster Recovery Plan; whereby one disaster recovery site is readily available, hosting the backup servers where an online replication is checked on a daily basis. In addition to the disaster recovery site, several other business continuity sites are available to host the Bank's critical activities within a minimum downtime and disruption to business operations. The Business Continuity Plan as adopted by Banque BEMO proved its efficiency in 2012, when a car bomb rendered our head office in Achrafieh inoperable, and where the Bank was able to resume activities by the next working day. Moreover in October and November 2015, the Bank had resorted to its BCP, when social unrest hit downtown Solidere, where the access to our offices in Riad el Solh was difficult. The same was applied in 2016 during the presidential Election Day.

Both documents (BCP and DRP) are reviewed annually and the plans are tested on an annual basis. The plan is approved by the Board Risk Committee and ratified by the Board of Directors.

Compliance and Anti- Money Laundering ("AML")

Banque BEMO is committed to be compliant with all international best practices, standards as well as the local and international regulations. The Bank provides particular attention to AML/CFT activities and the financial sanctions regulations imposed by the international community. Similar importance is placed on its cross border transactions and Foreign correspondent Banking Relationships. In accordance with BDL circular 128 the Bank has a designated Compliance Officer with a reporting line to the Board Risk and Compliance Committee. The Bank's compliance function has the necessary authority, independence and resources to carry out its duties in an independent and transparent manner.

The Compliance Officer acts as an advisor to the business lines and actively communicates new and amended compliance requirements to all impacted areas of the Bank. The compliance program in the Bank is designed to ensure compliance with all applicable laws, rules and regulations including money laundering and related activities.

The Bank's compliance and anti-money laundering measures are audited annually by external auditors and the internal audit, to provide a separate assurance to the Board Audit Committee.

Anti-Money Laundering

In accordance with regulatory requirements, the Bank has implemented an anti-money laundering (AML) and counter terrorism financing (CFT) written AML/CFT policy and procedures covering customer due diligence, transactions monitoring and reporting of suspicious activity. In addition, the Bank has a designated Money Laundering compliance manager who reviews the effectiveness of the AML/CFT policy and procedures, systems and controls. The Bank AML/CFT policy and procedures are reviewed on annual basis and approved by the board.

The AML compliance manager reports to the AML/CFT special committee through the compliance officer, and is assisted by skilled staff in the head office, as well as branches MLROs who report their day to day activities on monthly basis to the head office for further analysis. Periodical meetings are held with the branches MLROs to discuss adherence to AML/CFT guidelines, and the deficiencies detected, if any.

The Bank has a prudent approach related to customer onboarding, Due diligence and Know your customer (KYC) norms. Hence, all prospects clients are subject to the approval of the "Customer Acceptance Committee" prior opening an account and the Compliance department is actively involved in this process, whereby, the compliance officer acts as a member.

Each and every employee at the Bank is determined to protect the Bank from being used to conceal illicit funds. Such responsibility was adopted through well thought trainings and awareness sessions. Therefore, all employees at the Bank attend trainings covering AML/CFT topics conducted internally through the AML/CFT compliance unit or conducted by external dedicated organizations. Furthermore, the AML/CFT policy is published on the Bank's internal site allowing all employees to review the rules and regulations related.

During 2016, the AML/CFT controls have been further strengthened with the introduction of new technologies and the Bank has signed a comprehensive agreement with EastNets to acquire automated solutions including real time scanning of customer data and swift messages against sanction lists, and monitoring of suspicious transactions. The deployment of the solutions has all started during December 2016 and full roll out is expected in 2017.

Legal Regulatory Compliance: FATCA-CRS

Offshore tax evasion is a very serious problem for countries around the world. Individuals and legal entities tend to move their wealth to other locations, in an effort to avoid be taxed by their home country authorities. In order to comply with that issue, in 2010 the US administration enacted a law commonly known as FATCA (Foreign Account

Tax Compliance Act). This law requires Foreign Financial Institutions to identify and report all US persons that hold accounts with them. A significant number of countries have decided to leverage on FATCA, consequently, with the support of G20, OECD together with G20 countries, EU and other stakeholders created the Common Reporting Standard (CRS) for the automatic exchange of information. In line with local authorities' recommendations, the Bank has amended its systems, process and procedures to meet FATCA and CRS requirements. Moreover, the latest version of Capital Banking Solutions application for FATCA was successfully installed and the Bank is now in process to install the CRS application to further strengthen the compliance function.

Internal Audit

The Internal Audit Function provides independent assurance through the Audit Committee to the Board of Directors and Senior Management on the quality and effectiveness of the Bank's internal control, risk management and governance systems and processes, areas in which supervisory authorities have a keen interest, thereby helping the Board and Senior Management protect the Bank and its reputation.

The Internal Audit Function has sufficient standing and authority within the Bank which is translated in the direct reporting to the Board of Directors, through the Audit Committee, and the independence from the audited activities, enabling consequently internal auditors to carry out their assignments with objectivity.

The mission of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with regard to the adequacy of accounting and financial reporting policies, internal control and the compliance system; the integrity of financial statements and reliabilities of disclosures; the appointment, remunerations qualification, the independence and effectiveness of the external auditors; the independence and effectiveness of the Internal Audit Function.

The purpose, scope and authority of the Audit Committee and the Internal Audit Function are articulated in their charters and manuals which are periodically reviewed and submitted to the Board of Directors for ratification. The Internal Audit Charter empowers the Internal Audit Function, whenever relevant to the performance of its assignments, to initiate direct communication with any member of staff, to examine any activity or entity of the Bank, and to have full and unconditional access to any records, files, data and physical properties of the Bank. This includes access to Management Information Systems and records and the minutes of all consultative and decision-making bodies.

Audit Plan

The Head of Internal Audit is responsible for establishing an annual internal Audit Plan within a two-year period, based on a robust assessment of the Bank's entire activities, including its subsidiaries and branches. It is regularly updated, at least annually, giving due consideration of regulatory interest matters.

Professional Competence

The Head of Internal Audit is responsible for acquiring human resources with sufficient qualifications and skills to effectively deliver on the mandate for professional competence, and to efficiently carry out audit engagements using the suitable methodologies and tools and sufficient knowledge of auditing techniques. Moreover, the Head of Internal Audit makes sure that the staff is acquiring proper ongoing training in order to meet the increasing diversity of tasks stemming from the release of new products and processes and other developments in the financial sector.

Role of the Central Bank of Lebanon and the Capital Markets Authority

The Central Bank of Lebanon was created by virtue of Law No. 13513 dated August 1st, 1963 enacting the Code of Money and Credit. The Central Bank is an autonomous legal entity, and is vested with financial autonomy. It is considered a commercial institution in its relations with third parties. It is located in Beirut and has branches in Tripoli, Jounieh, Saida, Zahle, Bikfaya, Aley, Tyre, Nabatiyeh and Baalbek. The Central Bank is governed by a Governor assisted by four Vice-Governors, altogether constituting the Governorship of the Bank, as well as by a Central Council chaired by the Governor and composed of the Vice-Governors, the Director- General of the Ministry of Finance and the Director-General of the Ministry of Economy and Trade.

The Central Bank is the sole custodian of public funds, supervises and regulates the banking system and is vested by law with the exclusive authority of issuing the national currency. The Central Bank primary role is to safeguard the currency and promote monetary stability, thereby creating a favourable environment for economic and social progress. The Central Bank also advises the Government on various economic and financial matters. In conducting its monetary management function, the Central Bank utilizes a wide range of instruments, including reserve requirements on Lebanese Pound deposits with commercial banks, liquidity requirements on foreign currency deposits in commercial banks, Treasury Bills repurchase and swap agreements with commercial banks, as well as Lebanese Pound denominated certificates of deposit issued by the Central Bank.

The Governor of the Central Bank is appointed for a six-calendar-year tenure, by decree taken by the Council of Ministers, acting on the proposal of the Minister of Finance. The Vice-Governors are appointed for a five-calendar-year tenure pursuant to the same process.

The Capital Markets Authority was established by virtue of Law No 161 dated August 17, 2011. The provisions of this law govern all operations related to the issuing, purchase, sale, or promotion of financial instruments that are directly offered for public subscription, or that are purchased or sold on behalf of the public, in addition to financial instruments listed or traded on the stock exchange, and financial instruments and financial rights authorized by the Capital Markets Authority, established pursuant to Article 3 of this Law. The provisions of this Law also govern raw materials market, metal markets and other similar markets. The main objectives of the Capital Markets Authority revolve around enhancing and developing financial markets in Lebanon while protecting funds invested in such markets from any manipulation or fraud which might occur and this is performed with the co-operation and coordination with all relevant and concerned sectors. Other important functions include the creation of an attractive investment environment which can earn the trust and confidence of investors. In this respect the Capital Markets Authority abides to the strict rules and best practices related to integrity, disclosure and transparency.

Banking Regulations

Banking activities in Lebanon are governed by *inter alia* the Code of Money and Credit, the Code of Commerce, Directives/Circulars issued by the Central Bank of Lebanon, decisions of the Banking Control Commission and decisions of the Capital Markets Authority. The Banking Control Commission has the responsibility to supervise banking activities and to ensure compliance with the legal and regulatory framework. The Banking Control Commission undertakes both off-site reviews and on-site examinations to assess, *inter alia*, compliance with banking laws and regulations, reliability of bank reporting and levels of liquidity, capital adequacy and lending to deposit ratios.

Banks regularly submit reports to the Central Bank, including monthly statements on their daily foreign exchange positions, monthly financial information on customers and inter-bank deposits and audited financial statements. Banks also submit monthly reports to the Banking Control Commission on their lending portfolio and monthly financial statements.

Furthermore, banks, like all commercial companies registered in Lebanon, must have their Articles of Incorporation and minutes of certain General Assembly of Shareholders, as well as Board of Directors' meetings, whose objects relate to, or otherwise affect, third parties, registered with the Registrar of Commerce and they should be submitted to the Central Bank and the Banking Control Commission.

Free Exchange System

The Lebanese banking system allows for free exchange and free movement of capital and earnings. The Lebanese currency is fully convertible and can be exchanged freely with any other currency. Moreover, no restrictions are put on the free flow of capital and earnings into and out of the Lebanese economy.

Banking Secrecy Law

The Banking Secrecy Law enacted on September 3rd, 1956, subjects all banks established in Lebanon as well as foreign banks' branches to a strict bank secrecy duty. All bank managers and employees cannot reveal their clients' names, assets or holdings to any party whatsoever, whether individuals or public authorities, be they administrative, fiscal or judicial. Such information is released only pursuant to a written authorization granted by the client or his/her heirs. However, the disclosure is mandatory in case of bankruptcy, or in case of any litigation between the bank and the client, or in case of money laundering investigation. Furthermore, pursuant to Article 150 of the Code of Money and Credit, banks are allowed to open code-numbered accounts. Neither the Banking Control Commission nor the external auditors have the right to either look into the movement of such accounts or ask the bank to reveal the identity of the account holder. However, within the applicable Anti Money Laundering procedures, the Bank is reluctant to open code-numbered accounts despite being authorized by law.

Centralization of Credit Risk

Banks are required under Article 147 of the Code of Money and Credit to furnish the Central Bank with monthly statements, listing the credits they have granted. The Central Bank computes all such information for the operation of its Central Service of Banking Risks. Banks are charged a fee by the Central Bank whenever they inquire about the total outstanding credit exposure of a specific customer.

The Central Service of Banking Risks report summarizes the total facilities taken by a debtor customer and all related companies thereto from any bank in Lebanon. It also reflects the total credit limit, the amount drawn down or utilized, the amount of credit issued against guarantees, and the total indirect risk (Letters of Guarantees and Letters of Credits) that each customer has outstanding with any bank.

Banks' Share Issuing

In accordance with Law No. 308 of April 3rd, 2001, the Central Bank issued Basic Directive No. 7814 dated May 11th, 2001, enforcing the rules and regulations on issuing and trading the shares of Lebanese banks and specifying the cases that necessitate the prior approval of Central Bank. Law No. 308 provides that the capital stock of a Lebanese bank constitutes a single category, governed by a single set of regulations with respect to ownership and trading. These shares are to be registered with, and safeguarded by, Midclear, in its capacity as central depositary, and trading operations have to be effected through the books of Midclear. On the other hand, Law No. 308 authorizes Lebanese banks to issue preferred shares, subject to the authorization of Central Bank. In all events, any transfer or trading in shares which renders its owner the holder of 5% or more of the capital stock of a Lebanese bank necessitates the prior approval of the Central Bank.

Related Party Transactions

Transactions with related parties are governed by the Code of Commerce and the Code of Money and Credit and the Central Bank Basic Directive No. 7776 dated February 21st, 2001, as amended (Decision 7776) which collectively provide that a transaction with a related party must be formally authorized by the Ordinary General Assembly of the bank's shareholders and approved by the Bank's Board of Directors. Basic Directive No. 7776 provides that advances and credit facilities to directors, managers and companies having common directors with a bank may not exceed 2 percent of shareholders equity. Any facility granted to a related party must be adequately collateralized. Decision 7776, as amended by Intermediary Circular No 11262 dated November 9, 2012 provides that advances and credit facilities to directors, managers, and companies having common directors with a bank must not exceed 2% of shareholders' equity, 1% of which may be granted without having to meet the conditions specified in the Code of Money and Credit, including, among other things, the former prior approval of the Ordinary General Assembly.

Intermediary Circular No 11262 further requires that the value of non-interest bearing cash collaterals covering advances and credit facilities to related parties bearing interest at prevailing market rates will be deducted from the aggregate value of advances and credit facilities to related parties that are subject to conditions and restrictions specified in the Code of Money and Credit and Decision 7776.

Decision No 7776 further provides that Lebanese banks are restricted from granting advances and credit facilities to related parties if they are not in full compliance with the liquidity and solvency ratios as per applicable Central Bank regulations.

The Central Bank Basic Directive No. 7156 dated November 10th, 1998, provides that the net inter-bank deposits among foreign related banks and foreign affiliated companies (whether or not financial institutions) may not exceed 25% of Tier I capital.

Central Bank Intermediary Circular No 10621, dated December 30, 2010, amending Decision 7776, restricts lending made by commercial banks to specialized banks and Islamic Banks belonging to the same economic group.

Central Bank Basic Circular No 11718 dated March 8, 2014 (addressed to banks and financial institutions) related to loans and facilities granted to persons governed by the provisions of Paragraph 4 of Article 152 of the Code of Money and Credit (i.e. related parties) expands the list of related parties to include the following persons working in banks, their subsidiaries and partnership(s) in Lebanon and abroad: persons in charge of managerial offices including major shareholders of the Bank, members of the Board of Directors, executive management (composed of the General Manager, the vice general managers and assistant general managers), the directors and holders of main administrative positions, the family of all such persons who are financial dependents thereof, the institutions that are directly or indirectly related to such persons, as well as those borrowers whose debts are secured by any of the persons mentioned above.

Reserve Requirements

Pursuant to the Central Bank Basic Directive No. 7835 dated June 2nd, 2001, as amended, all banks operating in Lebanon, except investments banks and commercial banks making medium and long terms loans, must maintain a compulsory reserve in cash with the Central Bank equal to the sum of 25% of the weekly average of Lebanese Pound-denominated term deposits, and 15% of the weekly average of Lebanese Pound-dominated term deposits.

On September 27th, 2001, the Central Bank issued Basic Directive No. 7935, as amended, implementing Basic Directive No. 7926 dated September 20th, 2001 pursuant to which all banks operating in Lebanon must maintain in cash with the Central Bank an interest-bearing deposit equal to 15% of foreign currency-denominated deposits, notes, certificates of deposit, bank's certificates and other debt instruments and loans granted by the financial sector with a remaining maturity of one year or less, against payment of interest at the rate applied by the Central Bank on foreign currency-denominated deposits.

On December 16th, 2002, the Central Bank issued Basic Directive No. 8312, as amended, implementing Basic Directive No. 7926, dated September 20th, 2001, pursuant to which all banks operating in Lebanon must subscribe to Lebanese treasury bills or Eurobonds issued by the Lebanese Republic, which do not bear interest and have a maturity of two years. The aggregate amount of such Lebanese treasury bills or Eurobonds subscribed by each bank must equal 10% of the relevant bank's deposits in all currencies as at October 31st, 2002. Subscription has been effected in five equal instalments on each of January 2003, February 2003, March 2003, July 2003 and August 2003; all such securities subscribed to fulfil these mandatory obligations have now matured without any obligation to reinvest. Subscriptions were permitted to be made in either cash (in Lebanese Pounds of US Dollars) or in Lebanese treasury bills or Eurobonds. Thereafter, the Central Bank issued interest-bearing certificates of deposit, which the banks were permitted to purchase in satisfaction of their subscription obligations.

The Central Bank Basic Directive No. 6101 dated February 8th, 1996, grants, on a case-by-case basis, to commercial banks advancing medium and long term loans the same reserve requirements concessions as those granted to "specialized banks" governed by Decree-Law No. 50 dated July 15th, 1983.

The Central Bank Basic Directive No. 7693 dated October 18th, 2000, as amended, provides that all banks operating in the Lebanese Republic must maintain a minimum of 10% of foreign currency-denominated deposits, debt securities,

certificates of deposit, bank's certificates and other debt instruments granted by the financial sector with maturity equal to or less than one year in liquid assets consisting of: (i) cash in a bank's vaults, (ii) cash deposited with the Central Bank, and (iii) cash deposited with other banks with a remaining time to maturity of one year or less.

The Central Bank Basic Directive No. 7694 dated October 18th, 2000, as amended, provides that all banks and financial institutions operating in the Lebanese Republic must also maintain a minimum of 40% of their Tier 1 capital in Lebanese Pounds, after provisions and distributions of profits, in liquid assets, consisting of (i) cash in the bank's vaults, (ii)) cash deposited with the Central Bank, (iii) cash deposited with other banks for a period equal to or less than one year, and (iv) Lebanese treasury bills with a remaining time to maturity of one year or less.

The Central Bank, pursuant to recent regulations amending Decision No 7835, established exemptions from compulsory reserves, requirements to incentivize the banks to extend different types of Lebanese-Pound denominated loans, such as, housing, Kafalat, education and consumer loans for the financing of environment-friendly projects.

Capital Adequacy

Pursuant to Central Bank Basic Directive No. 6939 dated March 25th, 1998, all banks operating in the Lebanese Republic are required to maintain a minimum capital adequacy ratio of 12% as from December 31st, 2001.

Pursuant to the Central Bank Basic Directive No. 9302 dated April 1st, 2006, as amended, adopted with respect to the application of the Basel II International Convention regarding Capital Adequacy, all banks operating in Lebanon must gradually apply Basel II International Convention for the calculation of capital adequacy on a consolidated and non-consolidated basis, where applicable, in accordance with the standards set forth in Basic Directive No. 9302 and any subsequent decisions adopted in that regard starting from January 1st, 2008. In addition, as of December 31st, 2006, Lebanese banks must include in the calculation of their capital adequacy ratio, reserves for unspecified banking risks. Pursuant to Article 7 of Directive No. 9302, banks operating in Lebanon were required to appoint an expert in risk management to be in charge of applying Basel II International Convention and notify the Banking Control Commission of the name of such person and contact details prior to April 30th, 2006.

"Common Equity Tier I" means the Bank's Common Equity Tier I Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Common Equity Tier I capital includes paid-up share capital, issue premiums, shareholders cash contribution to capital not subject to interest payments, legal and statutory reserves (including reserves for unspecified banking risks but excluding reserves allocated for liquidation of real estate properties), retained earnings, funds allocated for investments in real estate properties and minority interests accepted within Common Equity.

"Additional Tier I Capital" means the additional Tier I Capital of the Bank as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Additional Tier I capital shareholders cash contribution to capital subject to interest payments, non-cumulative perpetual preferred shares, and financial instruments that: (i) are issued and fully paid, and (ii) are permanent, subject to early redemption at the Issuer's discretion following five years from their issue date and after exchanging such instruments with equivalent financial instruments and minority interest accepted within Additional Tier I Capital.

"Tier I Capital" means the Bank's Tier I Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Tier 1 capital is the sum of Common Equity Tier I Capital and Additional Tier I Capital as defined above.

"Tier II Capital" means the Bank's Tier II Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Tier II capital comprises preferred shares (other than preferred shares which are both perpetual and non-cumulative), subordinated loans, and any unrealized gain in participations and stocks held classified as Other Comprehensive Income (OCI), the revaluation surplus of the bank's properties – subject to the Central Bank of Lebanon approval, and general provisions constituted on assets exhibiting similar risk characteristics subject to approval of the Banking Control Commission.

On September 30, 2016, the Central Bank of Lebanon issued an intermediary circular No 436 amending its basic circular No 44 and decision no 6939 related to solvency calculation in Lebanese commercial banks. The new requirements are further strengthen the overall capital adequacy framework already in place in Lebanese banks.

After conducting the necessary deductions as directed by BDL and BCC requirements, the new minimum solvency requirements to be achieved based on a phased in approach will be as follows:

Description	31/12/2016	31/12/2017	31/12/2018
Common Equity Tier 1 Ratio	8.5%	9%	10%
Tier 1 Ratio	11%	12%	13%
Total Capital Ratio	14%	14.5%	15%

(*) including the Capital Conservation Buffer required by Basel Committee equivalent to 4.5%

Pursuant to Central Bank Decision No 9957, relating to the assessment of the capital adequacy of Lebanese banks, the senior executive management of Lebanese banks is required, in addition to meeting the Pillar I requirements, to establish a documented process for the assessment of the bank's capital adequacy (Internal Capital Adequacy Assessment Process or ICAAP). The assessment of such capital adequacy is to be carried out in accordance with certain criteria including the risks to which the bank is exposed to such as credit risk, market risk, operational risk, interest rate risk in the banking book, credit concentration risk, liquidity risk, strategic risk, systemic risk and reputation risk. In addition, the future capital needs of the bank as well as stress testing measurements and the periodic monitoring of the sufficiency of the bank's capital to cover the minimum requirements needed to counter any risks should also be taken into consideration.

The Banking Control Commission issued the implementation mechanism for the ICAAP exercise where it periodically ensures that the assessment of a bank's capital adequacy is carried out in accordance with the prerogatives set in Decision No 9957 where a review and evaluation of the qualitative (such as corporate governance, management and internal control regulations) and quantitative (i.e. the calculation of the capital requirements in accordance with Pillar I and Pillar II) elements adopted by the Bank in its capital adequacy assessment process. The Banking Control Commission has the right to instruct the Bank to increase its shareholders' equity should it deem the foregoing qualitative and quantitative elements to be weak or inadequate, although any such increase in shareholders' equity shall not exempt the Bank from rectifying such weaknesses or inadequacies.

On March 6, 2014, the Central Bank issued Intermediary Circular No 11714 setting out the conditions that have to be met by financial instruments to be considered as Tier 1 Capital and Tier 2 Capital in line with the requirements of the Basel III Capital Accord.

Corporate Governance

The Central Bank Basic Directive No. 9382 dated July 26th, 2006 issued in line with the implementation of the Basel II Capital Adequacy Directive regarding the banks' corporate governance, has outlined the general guidelines for the banks' corporate governance, regarding inter alia, (i) the directors' competence to hold their positions, (ii) the Board of Directors' role in specifying the strategic goals and corporate values of the bank and to ensure implementation thereof, (iii) the Board of Directors' duty to clearly provide for responsibilities and accountability and to ensure that such responsibility and accountability are thoroughly applied, and (iv) the transparent management of the bank.

On April 21 2011 the Central Bank issued Decisions Nos. 10706, 10707 and 10708. The Decisions amend and update the regulatory framework that the Central Bank has put in place and developed since 2002, in an effort to stay in line with the Basel Committee's standards.

By 31 December 2011, all banks are required to issue a Code of Corporate Governance. This code is meant to improve transparency and facilitate the monitoring of banks by different stakeholders. This code must notably outline the corporate structure, the methods of exchange, the broader relationships within the said structure, the criteria adopted by the bank in relation to remuneration or to the assessment of board and senior management compliance with corporate governance rules, information on the board as well as the orientations, rules and policies of the bank that aim to achieve good governance. A summary of this code must be published on the bank's website and incorporated in its annual report. A copy must also be provided to the Banking Control Commission. In addition to the mandatory compliance with the updated Basel principles that relate to the board's qualifications, responsibilities and duties, the Central Bank required the appointment of a sufficient number of independent and non-executive board members. Decision No.10706 also strives to improve the way boards operate. The board is for instance required to meet to hold at least four annual meetings, two of which must physically take place in Lebanon. The Decision also specifies that any board agenda and

relevant documentation must be provided to members at least a week prior to any meeting in order for the board to be able to make informed decisions.

The creation of internal control mechanisms in banks has been mandatory since as early as 2000. Basic Decision No.7737 already provided a list of the internal control systems that each bank must put in place and update as well as the benchmarks that must be taken into account when establishing such systems. Decision No.10707 specifies that the internal control as defined by the senior management must be based on the size and risk profile of the bank and must rest on due knowledge of the organization, a thorough risk assessment, policies and measures for internal control, the adoption of a series of control systems, as well as independent monitoring mechanisms.

Basic Decision No.7737/2000 already required the creation of an internal audit unit and set out the requirements internal audit units must meet – particularly in terms of being independent from the operational and executive units in the bank – and the missions it must carry out (mainly auditing the financial operations, reporting and monitoring compliance with the laws and regulations in force). Subsequently Basic Decision No.9382/2006 specifically required that internal audit units assess the efficiency and implementation of corporate governance regulations, policies and procedures especially in the presence of mergers and acquisitions, and in situations where the bank has expanded its operations outside Lebanon.

Starting in January 2012, banks may no longer outsource the tasks of the internal audit unit. In addition Decision No.10607 specifies that the internal audit unit must be staffed with personnel whose number and qualifications are in line with the size and risk profile of the bank. The Decision further regulates and rationalizes the work of the internal audit unit by requiring that the latter develops an internal audit charter, an audit cycle and an annual audit plan. The BCC's control over such units is further strengthened: banks must inform it not only of any changes regarding the head of the internal audit unit, but also of the reasons for these changes. The Decision highlights that the unit is in charge for monitoring the effectiveness of the internal control risk management systems, as well as the effectiveness of the work of the legal compliance unit and money laundering unit. The Decision applies to outsourced activities as well as to any branch or unit located abroad.

Basic Decision No.9956/2008 mandated the establishment of an audit committee composed of at least three non-executive board members having no administrative functions in the bank. The committee is meant to assist the board in fulfilling its tasks and carrying out its supervising role. Basic Decision No.9956/2008 defines three sets of missions in relation to auditors, internal auditing and internal control.

Decision No.10706 attempts to improve the framework defined by the 2008 Basic Decision. It emphasizes the committee's duty in overseeing the senior management's implementation of the remarks and observations of the internal audit unit, the regulating bodies and the statutory auditors with respect to the weaknesses of the internal control system. It also grants the committee authority to approve the audit charter, audit cycle and audit plans and to assess the performance of the internal audit unit and that of its chairman.

Decision No.10706 also provides for the establishment of a risk committee composed of at least three members and chaired by an independent and qualified member of the board. This committee is appointed by the board and the remuneration of its members is also determined by the board. Its mission is to monitor the compliance of the bank and its units and branches (including those abroad) with the Central Bank's and BCC's regulations relating to risk management.

Both the audit and risk committee are required to develop internal regulations, approved by the board, which specify the scope of their work as well as the missions and responsibilities of their members. Decision No.10706 further sets out requirements in relation to the qualifications of the members of the risk and audit committees and limits dual membership. In an effort to secure better efficiency, the Decision also sets out the rules that govern the meetings of these committees.

Pursuant to Central Bank Basic Decision No 10227 dated August 21, 2009; all Lebanese banks are required to adopt a business continuity plan for purposes of ensuring the continuity of the bank's operations in the event of the occurrence of any disaster or other event which may affect the continuity of the bank's operation.

Central Bank Decision No 11323 dated January 12, 2013 requires all Lebanese banks to establish a Compliance Department which is divided into a Legal Compliance Unit and an AML/CFT Compliance Unit.

On February 12, 2015, the Central Bank of Lebanon issued Basic Decision No 11947 relating to the Principles of Banking and Financial Operations with Customers pursuant to which banks have to raise the awareness of their customers, and explain to them the rights in their relation with the bank.

The Central Bank of Lebanon has added an article to circular 405 dated October 26, 2015. The new article involves the corporate governance programs for the members of the Boards of Directors and of related committees.

According to the new article, the Central Bank will invite the Chairmen and members of the Boards of Directors of banks operating in Lebanon to attend the corporate governance programs that it tailored for them. In addition, the Bank is inviting the Chairman and the members of the Audit Committee, Risk Committee, Remuneration Committee and any other future Board Committees to attend the specialized programs that the Bank has prepared for each committee. The Bank indicated that it will determine the dates of all the programs in coordination with the concerned banks.

Credit Limits

The Central Bank Basic Directive No. 7055 dated August 13th, 1998, as amended by Intermediary Directive No. 9456, sets the maximum allowable weighted credit limit for loans to a single borrower (or group of related borrowers) at (i) 20% of a bank's shareholders equity with respect to loans extended to borrowers (or group of related borrowers) resident in the Lebanese Republic, the proceeds of which are to be used in Lebanon, (ii) 20% of a bank's shareholders equity with respect to loans extended to resident borrowers or non-resident borrowers (or group of related borrowers), the proceeds of which are to be used in countries with sovereign ratings of A+ and above and (iii) 10% of a bank's shareholders equity with respect to loans extended to resident borrowers or non-resident borrowers (or group of related borrowers), the proceeds of which are to be used in countries with sovereign ratings below A+, provided that (x) the aggregate exposure for countries rated from A to BBB- does not exceed 200% of the bank's shareholders' equity and the aggregate exposure to each of these countries does not exceed 50% of the bank's shareholders' equity or (y) the aggregate exposure for countries rated below BBB- does not exceed 100% of the bank's shareholders' equity and the aggregate exposure to each of these countries does not exceed 25% of the bank's shareholders' equity.

Foreign Exchange Trading

The Central Bank Basic Directive No. 6568 dated April 24th, 1997, as amended, prohibits Lebanese banks from maintaining at any time (i) net trading position against Lebanese Pounds in an amount greater than 1 percent of Tier I capital, and (ii) net trading positions in all currencies in an amount greater than 40% of Tier I capital. Lebanese banks, however, are allowed, under Basic Directive No. 6568, to hold a structural foreign exchange position up to 60% of Tier I capital denominated in the Lebanese Pounds.

Loan Classification

The Central Bank Basic Directive No. 7159 dated November 10th, 1998, as amended, introduces specific rules relating to loan classification and provisioning in accordance with the Basel Committee Regulations. This Decision classifies loan facilities into five categories: ordinary/regular accounts, follow up loans, accounts to be followed-up and regularized, sub-standard accounts, doubtful accounts, and bad accounts.

Credit Losses and Provisions for Doubtful Debts

The Banking Control Commission requires specific provisions to be established for identified credit losses. Interest on substandard and doubtful loans is considered unrealized interest and accounted for as a "memo" entry. Sub- standard and doubtful loans must be accounted for on a non-accrual basis and any interest subsequently received should be booked to income on a cash basis, as and when received. Such loans are those as to which the bank's management has determined that the borrower may be unable to meet principal and/or interest payment obligations and/or account performance is otherwise unsatisfactory, unless the loans are adequately secured and/or in the process of liquidation.

Reserves for General Banking Risk

Pursuant to the Central Bank Basic Directive No. 7129, dated October 15th, 1998, Lebanese banks are required to allocate on a yearly basis a general reserve (to be included in Tier I capital) for unspecified banking risks, out of net profits in an amount equal to a minimum of 0.2% and a maximum of 0.3% of risk-weighted assets. Such reserve must

reach a cumulative maximum of 1.25% of risk-weighted assets within a period of 10 years (2008) and 2% of risk-weighted assets within a period of 20 years (2018).

Anti-Money Laundering

A special law, Law No. 318 dated April 3rd, 2001 has been enacted, the object of which is to fight money laundering. To this end, the "Special Investigation Commission" which includes amongst its members the Governor of the Central Bank and the Chairman of the Banking Control Commission, was established to investigate money-laundering operations and to monitor compliance with the rules and procedures stipulated by Law No. 318. In accordance with Article 5 of Law 318, the Central Bank promulgated the rules and regulations on the control of banking operations to fight money laundering. A new Law No 44 was enacted on November 24, 2015 by the Lebanese Parliament for the purpose of Fighting Money Laundering and Terrorist Financing. The new law expands the definition of anti-money laundering to include most financial crimes, such as the violation of intellectual property, as well as to expand the declaration forms to include new professional sectors such as public notaries and lawyers, in accordance with international criteria.

Accounting Standards

Since 1997, all Lebanese banks are required to prepare their financial statements in accordance with International Financial Reporting Standards. The Banking Control Commission has issued instructions which correspond to International Financial Reporting Standards, among which the recognition of interest on classified loans only on a cash basis, guidelines for the effects of hyper-inflation, the recording of exchange gains and losses arising from revaluation of foreign exchange positions and a statement of non-monetary assets acquired in settlements of debts at current price. There are also certain restrictions on lending to shareholders and directors and on investments in subsidiaries and affiliates. The Central Bank Basic Directive No 6576 dated April 24th, 1997, required Lebanese banks to prepare consolidated financial statements. Consolidated financial statements should include all companies (financial and non-financial) of which the bank has exclusive control (evidenced by ownership of more than 50% and/or control over the financial and operating policies of the entity). Companies in which the Bank has joint control (evidenced by direct or indirect ownership ranging from 20% up to 50%) should be accounted for using the "equity method" in the consolidated financial statements and either at cost or in accordance with IAS 39 in standalone financial statements.

IFRS 9

In 2016, the Central Bank instructed local banks to abide by additional regulations in preparation for the implementation of the International Financial Reporting Standard 9 (IFRS 9). IFRS 9, which is promulgated by the International Accounting Standards Board (IASB), includes accounting standards pertaining to financial instruments. When it becomes effective in January 2018, IFRS 9 will replace an earlier international norm.

In preparation of this new standard, BDL informed banks through intermediate circular 428 that they must create additional provisions in the Lebanese currency that will be part of Tier 2 capital. Tier 2 capital is supplementary capital in line with the Basel Accords. It usually includes such items as general provisions, revaluation reserves, and hybrid instruments. The banks are also required to abide by the conditions of 'derecognition' when they are engaged in the sale or exchange of financial instruments, according to intermediate circular 429. 'Derecognition' entails the removal of specific financial assets from the banks' total balance sheet. Sales of financial instruments by banks should be at market value and follow specified terms and conditions.

DEED OF IRREVOCABLE UNDERTAKING TO SUBSCRIBE

BANQUE BEMO SAL ("BEMO") - "SUBORDINATED BONDS 2017"

(Articles 122 to 143 of the Code of Commerce & Law No.308 dated April 3rd, 2001)
(Issuing resolved by the Ordinary General Assembly held on September 5th, 2017)

VALID ONLY IF DULY SIGNED AND REMITTED TO BANQUE BEMO SAL IN ORIGINAL WITH ALL DOCUMENTS MENTIONED IN PARAGRAPH 3 BELOW NO LATER THAN NOVEMBER 29, 2017 (BEFORE 1:00 P.M., BEIRUT TIME)

Date: _____ 2017.

The Undersigned on the present Deed of Irrevocable Undertaking to Subscribe (the "Deed")**:**

For Natural Persons
Mr. / Ms. _____ (Name, Father's Name, Surname) (English & Arabic)
Residence Full Address : _____ (not P.O. Box)
Telephone Number : _____ / Telecopy Number : _____
BEMO Shareholder : Yes _____ / No _____
BEMO Client Account Number: _____(if applicable)

For Legal Entities
Denomination & Legal Form: _____
Incorporated and Registered in : _____ (Country and Register of Commerce)
Represented by Mr. / Ms. _____ (Name, Father's Name, Surname) (English & Arabic) in his capacity as _____
Headquarters Full Address : _____(not P.O. Box)
Telephone Number : _____ / Telecopy Number : _____
BEMO Shareholder : Yes _____ / No _____
BEMO Client Account Number: _____(if applicable)

I, the undersigned, by signing the present Deed, and with the full intention to be legally and irrevocably bound towards Banque BEMO SAL ("the Bank"), hereby:

1. Declare that I have received from the Bank a confidential copy of, and carefully and thoroughly read, understood, accepted and fully adhered to and consider myself bound by the terms of, the Offering Circular dated November 13, 2017, (the "OC") relating to the issuing (the "Issuing") by the Bank of 3,500 subordinated bonds of a per value of USD 10,000 each, titled "**Subordinated Bonds 2017**" (the "Bonds"), especially but not limited to the Section entitled "CERTAIN INVESTMENT CONSIDERATIONS" and the Section entitled "TERMS AND CONDITIONS OF THE BONDS" of the OC detailing the particulars, and the terms and conditions of the Bonds. I also declare that I fully understand that *a)* an investment in the Bonds is subject to certain risk factors that an investor should carefully consider before reaching a decision to buy the Bonds; *b)* the Offering Circular has been prepared solely for informational purposes and is not intended to provide financial, legal, accounting or tax advice and should not be relied upon in that regard; and that *c)* although the significant risks, to the best of the Bank's knowledge, relating to an investment in the Bonds, are described, purchasers are urged to read and consider, in consultation with their legal, tax and accounting advisers, , the information about these risks, together with the other information contained in the Offering Circular, before investing in the Bonds. Subscribers who are not prepared to accept the following risk factors should not invest in the Bonds. I recognize that although the OC has been drafted with all due care and diligence by the Bank and its advisors, it is based on business assumptions and market conditions which could vary in the future, and I agree that this will not be considered by me as a breach of any representation or warranty concerning the valuation and/or the projected future income and strategy. I acknowledge that I have not received any documentation in connection with the Issuing which is not fully in line with the contents of the OC. I undertake to treat the OC in full confidentiality, not to circulate it and not to give a copy thereof to any other party save to my legal, tax and accounting advisers who are bound by same confidentiality duty.

2. Undertake, and the present Deed is binding for me (and for my successors by operation of law such as *inter alia* heirs, executors, administrators, etc.) and is irrevocable until November 29, 2017, 1:00 pm Beirut time, as follows:

   a) To subscribe to the number of Bonds detailed in the Particulars below;
   b) To deposit, within three business days as from the date of the present Deed, the full and net amount of my subscription as detailed in the Particulars below in the "Subordinated Bonds 2017 Subscription Escrow Account" opened with the Bank (Account Number: 3395USD2601; IBAN Number: LB67 0093 0000 0000 0339 5USD 2601); and
   c) More generally, to take all necessary measures, either spontaneously or upon the Bank's request, to hasten and satisfactorily close the Issuing.

3. Remit to the Bank, upon its first request following the signature of the present Deed, any and all documents pertaining to my identification.

4. Declare solemnly that the present Deed is strictly personal, and I cannot transfer it nor assign it; that I am signing it for my own personal account as principal (*inter alia* no fronting and no agency), and that no other person will be the beneficial owner thereof, nor will any other person have a direct or indirect interest in the Bonds I subscribe to (until the Bonds, if any, are inscribed in my name with MIDCLEAR SAL after closing of the Issuing, at which time I can freely dispose of them); and that I will bear alone the full risk of the present Deed.

5. Agree that my subscription might be rejected by the Bank, in whole or in part, on a fully discretionary basis and without any justification being due to me; and that the whole Issuing might be cancelled by the Bank, at its entire discretion, if the full amount of the Issuing is not fully subscribed and paid up and/or if the whole Issuing is not satisfactorily closed before November 29, 2017. If my subscription is rejected in whole or in part, then the amount of my subscription shall be refunded in whole or in part as applicable with no credit interests accrued, by crediting my bank account mentioned in the Particulars below.

6. Agree to indemnify the Bank, its officers, directors, employees, affiliates, its external advisors and counsels, for any and all losses, liabilities, claims, damages, costs and expenses whatsoever, *inter alia* in connection with any threatened or commenced lawsuit, arbitration, claim whatsoever, arising out of or based upon any false statement, information, representation, warranty, breach, violation, or failure from my part to comply with any covenant, representation, warranty, agreement, applicable laws and regulations relating to the Issuing.

7. Agree that the Bonds are subordinated and are governed *inter alia* by articles 122 to 143 of the Code of Commerce, Law No.308 of 2001, Central Bank of Lebanon Basic Directives No. 6830 and No. 6856 of 1997, CMA Regulations, and the terms and conditions as set by the Bank's Ordinary General Assembly held on September 5th, 2017, which resolved the Issuing and described in the OC. The Bank has no obligation whatsoever to purchase any Bonds, and I can never and under no circumstances require the Bank nor force it to redeem or purchase any or all of my Bonds, or to convert them into shares since the Bonds are not convertible.

8. Agree that the present Deed, the OC and all the documents and legal deeds which are mentioned therein or arising there out of or in connection there with, as well as the whole process of the Issuing, shall be governed by and construed in accordance with the substantive laws of Lebanon. All disputes arising out of or in connection with the present Deed, the OC and all the documents and legal deeds which are mentioned therein as well as the whole process of the Issuing shall be finally settled under the Rules of Conciliation and Arbitration of the Chamber of Commerce and Industry of Beirut by three arbitrators appointed in accordance with the said Rules. I declare to adhere to the provisions of said Rules, undertake to abide by them and waive all right of recourse against the award. Each party shall bear definitely its own expenses and costs of arbitration.

Particulars

Subscription to "Subordinated Bonds 2017" of Banque BEMO SAL, Beirut, Lebanon *(minimum subscription: 5 Bonds or US$ 50,000)*.

Number of Bonds to which I irrevocably undertake to subscribe:

_____ (_____) Bonds out of a total of 3,500 Subordinated Bonds 2017.

Total amount of my subscription which I irrevocably undertake to fully pay as provided here-above in the present Deed:

USD _____ (_____ US dollars).

My bank account to be eventually credited pursuant to the provisions of Paragraph 5 above is opened with Bank _____ SAL (_____ branch) number _____.

Executed, in Beirut in one original remitted to Banque BEMO SAL, on the aforementioned date.

Natural Persons

Full Name : _____
Signature : _____

Legal Entities

Denomination : _____
Represented by : _____
Signature : _____

The Applicant acknowledges that he/she is fluent in the English Language. The Applicant further acknowledges that he/she fully understands the content of this Deed of Irrevocable Undertaking to Subscribe, which is in English, and that he/she has been given the opportunity to ask questions and receive answers from the Issuer and obtain additional information necessary to understand and evaluate the merits and risks of purchasing and owning the Bonds.

يقر مقدم الطلب أنه يتقن اللغة الإنكليزية وأنه إطلع على طلب الإكتتاب وعلى كافة الشروط والخصائص المنصوصة أعلاه باللغة الإنكليزية ، للسندات المرؤوسة التي ينوي المصرف اصدارها وهو بالتالي يؤكد فهم محتواها كليا ويقبلها جميعها من دون أي تحفظ. كما وأن مقدم الطلب يقر بأنه تم إعطاءه الفرصة لطرح الأسئلة وتلقي الإجابات عنها من قبل المصرف المصدر والحصول على معلومات إضافية ضرورية لفهم وتقييم مزايا ومخاطر شراء وامتلاك السندات.

Signature **الإمضاء**

_____

This Deed of Irrevocable Undertaking to Subscribe was signed before:

Name: _____

Signature: _____ _____

BANQUE BEMO S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2016

BANQUE BEMO S.A.L.
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2016

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BT 9115/DTT

INDEPENDENT AUDITORS' REPORT

To the Shareholders
Banque Bemo S.A.L.
Beirut, Lebanon

Opinion

We have audited the accompanying consolidated financial statements of Banque Bemo S.A.L. (the "Bank") and its subsidiaries (the Group) , which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Emphasis of a matter

Without qualifying our opinion, we draw attention to Note 11 and Note 22 of the consolidated financial statements, concerning the regulatory restricted contribution at December 31, 2016 amounting to LBP41.25billion, originating from surplus derived from sale of treasury bills in Lebanese pounds against investment in medium term Lebanese Government bonds and certificates of deposit in foreign currency issued by the Central Bank of Lebanon, in compliance with Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016. According to this Circular, the restricted contribution which is regulated in nature has been appropriated, after deducting the relevant tax liability in the amount of LBP6.19billion and appropriating an amount of LBP24.11billion to offset the adverse currency translation adjustment of the investment in associate (Note 13), to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks, and that in anticipation of the implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Intermediary 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.

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	**How our audit addressed the key audit matter**
Regulatory Restricted Contribution During November and December of 2016, the Central Bank of Lebanon issued regulations applicable to all banks operating in Lebanon with respect to the use of the contribution derived from the special and non-conventional securities arrangement deals concluded with the regulator. This is a key audit matter in relation to the use, accounting and taxability of the benefit earned.	We reviewed the accounting and use of the benefit associated with the regulated restricted contribution derived from the special and non-conventional securities arrangement deals with the regulator, after deducting the relevant tax, in line with the conditions for the designated purpose setup by the regulator.

Impairment of loans and advances

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

The majority of the Group's loans and advances consists of corporate loans. Management monitors and performs an impairment assessment of the loans and advances portfolio on an individual basis and provides for impaired loans; and for those loans that are considered to be unimpaired, Management performs an assessment of impairment on a collective basis after segregating the loans portfolio into groups of loans with similar characteristics.

The assessment on an individual basis relies on management's knowledge of each debtor. The loan portfolios that give rise to the greatest uncertainty are typically those where impairment is derived from models for collective assessment which are subject to Management's assumptions with respect to industry risk factors, economic outlook as well as collateral fair value and shortfalls.

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

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

For impairment allowances against collectively assessed loans and advances, substantially covered by the regulatory designated deferred liability in anticipation of IFRS 9 referred to under ***Emphasis of a matter*** section of our report, we critically assessed Management's assumptions, and estimations, in particular with respect to the inputs into the impairment model, the industry risk factors, and economic factors, and historical default rates.

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

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

Impairment of investment in an associate

The Group's investment in an associate in the amount of LBP18billion as at December 31, 2016, is considered material to the financial statements and related impairment involves considerable estimation uncertainty especially since the associate is incorporated in Syria where there is severe and frequent fluctuation of the Syrian Pound against foreign currencies, in particular the U.S. Dollar, the currency in which the investment is recorded in the Group's books. Management uses an impairment model based on inputs related to the associate's equity adjusted for unrealized exchange gains on the hedged portion of the associate's equity. For this reason, impairment of investment in an associate is considered a key audit matter.

The risk of inadequate determination of the impairment of the investment in associate was addressed in our audit by obtaining the impairment calculation used by Management and verifying the inputs related to the associate's equity and unrealized exchange gains as at December 31, 2016 extracted from the financial statements of the associate. Furthermore, the year-end exchange rates applied by Management in the model to convert the equity as at December 31, 2016 from Syrian Pound to U.S. Dollar were verified against official rates.

Furthermore, we verified Management's calculation of currency translation adjustment resulting from the exchange rate fluctuation on the associate's equity as at December 31, 2016, which is accumulated under equity.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Beirut, Lebanon
May 2, 2017

DFK Fiduciaire du Moyen Orient

Deloitte & Touche

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31, 2016 LBP'000	December 31, 2015 LBP'000
Cash and deposits with central banks	5	549,560,119	440,213,601
Deposits with banks and financial institutions	6	298,217,095	201,242,051
Financial assets at fair value through profit or loss	7	85,253,068	25,700,650
Loans to banks and financial institutions and reverse repurchase agreements	8	17,512,310	48,867,483
Loans and advances to customers	9	1,037,927,223	1,016,269,785
Loans and advances to related parties	10	2,646,345	1,855,871
Investment securities	11	594,523,821	638,556,400
Customers' liability under acceptances	12	6,936,955	25,296,152
Investments in an associate	13	18,052,156	17,645,342
Assets acquired in satisfaction of loans	14	2,046,944	2,046,944
Property and equipment	15	23,967,744	16,698,002
Intangible assets	16	981,680	618,201
Other assets	17	12,924,894	8,243,257
Total Assets		2,650,550,354	2,443,253,739
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:	41		
Documentary and commercial letters of credit		31,295,824	25,232,406
Guarantees and standby letters of credit		90,464,323	85,545,223
Forward exchange contracts		246,224,821	433,508,634
FIDUCIARY DEPOSITS	42	45,197,457	40,387,852

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

	Notes	December 31, 2016 LBP'000	December 31, 2015 LBP'000
LIABILITIES			
Deposits and borrowings from banks and financial institutions	18	126,651,112	111,351,617
Customers' accounts at amortized cost	19	2,078,192,028	1,949,950,909
Related parties' accounts at amortized cost	20	110,953,534	89,000,514
Acceptance liability	12	6,936,955	25,296,152
Other term borrowings	21	9,315,863	7,530,780
Other liabilities	22	30,860,467	13,510,433
Provisions	23	7,496,647	6,042,789
		2,370,406,606	2,202,683,194
Subordinated bonds	24	37,687,500	37,687,500
Total liabilities		2,408,094,106	2,240,370,694
EQUITY			
Share capital	25	62,248,000	62,248,000
Treasury shares	25	(2,931,915)	(2,696,018)
Preferred shares	26	52,641,854	52,641,854
Shareholders' cash contribution to capital	27	29,104,984	29,104,984
Reserves	28	50,065,272	39,540,019
Retained earnings		27,384,124	25,795,153
Currency translation adjustment	13	-	(23,440,267)
Profit for the year	30	23,842,788	19,490,701
Equity attributable to the shareholders of the Bank		242,355,107	202,684,426
Non-controlling interest	29	101,141	198,619
Total equity		242,456,248	202,883,045
Total Liabilities and Equity		2,650,550,354	2,443,253,739

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31, 2016 LBP'000	2015 LBP'000
Interest income	32	116,755,051	107,867,838
Interest expense	33	(79,240,335)	(72,425,574)
Net interest income		37,514,716	35,442,264
Fee and commission income	34	20,175,935	9,751,500
Fee and commission expense	35	(309,957)	(376,959)
Net fee and commission income		19,865,978	9,374,541
Net interest and other gains/(losses) on financial assets at fair value through profit or loss	36	4,531,743	6,706,383
Gain on exchange		2,856,686	2,527,958
Gain from derecognition of assets at amortized cost, (net)	11	1,934,797	2,575,456
Other operating income, (net)	37	4,709,925	2,965,009
Net financial revenues		71,413,845	59,591,611
Allowance for impairment of loans and advances and other receivables, (net)	9,17	(1,605,560)	(515,456)
Write-back of provision for collectively assessed loans, (net)	9	-	140,597
Net financial revenues after net impairment charge		69,808,285	59,216,752
Staff costs	38	(22,620,527)	(20,579,175)
Administrative expenses	39	(15,684,416)	(14,789,388)
Depreciation and amortization	15,16	(1,518,618)	(1,428,069)
Recovery of principal of financial assets at fair value through profit or loss		75,256	-
(Provision for)/write-back of provision for contingencies	23	(1,524,478)	1,071,567
		(41,272,783)	(35,725,065)
Profit before income tax		28,535,502	23,491,687
Income tax expense	22	(4,790,192)	(3,991,541)
Profit for the year	30	23,745,310	19,500,146
Attributable to:			
Equity holders of the Bank		23,842,788	19,490,701
Non-Controlling interest		(97,478)	9,445
		23,745,310	19,500,146
Basic and diluted earning per shares	40	328/28	257/11

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year Ended December 31, 2016 LBP'000	2015 LBP'000
Profit for the year		23,745,310	19,500,146
Other comprehensive income ("OCI"):			
Loss arising from currency translation adjustment	13	(667,529)	(1,407,841)
Net other comprehensive loss for the year		(667,529)	(1,407,841)
Total comprehensive income for the year		23,077,781	18,092,305
Attributable to:			
Equity holders of the Bank		23,175,259	18,082,860
Non-controlling interests	29	(97,478)	9,445
		23,077,781	18,092,305

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity Attributable to the Bank														
	Capital LBP'000	Treasury Shares LBP'000	Preferred Shares LBP'000	Shareholders' Cash Contribution to Capital LBP'000	Legal Reserve LBP'000	Reserve for General Banking Risks LBP'000	Other Reserves LBP'000	General Reserves LBP'000	Reserve for Assets Acquired in Satisfaction of Loans LBP'000	Currency Translation Adjustment LBP'000	Retained Earnings LBP'000	Profit for the Year LBP'000	Total LBP'000	Non-Controlling Interest LBP'000	Total LBP'000
Balance at December 31, 2014	62,248,000	(2,344,459)	52,641,854	29,104,984	3,517,416	22,997,375	5,518,363	-	722,441	(22,032,426)	22,205,984	17,128,792	191,708,324	223,699	191,932,023
Total comprehensive income	-	-	-	-	-	-	-	-	-	(1,407,841)	-	19,490,701	18,082,860	9,445	18,092,305
Allocation of income for the year 2014	-	-	-	-	1,530,675	3,526,500	114,263	1,500,000	112,986	-	10,344,368	(17,128,792)	-	-	-
Prior period adjustments	-	-	-	-	-	-	-	-	-	-	34,609	-	34,609	-	34,609
Disposal of asset acquired in satisfaction of loans -Note14	-	-	-	-	-	-	67,817	-	(67,817)	-	-	-	-	(34,609)	(34,609)
Dividends paid - Note 31	-	-	-	-	-	-	-	-	-	-	(6,793,375)	-	(6,793,375)	-	(6,793,375)
Acquisition of treasury shares (net) - Note 25	-	(351,559)	-	-	-	-	-	-	-	-	-	-	(351,559)	-	(351,559)
Other	-	-	-	-	-	-	-	-	-	-	3,567	-	3,567	84	3,651
Balance at December 31, 2015	62,248,000	(2,696,018)	52,641,854	29,104,984	5,048,091	26,523,875	5,700,443	1,500,000	767,610	(23,440,267)	25,795,153	19,490,701	202,684,426	198,619	202,883,045
Total comprehensive income	-	-	-	-	-	-	-	-	-	(667,529)	-	23,842,788	23,175,259	(97,478)	23,077,781
Allocation of income for the year 2015	-	-	-	-	1,798,012	5,380,160	690,234	2,554,500	102,347	-	8,965,448	(19,490,701)	-	-	-
Dividends paid - Note 31	-	-	-	-	-	-	-	-	-	-	(7,376,477)	-	(7,376,477)	-	(7,376,477)
Acquisition of treasury shares (net) - Note 25	-	(235,897)	-	-	-	-	-	-	-	-	-	-	(235,897)	-	(235,897)
Offset against surplus derived from non-conventional deals arrangement with regulator – Note 13	-	-	-	-	-	-	-	-	-	24,107,796	-	-	24,107,796	-	24,107,796
Balance at December 31, 2016	62,248,000	(2,931,915)	52,641,854	29,104,984	6,846,103	31,904,035	6,390,677	4,054,500	869,957	-	27,384,124	23,842,788	242,355,107	101,141	242,456,248

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31, 2016	2015
		LBP'000	LBP'000
Cash flows from operating activities:			
Profit before tax		28,535,502	23,491,687
Adjustments to reconcile profit to net cash provided by/(used in) operating activities:			
Prior period adjustment		-	34,919
Gain from disposal of assets acquired in satisfaction of loans	37	-	(807,816)
Depreciation and amortization	15, 16	1,518,618	1,428,069
Provision for contingencies	23	1,976,728	960,305
Write back of provision for contingencies	23	(452,250)	(2,031,872)
Write-back of provision collectively assessed loans, (net)	9	-	(140,597)
Allowance for impairment of loans and advances and other receivables, (net)	9, 17	1,605,560	212,875
Non-controlling interest		-	(34,525)
Provision for employees' end-of-service indemnities	23	941,970	378,854
Unrealized loss on financial assets at fair value through profit or loss trading securities	36	2,721,584	162,251
Equity income from investment in associates	37	(1,074,343)	(189,633)
Gain from sale of property and equipment		(1,947)	(39,809)
Decrease/(increase) in deposits with banks and financial institutions		60,840,938	(15,115,289)
Increase in trading assets at fair value through profit or loss		(62,274,002)	(2,552,063)
Increase in loans and advances to customers and related parties		(27,285,682)	(57,869,535)
Net (increase)/decrease in other assets		(5,005,499)	1,096,576
Increase in non-interest earning compulsory reserve and deposits with central banks		(2,219,876)	(41,734,228)
Increase in due to banks and financial institutions		17,947,757	10,037,538
Increase in customers' and related parties ' deposits at amortized cost		157,082,455	232,283,844
Net increase in other liabilities		43,697,584	3,240,901
Settlements of provision for contingencies	23	(58,755)	(137,183)
Settlement of employees' end-of-service indemnity	23	(950,444)	(365,708)
Taxes paid		(6,086,461)	(5,203,120)
Others (including effect of exchange rate changes)		(2,482,192)	(4,712,893)
Net cash provided by operating activities		208,977,245	142,393,548
Cash flows from investing activities:			
Investment securities		44,031,843	(124,998,400)
Acquisition of treasury shares (net)		(235,897)	(351,559)
Property and equipment	15	(8,542,556)	(2,537,569)
Proceeds from sale of property and equipment		75,734	50,665
Proceeds from sale of assets acquired in satisfaction of loans		-	1,020,577
Intangible assets	16	(683,068)	(158,380)
Net cash provided by/(used in) investing activities		34,646,056	(126,974,666)
Cash flows from financing activities:			
Dividends paid	31	(7,376,477)	(6,793,375)
Subordinated Bonds		-	(30,976)
Net cash used in financing activities		(7,376,477)	(6,824,351)
Effect of exchange rates changes on cash and cash equivalents - Beginning of year		1,570,125	1,945,189
Net increase in cash and cash equivalents		237,816,947	10,539,720
Cash and cash equivalents - Beginning of year		195,561,810	185,022,090
Cash and cash equivalents - End of year	44	433,378,757	195,561,810

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

1. GENERAL INFORMATION

Banque Bemo S.A.L. (the "Bank") is a Lebanese joint-stock company listed on the Beirut Stock Exchange and registered in the Commercial Register under Number 17837 and on the list of banks published by the Central Bank of Lebanon under Number 93. The Bank's headquarters are located in Beirut.

The Bank provides a full range of commercial, corporate and private banking activities through a network of 8 branches in Lebanon in addition to a branch in Limassol, Cyprus.

Banque Bemo S.A.L. is owned by Sharikat AL Istismarat Al Oropia Lil Shareq Al Aousat (Holding) S.A.L. to the extent of 61.06%.

These financial statements comprise the financial statements of the Bank and its subsidiaries (collectively referred to as the "Group") Refer to Note 3(A).

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, 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortization
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*: Bearer Plants
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

2.2 New and revised IFRS in issue but not yet effective

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

New and revised IFRSs	**Effective for Annual Periods Beginning on or After**
Annual Improvements to IFRS Standards 2014-2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017
Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealized losses	January 1, 2017
Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	January 1, 2017
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity 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.	January 1, 2018
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions	January 1, 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	January 1, 2018

New and Revised IFRSs	**Effective for Annual Periods Beginning on or After**
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	January 1, 2018
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	When IFRS 9 is first applied
IFRS 9 *Financial Instruments* (revised versions in 2010, 2013 and 2014) IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. 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.	January 1, 2018

New and Revised IFRSs	Effective for Annual Periods Beginning on or After
A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. 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.	
IFRS 15 *Revenue from Contracts with Customers* In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.	January 1, 2018

New and Revised IFRSs	Effective for Annual Periods Beginning on or After
The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 1, 2018
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Amendments to 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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation and Measurement

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

- Financial assets and liabilities at fair value through profit or loss are measured at fair value.
- Equity securities at fair value through other comprehensive income are measured at fair value.
- Derivative financial instruments are measured at fair value.

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

The principal accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Banque Bemo S.A.L. incorporate the financial statements of the Bank and the entities controlled by the Bank and its subsidiaries.

Control is achieved when the Bank:

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

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

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

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

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

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

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

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

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

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

The consolidated subsidiaries as at December 31, 2016 comprise:

Company	Country of Incorporation	Date of Acquisition or Incorporation	Percentage of Ownership 2016 %	Percentage of Ownership 2015 %	Business Activities
Bemo Securitization S.A.L.	Lebanon	1998	96.00	96.00	Securitization & Structured Finance
Ferticed Limited Holding	Bermuda	1995	-	100.00	Holding Company
Depository & Custody Company S.A.L.	Lebanon	2007	99.90	99.90	Depository and custody of securities
Bemo Investment Firm Ltd.	Dubai	2013	75.00	75.00	Investment

During December 2016, the wholly owned subsidiary, Ferticed Limited Holding was liquidated.

B. Business Combinations:

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

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

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

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

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

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

C. Foreign Currencies:

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

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's 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 U.S. Dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

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

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

Cash flows provided by and used in foreign currencies under various activities, as included in the statement of cash flows, are converted into Lebanese Pounds at year-end exchange rates, except for cash and cash equivalents at the beginning of the year which is converted at the prior year closing exchange exchange rates and the effect of currency fluctuation, if any, is disclosed separately.

D. Financial Assets and Liabilities:

Recognition and Derecognition of Financial Assets and Liabilities:

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

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

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

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

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

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

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

Repurchase and Reverse Repurchase Agreements:

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

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

Offsetting:

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

Fair Value Measurement of Financial Instruments:

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

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

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

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

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

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

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

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

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

Impairment of Financial Assets:

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

Objective evidence of impairment could include:

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Collateral Valuation:

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

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

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 less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

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

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

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

Equity Instruments:

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

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

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

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

A financial asset is held for trading if:

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

Reclassification:

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

Reclassification is not allowed where:

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

Designation at Fair Value through Profit and Loss:

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

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

F. Loans and Advances:

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

G. Financial Liabilities and Equity Instruments Issued by the Group:

Classification as Debt or Equity:

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

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

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

Financial Liabilities at Fair Value Through Profit or Loss:

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

A financial liability is classified as held for trading if:

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

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

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

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

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

Financial Liabilities Subsequently Measured at Amortized Cost:

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

Financial Guarantee Contract Liabilities:

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

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

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

H. Derivative Financial Instruments:

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

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

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 makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

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

Fair Value Hedge

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

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

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

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

Hedges of Net Investments in Foreign Operations:

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

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

I. Investments in Associates:

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

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

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

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

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

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

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

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

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

J. Property and Equipment:

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

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

	Rate %
Property	2.5
Furniture and fixtures	7.5 to 8
Equipment	10 to 12
Computer hardware	20
Installations and leasehold improvements	15 to 20
Vehicles	12 to 20

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives estimated at five years.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

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.

K. Intangible Assets:

Intangible assets are stated at cost less any accumulated impairment loss. Intangible assets, other than goodwill consist of computer software and are amortized over a period of 5 years and are subject to impairment testing.

L. Assets acquired in satisfaction of loans :

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

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

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

M. Impairment of Tangible and Intangible Assets:

At each statement of financial position date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of impairment provision required, if any.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the statement of financial position date, less cost to sell, if any. To determine fair value, the Group adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.
- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

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

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

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

The impairment loss is charged to income.

N. Employees' Benefits:

Obligations for contributions to defined employees' benefits are recognized as an expense on a current basis.

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

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were terminated at the statement of financial position 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.

Defined Benefit Plans: (Under other jurisdictions)

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

O. Provisions:

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

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

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

P. 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 discount or premium.

Interest income and expense presented in the statement of profit or loss include:

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

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

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

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

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

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

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

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

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

Revenue from securitization contracts is recognized based on the following:

- Where the outcome of a securitization contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the financial position date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.
- Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately

Q. Operating Lease Agreements:

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

R. Treasury Shares:

Treasury shares are stated at cost. Any gain or loss on sale is reflected as an adjustment to retained earnings.

S. Fiduciary Deposits:

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

T. Income Tax:

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

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

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

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

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

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

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

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

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

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

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

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

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

U. Earnings Per Share:

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

V. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with original contractual maturities of three months or less and include: cash and balances with the Central Banks and deposits with banks and financial institutions.

W. Dividends on Ordinary Shares:

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

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

X. Deferred Restricted Contributions

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Going Concern:

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

Classification of Financial Assets:

Business Model:

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

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

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

Characteristics of the Financial Asset:

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

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

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

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

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

B. Key Sources of Estimation Uncertainty:

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

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

Allowances for Credit Losses:

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

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

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

Impairment of investment in associates:

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

Determining Fair Values:

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

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

5. CASH AND DEPOSITS WITH CENTRAL BANKS

	December 31,	
	2016	2015
	LBP'000	LBP'000
Cash on hand	9,015,076	9,585,724
Current accounts with Central Bank of Lebanon (of which compulsory reserves LBP52.1billion in 2016 and LBP43.8billion in 2015)	86,775,776	109,315,294
Current accounts with other central banks	368,681	314,758
Term placements with Central Bank of Lebanon	451,430,265	319,257,280
Accrued interest receivable	1,970,321	1,740,545
	549,560,119	440,213,601

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

Cash compulsory reserves with Central Bank of Lebanon represent non-interest earning deposits in Lebanese Pounds 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.

Current accounts with other central banks include the equivalent in Euro of LBP276million as at December 31, 2016 (LBP276million as at December 31, 2015) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (1% as at December 31, 2015) of banks' and customers' deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

Term placements with Central Bank of Lebanon include an amount of LBP284billion as at December 31, 2016 (LBP247billion as at December 31, 2015) representing the equivalent in foreign currencies of amounts deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and borrowings obtained from non-resident financial institutions.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31,	
	2016	2015
	LBP'000	LBP'000
Checks in course of collection	17,896,839	19,477,736
Current accounts	136,114,235	48,455,562
Current accounts - related parties	5,256,064	4,912,781
Term placements	73,562,537	54,917,403
Term placements - related parties	-	644,380
Margin accounts	65,301,776	72,742,005
Accrued interest receivable	85,644	92,184
	298,217,095	201,242,051

Deposits with banks and financial institutions include deposits in the amount of LBP12.47billion subject to right of set-off by the related correspondents against trade finance and other facilities at 2016 year end (LBP2.95billion against trade finance and other facilities as at December 31, 2015).

Margin accounts and pledged deposits are blocked against trade finance and treasury transactions and banking facilities (Refer to Note 45).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2016			December 31, 2015		
	LBP Base Accounts	Foreign Currency Base Accounts	Total	LBP Base Account	Foreign Currency Base Account	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	-	7,099,123	7,099,123	-	5,406,294	5,406,294
Lebanese treasury bills	16,777,541	-	16,777,541	14,166,027	-	14,166,027
Foreign Governments treasury bills	-	-	-	-	327,681	327,681
Lebanese Government bonds	-	20,113,835	20,113,835	-	608,062	608,062
Certificates of deposit issued by the Central Bank of Lebanon	5,910,721	31,657,500	37,568,221	1,036,083	-	1,036,083
Certificates of deposit issued by banks	-	753,750	753,750	-	-	-
Corporate bonds	-	1,885,186	1,885,186	-	3,715,581	3,715,581
Accrued interest receivable	321,650	733,762	1,055,412	358,275	82,647	440,922
	23,009,912	62,243,156	85,253,068	15,560,385	10,140,265	25,700,650

The negative change in fair value of financial assets at fair value through profit or loss in the amount of LBP2.72billion (loss of LBP162million in 2015) is recorded under "Net interest and other gains/(losses) on financial assets at fair value through profit or loss" (Note 36) in the consolidated statement of profit or loss.

8. LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	December 31,	
	2016	2015
	LBP'000	LBP'000
Discounted letters of credit and acceptances	9,974,810	8,240,056
Loans to a resident financial institution (a)	7,537,500	25,627,500
Loans under reverse repurchase agreements (b)	-	14,814,474
Accrued interest on reverse repurchase agreements	-	185,453
	17,512,310	48,867,483

(a) Loans to a resident financial institution outstanding as at December 31, 2016 comprise a 1 year term loan in the amount of USD5million (LBP7.54billion) originated during the year 2014 and secured by a pledged deposit in Lebanese Pounds amounting to LBP12.5billion. This term loan is subject to a fixed annual interest rate of 4.25% and is being renewed on a yearly basis at maturity under the same terms and conditions.

Loans to a resident financial institution in the amount of USD12million (LBP18.09billion) was fully settled during 2016. This term loan was subject to a fixed annual interest rate of 4.5% and was secured by a pledged deposit in Lebanese Pounds amounting to LBP10.5billion outstanding as at December 31, 2015.

Interest income for the year ended December 31, 2016 amounted to LBP1.09billion recorded under interest income in the consolidated statement of profit or loss (LBP1.1billion for the year ended December 31, 2015) (Refer to Note 32).

(b) Loans under reverse repurchase agreement represent short term loans granted to a resident financial institution. These loans are secured by certificates of deposit in USD issued by the Central Bank of Lebanon in the amount of USD20million (LBP30.15billion) and matured during 2016. Loans outstanding as at December 31, 2015 amounted to USD10million (LBP15.07billion) and matured in 2016. Interest income for the year ended December 31, 2016 amounted to LBP272million recorded under interest income in the consolidated statement of profit or loss (LBP1.6billion for the year ended December 31, 2015) (Refer to Note 32).

9. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2016				December 31, 2015			
	Gross Amount Net of Unearned Interest	Unrealized Interest	Allowance for Impairment	Carrying Amount	Gross Amount Net of Unearned Interest	Unrealized Interest	Allowance for Impairment	Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing Retail customers:								
- Mortgage loans	61,203,856	-	-	61,203,856	52,883,643	-	-	52,883,643
- Personal loans	9,346,674	-	-	9,346,674	11,372,989	-	-	11,372,989
- Overdrafts	32,180,224	-	-	32,180,224	28,470,701	-	-	28,470,701
- Other	8,932,017	-	-	8,932,017	7,634,588	-	-	7,634,588
Performing Corporate customers:								
- Large enterprises	632,130,785	-	-	632,130,785	621,480,879	-	-	621,480,879
- Small and medium enterprises	270,489,706	-	-	270,489,706	288,192,657	-	-	288,192,657
Non performing - Retail Customers:								
- Substandard	1,604,648	(95,148)	-	1,509,500	-	-	-	-
- Bad and doubtful	450,316	(263,113)	(187,203)	-	410,337	(211,580)	(198,757)	-
Non performing- Corporate Customers:								
- Substandard	15,869,844	(347,798)	-	15,522,046	8,729,688	(1,031,991)	(753,750)	6,943,947
- Bad and doubtful	19,857,862	(5,937,330)	(6,441,717)	7,478,815	8,260,432	(3,374,525)	(4,638,695)	247,212
Allowance for impairment for collectively assessed loans:								
- Corporate loans	-	-	(2,095,422)	(2,095,422)	-	-	(2,095,422)	(2,095,422)
- Retail loans	-	-	(34,460)	(34,460)	-	-	(34,460)	(34,460)
Accrued interest receivable	1,263,482	-	-	1,263,482	1,173,051	-	-	1,173,051
	1,053,329,414	(6,643,389)	(8,758,802)	1,037,927,223	1,028,608,965	(4,618,096)	(7,721,084)	1,016,269,785

The movement of collective provisions during the year ended December 31, 2016 and 2015 is summarized as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	2,129,882	4,396,057
Additions	-	763,903
Write-back	-	(904,500)
Transfer to allowance for impairment of loans and advances	-	(2,125,578)
Balance December 31	2,129,882	2,129,882

During 2015 the Banking Control Commission approved the write-back of collective provisions in the amount of USD600,000 (LBP905million) to be reallocated to general reserves set up against the Bank's loan portfolio.

The movement of substandard loans with related unrealized interest during 2016 and 2015 is summarized as follows:

	2016			
	Substandard Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net Book Value LBP'000
Balance January 1	8,729,688	(1,031,991)	(753,750)	6,943,947
Withdrawals on existing loans	16,814,417	-	-	16,814,417
Additions to unrealized interest	397,357	(397,357)	-	-
Transfer to doubtful and bad debts	(8,466,970)	986,402	753,750	(6,726,818)
Balance December 31	17,474,492	(442,946)	-	17,031,546

	2015			
	Substandard Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net Book Value LBP'000
Balance January 1	9,904,902	(381,244)	-	9,523,658
Withdrawals on existing loans	17,589	-	-	17,589
Additions to unrealized interest	792,687	(792,687)	-	-
Additions to allowance for impairment	-	-	(753,750)	(753,750)
Transfer to doubtful and bad debts	(1,918,416)	147,473	-	(1,770,943)
Transfer from unearned to unrealized interest	-	(10,191)	-	(10,191)
Write-off	(67,074)	4,658	-	(62,416)
Balance December 31	8,729,688	(1,031,991)	(753,750)	6,943,947

The movement of doubtful and bad loans and related unrealized interest and allowance for impairment during 2016 and 2015 is summarized as follows:

	2016				2015			
	Doubtful and Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net Book Value LBP'000	Doubtful and Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net Book Value LBP'000
Balance January 1	8,670,769	(3,586,105)	(4,837,452)	247,212	7,209,836	(3,417,513)	(3,388,558)	403,765
Downgraded from regular loans	1,741,764	-	-	1,741,764	387,499	-	-	387,499
Withdrawals on existing doubtful loans	182,545	-	-	182,545	41,443	-	-	41,443
Settlement of loans	(282,192)	-	-	(282,192)	(911,882)	-	-	(911,882)
Additions to unrealized interest and allowance for impairment	2,013,980	(2,013,980)	(2,090,728)	(2,090,728)	998,574	(998,574)	(34,745)	(34,745)
Transfer from collective provision for loan impairment	-	-	-	-	-	-	(2,125,578)	(2,125,578)
Write-back	-	184,147	772,616	956,763	-	135,686	586,333	722,019
Write-off	(414,755)	166,005	248,750	-	(774,961)	737,886	37,075	-
Downgraded from substandard loans	8,466,970	(986,402)	(753,750)	6,726,818	1,918,416	(147,473)	-	1,770,943
Effect of exchange rates changes	(70,903)	35,892	31,644	(3,367)	(198,156)	103,883	88,021	(6,252)
Balance December 31	20,308,178	(6,200,443)	(6,628,920)	7,478,815	8,670,769	(3,586,105)	(4,837,452)	247,212

10 LOANS AND ADVANCES TO RELATED PARTIES

	December 31,	
	2016	2015
	LBP'000	LBP'000
Retail loans	2,085,613	1,413,979
Overdrafts to corporates	560,732	441,892
	2,646,345	1,855,871

Loans and advances to related parties are partially secured (Refer to Note 43).

11. INVESTMENT SECURITIES

	December 31, 2016			December 31, 2015		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets at fair value through other comprehensive income	615,120	23,346	638,466	615,120	24,082	639,202
	615,120	23,346	638,466	615,120	24,082	639,202
Financial assets at amortized cost (A)	205,374,999	381,255,394	586,630,393	358,231,747	269,342,207	627,573,954
Accrued interest receivable	3,663,165	3,591,797	7,254,962	6,975,357	3,367,887	10,343,244
	209,038,164	384,847,191	593,885,355	365,207,104	272,710,094	637,917,198
	209,653,284	384,870,537	594,523,821	365,822,224	272,734,176	638,556,400

A. Financial assets at amortized cost are broken down as follows:

	December 31, 2016					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	149,290,331	152,536,263	2,249,737	-	-	-
Lebanese Government bonds	-	-	-	115,685,102	105,933,735	1,403,208
Certificates of deposit issued by the Central Bank of Lebanon	56,084,668	56,677,826	1,413,428	245,750,426	241,501,500	2,001,519
Corporate bonds	-	-	-	19,819,866	19,874,922	187,070
	205,374,999	209,214,089	3,663,165	381,255,394	367,310,157	3,591,797

	December 31, 2015					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	170,611,032	175,665,881	2,487,541	-	-	-
Lebanese Government bonds	-	-	-	151,730,640	148,936,447	2,045,470
Certificates of deposit issued by the Central Bank of Lebanon	187,620,715	188,991,707	4,487,816	82,764,034	83,168,775	1,021,932
Corporate bonds	-	-	-	34,847,533	34,831,549	300,485
	358,231,747	364,657,588	6,975,357	269,342,207	266,936,771	3,367,887

The remaining periods to maturity of financial assets at amortized cost, denominated in **Lebanese Pounds** excluding accrued interest, is as follows:

Contractual Maturity	December 31, 2016 LBP Base Accounts Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	Yield %
Lebanese treasury bills:				
Up to 1 year	36,127,480	36,417,476	38,934,035	7.77
1 year to 3 years	35,475,000	35,841,489	36,290,763	7.63
3 years to 5 years	39,700,000	40,129,662	40,870,364	7.80
Beyond 5 years	35,110,850	36,901,704	36,441,101	8.15
	146,413,330	149,290,331	152,536,263	
Certificates of deposit issued by the Central Bank of Lebanon:				
3 years to 5 years	8,000,000	8,060,153	8,174,105	7.50
5 years to 10 years	46,000,000	48,024,515	48,503,721	7.98
	54,000,000	56,084,668	56,677,826	
	200,413,330	205,374,999	209,214,089	

Contractual Maturity	December 31, 2015 LBP Base Accounts Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	Yield %
Lebanese treasury bills:				
- 1 year to 3 years	68,430,000	69,626,783	72,588,862	7.57
- 3 years to 5 years	71,700,000	72,645,938	74,223,538	7.58
- Beyond 5 years	27,516,350	28,338,311	28,853,481	8.00
	167,646,350	170,611,032	175,665,881	
Certificates of deposit issued by the Central Bank of Lebanon:				
- Up to 1 year	14,000,000	14,217,209	14,375,087	8.37
- 3 years to 5 years	11,000,000	11,147,561	11,363,482	7.50
- 5 years to 10 years	57,000,000	58,995,975	59,749,736	7.96
- Beyond 10 years	94,000,000	103,259,970	103,503,402	8.23
	176,000,000	187,620,715	188,991,707	
	343,646,350	358,231,747	364,657,588	

Contractual Maturity	December 31, 2016 F/Cy Base Accounts Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	Yield %
Lebanese Government bonds:				
Up to one year	3,610,463	3,627,505	3,540,486	7.31
1 year to 3 years	25,899,391	26,044,415	24,637,491	5.28
3 years to 5 years	25,627,500	26,155,564	24,725,864	6.16
5 years to 10 years	37,042,290	36,840,511	33,223,672	6.21
Beyond 10 years	22,974,300	23,017,107	19,806,222	6.65
	115,153,944	115,685,102	105,933,735	
Certificates of deposit issued by the Central Bank of Lebanon:				
3 years to 5 years	7,537,500	7,537,500	7,537,500	6.20
5 years to 10 years	226,426,500	230,535,419	226,426,500	6.36
Beyond 10 years	7,537,500	7,677,507	7,537,500	6.64
	241,501,500	245,750,426	241,501,500	
Corporate Bonds:				
Up to 1 year	7,160,625	7,136,765	7,160,625	5.99
1 year to 3 years	4,661,150	4,629,955	4,661,150	6.55
3 years to 5 years	3,153,771	3,153,771	3,153,771	7.33
5 years to 10 years	4,899,375	4,899,375	4,899,376	6.96
	19,874,921	19,819,866	19,874,922	
	376,530,365	381,255,394	367,310,157	

The remaining periods to maturity of financial assets at amortized cost, denominated in **Foreign Currencies** excluding accrued interest, is as follows:

Contractual Maturity	December 31, 2015 F/Cy Base Accounts Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	Yield %
Lebanese Government bonds:				
- 1 year to 3 years	33,323,829	33,903,255	33,001,233	6.59
- 3 years to 5 years	32,260,500	32,929,532	32,589,316	5.90
- 5 years to 10 years	39,686,445	40,247,355	38,582,630	6.52
- Beyond 10 years	44,597,880	44,650,498	44,763,268	6.80
	149,868,654	151,730,640	148,936,447	
Certificates of deposit issued by the Central Bank of Lebanon:				
- 3 years to 5 years	7,537,500	7,537,500	7,537,500	6.20
- 5 years to 10 years	63,616,500	67,538,542	67,943,025	6.43
- Beyond 10 years	7,537,500	7,687,992	7,688,250	6.63
	78,691,500	82,764,034	83,168,775	
Corporate Bonds:				
- Up to 1 year	184,838	184,838	184,838	7.00
- 1 year to 3 years	12,572,550	12,572,550	12,572,550	6.13
- 3 years to 5 years	780,048	780,048	780,048	7.00
- 5 years to 10 years	21,347,629	21,310,097	21,294,113	5.80
	34,885,065	34,847,533	34,831,549	
	263,445,219	269,342,207	266,936,771	

The movement of financial assets at amortized cost, denominated in **Lebanese Pounds** excluding accrued interest, is summarized as follows:

	2016 Lebanese Treasury Bills LBP'000	Certificates of Deposit Issued by the Central Bank of Lebanon LBP'000	Total LBP'000
Balance January 1	170,611,032	187,620,715	358,231,747
Additions	54,766,980	34,000,000	88,766,980
Swap and sales	(76,000,000)	(156,000,000)	(232,000,000)
Net variation in premium	(87,681)	(9,536,047)	(9,623,728)
Balance December 31	149,290,331	56,084,668	205,374,999

	2015		
	Lebanese Treasury Bills	Certificates of Deposit Issued by the Central Bank of Lebanon	Total
	LBP'000	LBP'000	LBP'000
Balance January 1	206,627,905	104,947,624	311,575,529
Additions	15,540,000	103,000,000	118,540,000
Redemptions	(18,550,000)	-	(18,550,000)
Swap and sales	(32,298,660)	(29,000,000)	(61,298,660)
Net variation in premium	(708,213)	8,673,091	7,964,878
Balance December 31	170,611,032	187,620,715	358,231,747

The movement of financial assets at amortized cost, denominated in **Foreign Currencies** excluding accrued interest, is summarized as follows:

	2016			
	Lebanese Government Bonds	Certificates of Deposit Issued by the Central Bank of Lebanon	Certificates of Deposit Issued by Banks and Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	151,730,640	82,764,034	34,847,533	269,342,207
Additions	42,653,467	22,160,250	11,758,500	76,572,217
Redemptions	(17,758,350)	-	(22,107,003)	(39,865,353)
Swap and sales	(59,609,827)	140,649,750	(4,611,290)	76,428,633
Net variation in premium	(1,330,828)	176,392	(17,524)	(1,171,960)
Exchange difference	-	-	(50,350)	(50,350)
Balance December 31	115,685,102	245,750,426	19,819,866	381,255,394

	2015			
	Lebanese Government Bonds	Certificates of Deposit Issued by the Central Bank of Lebanon	Certificates of Deposit Issued by Banks and Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	78,134,242	81,079,537	33,522,244	192,736,023
Reclassification from fair value to amortized cost	22,699,935	25,627,500	-	48,327,435
Additions	93,091,140	30,451,500	8,566,065	132,108,705
Redemptions	(11,946,938)	-	(5,106,487)	(17,053,425)
Swap and sales	(29,652,525)	(56,199,600)	(2,095,425)	(87,947,550)
Net variation in premium	(595,214)	1,805,097	(38,864)	1,171,019
Balance December 31	151,730,640	82,764,034	34,847,533	269,342,207

Gain from derecognition of financial assets at amortized cost consists of the following:

	Year Ended December 31,	
	2016	2015
	LBP'000	LBP'000
Lebanese treasury bills	588,800	987,527
Certificates of deposit issued by the Central Bank of Lebanon	1,116,680	1,242,976
Lebanese Government bonds	203,527	323,998
Corporate bonds issued by banks	25,790	20,955
	1,934,797	2,575,456

During the year 2016, the Group entered into several sales transactions of Lebanese Treasury bills, Lebanese Government bonds, and certificates of deposit issued by the Central Bank of Lebanon and by banks of aggregate carrying value of LBP33billion, LBP54.4billion, LBP64billion and LBP4.6billion, respectively.

During the year 2015, the Group entered into several sales transactions of Lebanese Treasury bills, Lebanese Government bonds, and certificates of deposit issued by the Central Bank of Lebanon and by banks of aggregate carrying value of LBP33billion, LBP27.5billion, LBP87.4billion and LBP2.1billion, respectively.

The Group entered into the above transactions for the purpose of liquidity management.

During the year 2016, the Bank entered into sales transactions of Lebanese Treasury bills and certificates of deposit denominated in Lebanese Pounds designated between fair value through profit or loss and amortized cost securities and having a nominal value of LBP37billion and LBP80.5billion, respectively concluded in conjunction with the acquisition of certificates of deposit denominated in U.S. Dollars with longer maturity designated between fair value through profit or loss and amortized cost with a nominal value of USD21million and USD57million respectively. The resulting surplus of the inter-related transactions derived from the special and non-conventional arrangement with the regulator, in the amount of LBP41.25billion was deferred net of tax in the amount of LP6.19billion deferred under "Regulatory deferred liability" under "Other liabilities" (Note 22).

12. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

13. INVESTMENT IN AN ASSOCIATE

	Country of Incorporation	Interest Held %	December 31, 2016 Carrying Value LBP'000	December 31, 2015 Carrying Value LBP'000
Banque Bemo Saudi Fransi S.A.	Syria	22	18,052,156	17,645,342
			18,052,156	17,645,342

The movement of investment in an associate is as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	17,645,342	18,860,293
Share in profit of an associate (Note 37)	1,074,343	189,633
Currency translation adjustment for the year	(667,529)	(1,407,841)
Prior years adjustment	-	3,257
Balance December 31	18,052,156	17,645,342

The movement of the currency translation adjustment for the years 2016 and 2015 is as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	23,440,267	22,032,426
Additions	667,529	1,407,841
Offset against surplus derived from special and non-conventional deals arrangement with the regulator (Note 22(b))	(24,107,796)	-
Balance December 31	-	23,440,267

Banque Bemo Saudi Fransi S.A. is a material associate of the Group. The summarized consolidated financial statements of the associate are provided below:

	2016 LBP'000	2015 LBP'000
Total Assets	684,060,771	770,318,449
Total Liabilities	601,260,079	689,562,382
Equity of the group	82,344,937	80,206,105
Equity attributable to non-controlling interests	455,755	549,962
Profit for the year of the group	30,032,075	29,780,378
Profit attributable to non-controlling interests	97,939	104,490

Summarized consolidated statement of profit or loss:

	Year Ended December 31,	
	2016 LBP'000	2015 LBP'000
Interest income	19,444,234	21,443,388
Interest expense	(5,251,800)	(6,944,825)
Fee and commission income	4,731,713	7,818,047
Fee and commission expense	(200,558)	(525,397)
Administrative expenses	(4,619,876)	(5,016,493)
Staff costs	(8,914,820)	(10,392,175)
Provision for doubtful debts	(2,208,676)	(5,898,233)
Others	2,290,774	482,148
	5,270,991	966,460
Unrealized gain on capital revaluation	24,859,023	28,918,408
	30,130,014	29,884,868

Summarized consolidated statement of financial position:

	December 31,	
	2016	2015
	LBP'000	LBP'000
Assets		
Cash and central banks	139,367,528	189,852,340
Deposits with banks and financial institutions	399,802,784	206,302,410
Trading assets at fair value through profit or loss	1,629,824	2,069,803
Loans to banks and financial institutions	100,886,577	163,876,149
Investment securities	12,791,243	164,607,339
Fixed assets	14,201,194	19,416,522
Others	15,381,621	24,193,886
	684,060,771	770,318,449
Liabilities		
Deposits from banks	26,995,235	29,308,980
Customers' accounts at amortized cost	540,521,584	619,090,105
Others	33,743,260	41,163,297
	601,260,079	689,562,382

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

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

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these assets should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non performing loans' portfolio are met. This regulatory reserve is reflected under equity. In this connection, an amount of LBP102million was appropriated in 2016 from 2015 income (LBP113million in 2015). An amount of LBP68million was transferred in 2015 to "Reserves from disposal of assets acquired in satisfaction of loans" upon the sale of the related foreclosed assets (Note 28).

During 2015, the Group sold assets acquired in satisfaction of loans whose aggregate carrying value amounted to LBP213million as at the sale date. As a result, the Group recognized capital gain in the amount of LBP807million recorded under "Other operating income/(loss)" (Note 37) in the consolidated statement of profit or loss for the year ended December 31, 2015.

15. PROPERTY AND EQUIPMENT

	Land LBP'000	Buildings LBP'000	Furniture LBP'000	Computer Equipment LBP'000	Vehicles LBP'000	Installations and Leasehold Improvement LBP'000	Advances on Capital Expenditures LBP'000	Total LBP'000
Gross amount:								
Balance, January 1, 2015	7,222,927	6,265,992	2,378,246	6,148,979	762,962	9,066,023	8,805	31,853,934
Additions	-	1,118,612	42,550	495,489	376,165	297,773	206,980	2,537,569
Disposals	-	-	(56,480)	(259,392)	(222,528)	(252,817)	-	(791,217)
Transfers between categories	-	-	-	564	-	8,241	(8,805)	-
Balance, December 31, 2015	7,222,927	7,384,604	2,364,316	6,385,640	916,599	9,119,220	206,980	33,600,286
Additions	-	1,008,280	186,871	647,364	131,893	76,414	6,491,734	8,542,556
Disposals	-	-	(34,165)	(273,808)	(113,958)	(6,590)	-	(428,521)
Transfers between categories	-	52,762	-	-	-	-	(52,762)	-
Balance, December 31, 2016	7,222,927	8,445,646	2,517,022	6,759,196	934,534	9,189,044	6,645,952	41,714,321
Accumulated depreciation:								
Balance, January 1, 2015	-	1,410,668	1,913,005	4,791,936	503,283	7,902,102	-	16,520,994
Additions	-	160,773	115,077	396,525	91,291	397,985	-	1,161,651
Write-off on disposal	-	-	(55,203)	(249,816)	(222,528)	(252,814)	-	(780,361)
Balance, December 31, 2015	-	1,571,441	1,972,879	4,938,645	372,046	8,047,273	-	16,902,284
Additions	-	196,442	111,927	463,401	110,579	316,678	-	1,199,027
Write-off on disposal	-	-	(32,741)	(272,694)	(42,711)	(6,588)	-	(354,734)
Balance, December 31, 2016	-	1,767,883	2,052,065	5,129,352	439,914	8,357,363	-	17,746,577
Carrying amount:								
December 31, 2016	7,222,927	6,677,763	464,957	1,629,844	494,620	831,681	6,645,952	23,967,744
December 31, 2015	7,222,927	5,813,163	391,437	1,446,995	544,553	1,071,947	206,980	16,698,002

The addition to advances on capital expenditures during the year 2016 in the amount of LBP6.5billion, represents an advance payment on plot number 660 located in Medawar for the purpose of building the Bank's head quarters.

The addition to buildings during the year 2016 in the amount of LBP1billion, fully settled during the year, represents the purchase of plot number 1331 section 5 and 6 located in Rabieh for the purpose of expanding Rabieh Branch.

The addition to buildings during the year 2015 in the amount of LBP1.12million, fully settled during the year, represents the purchase of plot number 1331 section 4 located in Rabieh for the purpose of expanding Rabieh branch.

16. INTANGIBLE ASSETS

	Purchased Software
	LBP'000
Cost:	
Balance, January 1, 2015	3,878,052
Acquisitions	158,380
Balance, December 31, 2015	4,036,432
Acquisitions	683,068
Disposals	(3,789)
Balance, December 31, 2016	4,715,711
Amortization:	
Balance, January 1, 2015	3,151,813
Amortization of the year	266,418
Balance, December 31, 2015	3,418,231
Amortization of the year	319,591
Disposals	(3,789)
Balance, December 31, 2016	3,734,031
Carrying Amount:	
December 31, 2016	981,680
December 31, 2015	618,201

17. OTHER ASSETS

	December 31	
	2016	2015
	LBP'000	LBP'000
Exchange difference on fixed exchange position	302,578	302,578
Fair value of forward exchange contracts	4,425,698	-
Stamps	86,033	41,784
Deferred charges	13,594	24,239
Receivables from securitization operations	338,928	840,106
Receivables from an associate bank and a financial institution	731,401	983,283
Prepayments	1,588,510	1,048,475
Sundry accounts receivable (Net of provision)	5,438,152	5,002,792
	12,924,894	8,243,257

Provision for doubtful receivables of LBP287.45million was set up during 2016 against receivables from the National Social Security Fund (LBP313.29million for the year 2015). Total provision as at December 31, 2016 amounts to LBP855million (LBP532million as at December 31, 2015).

Receivables from an associate bank and a financial institution represent amounts paid by the Group on behalf of these related entities.

18. DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

	December 31, 2016			December 31, 2015		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Current deposits of banks and financial institutions	2,130	822,829	824,959	57,874	688,965	746,839
Current deposits - Related parties	-	76,822,551	76,822,551	-	16,394,611	16,394,611
Money market deposits	9,552,000	-	9,552,000	26,929,500	12,060,000	38,989,500
Money market deposits - Related parties	-	25,526,936	25,526,936	-	28,439,451	28,439,451
Pledged deposits (Note 8)	12,530,000	-	12,530,000	25,500,000	-	25,500,000
Accrued interest payable	1,340,485	54,181	1,394,666	1,278,158	3,058	1,281,216
	23,424,615	103,226,497	126,651,112	53,765,532	57,586,085	111,351,617

19. CUSTOMERS' ACCOUNTS AT AMORTIZED COST

	December 31, 2016		
	LBP	Counter Value in LBP of F/Cy	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers:			
Current and demand deposits	55,328,764	308,331,397	363,660,161
Term deposits	244,134,811	1,272,446,294	1,516,581,105
Collateral against loans and advances	25,587,680	138,002,595	163,590,275
Margins and other accounts:			
Margins for irrevocable import letters of credit.	-	224,024	224,024
Margins on letters of guarantee	578,989	3,338,476	3,917,465
Other margins	50,150	12,421,892	12,472,042
Margins on trading transactions	380,134	8,193,480	8,573,614
Accrued interest payable	2,914,064	6,259,278	9,173,342
Total	328,974,592	1,749,217,436	2,078,192,028

	December 31, 2015		
	LBP	Counter Value in LBP of F/Cy	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers:			
- Current and demand deposits	37,427,952	272,607,087	310,035,039
- Term deposits	289,148,423	1,130,447,643	1,419,596,066
- Collateral against loans and advances	28,644,802	151,028,261	179,673,063
Margins and other accounts:			
- Margins for irrevocable import letters of credit	-	308,404	308,404
- Margins on letters of guarantee	448,730	1,587,513	2,036,243
- Other margins	59,050	15,696,623	15,755,673
- Margins on trading transactions	165,134	13,594,316	13,759,450
Accrued interest payable	3,404,893	5,382,078	8,786,971
Total	359,298,984	1,590,651,925	1,949,950,909

Deposits from customers are allocated by brackets of deposits as follows:

	December 31, 2016		
	Total Deposits	% to Total Deposits	% to Total No. of Customers
	LBP'000	%	%
Less than LBP200million	148,199,335	7.13	72.66
From LBP200million to LBP1.5billion	622,353,910	29.95	21.94
Over LBP1.5billion	1,307,638,783	62.92	5.40
	2,078,192,028	100.00	100.00

	December 31, 2015		
	Total Deposits	% to Total Deposits	% to Total No. of Customers
	LBP'000	%	%
- Less than LBP200million	157,993,332	8.10	74.08
- From LBP200million to LBP1.5billion	638,305,555	32.74	21.19
- Over LBP1.5billion	1,153,652,022	59.16	4.73
	1,949,950,909	100.00	100.00

Term deposits as at December 31, 2016 include fiduciary deposits received from a non-resident related party bank in the amount of LBP19.15billion (LBP2.22billion as at December 31, 2015).

The average balances of customers' deposits at amortized cost, including related party deposits, and related cost of funds over the last 3 years were as follows:

	LBP Base Accounts		F/Cy Base Accounts		
	Average Balance of Deposits	Average Interest Rate	Average Balance of Deposits	Average Interest Rate	Cost of Funds
	LBP'000	%	LBP'000	%	LBP'000
2016	347,215,150	6.17	1,715,030,692	3.03	73,312,232
2015	334,869,820	6.17	1,572,101,089	2.86	66,431,464
2014	304,486,256	6.11	1,562,183,916	2.65	60,001,984

20. RELATED PARTIES' ACCOUNTS AT AMORTIZED COST

	December 31, 2016		
	LBP'000	Counter Value in LBP'000 of F/Cy	Grand Total LBP'000
Deposits from related party customers:			
- Current and demand deposits	3,689,077	27,764,272	31,453,349
- Term deposits	930,518	74,784,894	75,715,412
Margins and other accounts:			
- Margins on letters of guarantee	-	3,501,730	3,501,730
Accrued interest payable	2,176	280,867	283,043
Total	4,621,771	106,331,763	110,953,534

	December 31, 2015		
	LBP'000	Counter Value in LBP'000 of F/Cy	Grand Total LBP'000
Deposits from related party customers:			
- Current and demand deposits	3,787,204	39,830,994	43,618,198
Term deposits	632,023	44,183,428	44,815,451
Margins and other accounts:			
- Margin on letters of guarantee	-	35,567	35,567
- Margins for irrecoverable import letters of guarantee	-	156,780	156,780
Accrued interest payable	1,932	372,586	374,518
Total	4,421,159	84,579,355	89,000,514

Deposits from related parties at amortized cost are allocated by brackets of deposits as follows:

	December 31, 2016	
	Total Deposits LBP'000	% to Total Deposits %
- Less than LBP500million	5,776,304	5.21
- From LBP500million to LBP1.5billion	9,432,564	8.50
- Over LBP1.5billion	95,744,666	86.29
	110,953,534	100.00

	December 31, 2015	
	Total Deposits LBP'000	% to Total Deposits %
- Less than LBP500million	7,010,427	7.88
- From LBP500million to LBP1.5billion	11,752,139	13.20
- Over LBP1.5billion	70,237,948	78.92
	89,000,514	100.00

21. OTHER TERM BORROWINGS

Other term borrowings, represent borrowing from Central Bank of Lebanon in LBP being facilities in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans the Group has granted, at its own risk, to its customers, pursuant to certain conditions, rules and mechanism.

22. OTHER LIABILITIES

	December 31	
	2016	2015
	LBP'000	LBP'000
Current tax liability (a)	8,889,827	2,102,204
Deferred tax liability	501,838	501,838
Withheld tax on salaries	539,505	487,747
Withheld tax on interest	543,241	589,286
Due to the National Social Security Fund	334,801	503,000
Checks and incoming payment orders in course of settlement	1,808,437	611,281
Accrued expenses	2,410,778	1,518,359
Payable to a related party	724,854	1,251,656
Sundry accounts payable	2,074,296	1,284,557
Forward exchange contracts	-	2,964,333
Regulatory deferred liability (b)	10,952,921	-
Other	2,079,969	1,696,172
	30,860,467	13,510,433

(a) The determination of income tax of the Bank is presented as follows:

	2016	2015
	LBP'000	LBP'000
Profit before income tax	28,535,502	23,491,687
Add: Non-deductible expenses/losses	4,420,961	2,655,570
Less:		
- Non-taxable revenues/gains	(1,058,902)	(471,570)
- Income of Cyprus branch and subsidiaries	(764,718)	(1,077,211)
Taxable income for the year	31,132,843	24,598,476
Enacted tax rate in Lebanon	15%	15%
	4,669,926	3,689,771
Add: Income tax provision - branches and subsidiaries	120,266	301,770
Income tax expense	4,790,192	3,991,541
Less: Tax paid during the year in the form of withholding tax	(1,992,672)	(1,701,675)
Less: Cyprus income tax paid during the year	(102,248)	(195,032)
	2,695,272	2,094,834
Brought forward balance from non-resident branch	7,370	7,370
	2,702,642	2,102,204
Tax on surplus derived from non-conventional deal arrangements with the regulator(Note 22(b))	6,187,185	-
Current tax liability	8,889,827	2,102,204

During 2015, the Bank's tax returns for fiscal years 2010 to 2013 were reviewed and assessed by the tax authorities. The outcome of this review resulted in tax penalties relevant to fiscal years 2010 and 2011, in the amount of LBP204million accrued for during 2015 and fully settled during the first quarter of 2016.

The outcome of the review of the Bank's tax returns for fiscal years 2012 and 2013 is still pending.

The Bank's tax returns since fiscal years 2014 to 2016 remain subject to review and assessment by the tax authorities. Any additional liability depends on the outcome of these review.

The tax returns of the Group's Lebanese subsidiaries since fiscal year 2012 remain subject to review and assessment by the tax authorities. Any additional liability depends on the outcome of these reviews.

(b) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from the sale of treasury bills in Lebanese Pound against investment in medium and long term certificates of deposit in foreign currency issued by the Central Bank of Lebanon under deferred liability, which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks, and that in anticipation of the implementation of IFRS 9 for Impairment, as and when quantified effective January 1, 2018, in addition to appropriation to offset any impairment losses of goodwill and investments in associates.

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 LBP41.25billion recorded under "Regulatory deferred liability", net of tax in the amount of LBP6.19billion (Note 11). Furthermore, in accordance with the above mentioned Circular, the Group appropriated an amount of LBP24.11billion to offset currency translation losses incurred from the investment in an associate (Note 13). The remaining balance of LBP10.95billion is deferred in accordance with the above-mentioned circular to be appropriated to collective provision for credit risks. The Group will appropriate the shortage in the amount of LBP5.65billion from free reserves in 2017, to constitute the minimum 2% of weighted credit risks stipulated in the circular number 446 referred to above.

23. PROVISIONS

Provisions consist of the following:

	December 31	
	2016	2015
	LBP'000	LBP'000
Provision for staff end-of-service indemnity	4,152,995	4,164,596
Provision for contingencies	2,986,452	1,520,729
Provision for loss on foreign currency position	357,200	357,464
	7,496,647	6,042,789

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

	2016 LBP'000	2015 LBP'000
Balance January 1	4,165,596	4,160,953
Additions (Note 38)	941,970	378,854
Settlements	(950,444)	(365,708)
Exchange difference	(4,127)	(9,503)
Balance December 31	4,152,995	4,164,596

The movement of the provision for contingencies was as follows:

	2016 LBP'000	2015 LBP'000
Balance January 1	1,520,729	2,729,479
Additions	1,976,728	960,305
Write-back	(452,250)	(2,031,872)
Settlements	(58,755)	(137,183)
Balance December 31	2,986,452	1,520,729

During 2015, the Group wrote-back provision for contingencies in the amount of USD1,311,000 (LBP1.98billion) previously set-up by the Group in 2002 following a lawsuit filed by a non-resident correspondent bank against the branch in Limassol, Cyprus, as legal counsel of the Group is of the opinion that there will not be any effect on the Group. The approval of the Banking Control Commission was obtained on June 5, 2015.

24. SUBORDINATED BONDS

This caption consists of the following:

	December 31	
	2016 LBP'000	2015 LBP'000
Subordinated bonds	37,687,500	37,687,500
	37,687,500	37,687,500

The exceptional general assembly of shareholders approved in its meeting held on October 24, 2014 the issuance of subordinated bonds in the amount of USD25million divided into 2,500 bonds of USD10,000 nominal value each. These bonds were issued on December 15, 2014 and mature on January 4, 2021 and are subject to an annual interest rate of 6% payable on December 31 and June 30 of each year.

Interest expense on subordinated bonds for the year ended December 31, 2016 amounting to LBP2.27billion is recorded under "Interest expense" in the consolidated statement of profit or loss (LBP2.26billion for the year ended December 31, 2015) (Note 33).

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

25. SHARE CAPITAL

The Bank's capital as at December 31, 2016 is composed of 62,000,000 issued shares of LBP1,004 each (62,000,000 shares of LBP1,004 each as at December 31, 2015) authorized and fully paid and divided as follows:

- Listed Shares : 51,400,000
- Unlisted Shares : 10,600,000

The movement of treasury shares during 2016 and 2015 was as follows:

	2016		2015	
	# of Shares	Amount LBP'000	# of Shares	Amount LBP'000
Balance - January 1	568,428	2,696,018	439,814	2,344,459
Acquisition	95,857	235,897	130,114	355,855
Sales	-	-	(1,500)	(4,296)
Balance - December 31	664,285	2,931,915	568,428	2,696,018

26. PREFERRED SHARES

On December 19, 2013, the Group issued Non-cumulative Perpetual Preferred Shares in the amount of USD35million (LBP52billion) on the basis of 350,000 shares at USD100. The Group offered discounts to preferred shares subscribers for the aggregate amount of USD80,960 (USD 122million). These preferred shares generate benefits at an annual rate of 7%.

27. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

This caption represents capital injection of USD19,306,789 made by shareholders, in the form of shareholders' cash contribution to capital, each to the extent of his/her shareholding in the Group's equity. Effective 2011, the General Assembly of shareholders approved to call-off interest on cash contribution to capital.

This type of equity instrument consists of non-refundable capital injection which could be converted into share capital and it has the advantage of being booked and maintained in foreign currencies which allows for hedging against national currency fluctuation.

28. RESERVES

	December 31	
	2016	2015
	LBP'000	LBP'000
Legal reserve (a)	6,846,103	5,048,091
Reserve for general banking risks (b)	31,904,035	26,523,875
General reserve for performing loans (c)	4,054,500	1,500,000
Reserve for assets acquired in satisfaction of loans - Note 14	869,957	767,610
Reserve from disposal of assets acquired in satisfaction of loans - Note 14	182,080	182,080
Free reserves	6,208,597	5,518,363
	50,065,272	39,540,019

(a) In accordance with the requirements of the Lebanese Money and Credit Law, the Group transfers since its inception 10% of its net income to the legal reserve account. This reserve is not available for distribution.

(b) The reserve for general banking risks is constituted according to local banking regulations from income on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. The 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. This reserve is constituted in Lebanese Pounds and in foreign currencies to the extent of LBP2.84billion and LBP29billion, respectively, in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

(c) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Bank is required to transfer from net profit 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 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.

29. NON-CONTROLLING INTERESTS

	December 31	
	2016	2015
	LBP'000	LBP'000
Equity	198,619	189,174
(Loss)/profit for the year	(97,478)	9,445
	101,141	198,619

30. PROFIT FOR THE YEAR

The consolidated profit for the year is allocated as follows between the Bank and its subsidiaries:

	Year Ended December 31, 2016		
	Group's Share	Non-Controlling Interests	Total
	LBP'000	LBP'000	LBP'000
Profit of the Bank	23,752,848	-	23,752,848
Profit/(loss) of subsidiaries:			
Bemo Securitization S.A.L.	363,421	-	363,421
Depository and Custody Company S.A.L.	19,009	19	19,028
Bemo Investment Firm Ltd.	(292,490)	(97,497)	(389,987)
Total	23,842,788	(97,478)	23,745,310

	Year Ended December 31, 2015		
	Group's Share	Non-Controlling Interests	Total
	LBP'000	LBP'000	LBP'000
Profit of the Bank	21,079,495	-	21,079,495
Profit/(Loss) of subsidiaries:			
Bemo Securitization S.A.L.	(1,694,765)	-	(1,694,765)
Depository and Custody Company S.A.L.	77,871	78	77,949
Bemo Investment Firm Ltd.	28,100	9,367	37,467
Total	19,490,701	9,445	19,500,146

31. DIVIDENDS PAID

	2016 LBP'000	2015 LBP'000
LBP60 per common share paid by the Bank in 2016 (LBP50 per share in 2015)	3,683,102	3,100,000
USD7 per preferred share paid by the Bank in 2016 (USD7 per share in 2015)	3,693,375	3,693,375
	7,376,477	6,793,375

32. INTEREST INCOME

	Year Ended December 31	
	2016 LBP'000	2015 LBP'000
Interest income from:		
Term deposits with Central Banks	7,446,353	5,889,369
Deposits with banks and financial institutions	1,035,206	824,271
Deposits with related party banks and financial institutions	417,962	135,307
Financial assets at amortized cost	39,607,051	34,068,580
Loans to banks and financial institutions - Note 8	1,091,513	1,109,149
Loans under reverse repurchase agreements - Note 8	271,948	1,620,951
Loans and advances to customers	66,653,265	64,020,907
Loans and advances to related parties	47,606	63,618
Interest realized on impaired loans and advances to customers - Note 9	184,147	135,686
	116,755,051	107,867,838

Interest income on the Group's trading portfolio is included under "net interest and other gains/(losses) on financial assets at fair value through profit or loss" (Note 36).

33. INTEREST EXPENSE

	Year Ended December 31	
	2016 LBP'000	2015 LBP'000
Interest expense on:		
Deposits and borrowings from banks and financial institutions	2,917,157	3,311,182
Deposits and borrowings from related party banks and financial institutions	743,501	334,716
Other term borrowings	-	86,962
Customers' accounts at amortized cost	71,110,425	65,108,952
Related parties' accounts at amortized cost	2,201,807	1,322,512
Subordinated bonds - Note 24	2,267,445	2,261,250
	79,240,335	72,425,574

34. FEE AND COMMISSION INCOME

	Year Ended December 31	
	2016	2015
	LBP'000	LBP'000
Commission on documentary credits	756,945	1,205,505
Commission on letters of guarantee	1,225,747	999,065
Commission on customers' securities transactions (a)	9,568,516	-
Commission on other customers' transactions	1,283,864	1,228,093
Service fees on customers' transactions	6,990,452	5,866,119
Other	350,411	452,718
	20,175,935	9,751,500

(a) The Group's customers entered into sales transaction of certificates of deposits in Lebanese Pounds against purchase of Lebanese Government bonds in U.S. Dollars with the regulator and as a result, the Group recorded commissions in the amount of LBP9.57billion,

35. FEE AND COMMISSION EXPENSE

	Year Ended December 31	
	2016	2015
	LBP'000	LBP'000
Commission on transactions with banks	224,899	226,316
Other	85,058	150,643
	309,957	376,959

36. NET INTEREST AND OTHER GAINS / (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year Ended December 31	
	2016	2015
	LBP'000	LBP'000
Dividends received on equity securities	243,218	260,776
Interest received on debt securities	4,731,043	4,952,880
Unrealized loss	(2,721,584)	(162,251)
Realized gain	2,279,066	1,654,978
	4,531,743	6,706,383

37. OTHER OPERATING INCOME/(LOSS), (NET)

	Year Ended December 31	
	2016	2015
	LBP'000	LBP'000
Dividends on financial assets at fair value through other comprehensive income	53,603	44,669
Share in profit of an associate (Note 13)	1,074,343	189,633
Revenues and commissions from securitization operations	3,319,930	1,688,506
Gain from sale of assets acquired in satisfaction of loans (Note 14)	-	807,816
Others	262,049	234,385
	4,709,925	2,965,009

38. STAFF COSTS

	Year Ended December 31	
	2016	2015
	LBP'000	LBP'000
Salaries and related charges	19,640,565	18,105,071
Social Security contributions	2,037,992	2,095,250
Provision for employees' end-of-service indemnities (net) (Note 23)	941,970	378,854
	22,620,527	20,579,175

39. ADMINISTRATIVE EXPENSES

	Year Ended December 31	
	2016	2015
	LBP'000	LBP'000
Travel and entertainment	257,073	241,191
Advertisement and publicity	1,387,628	804,057
Professional fees	4,292,888	4,688,603
Maintenance and repairs	1,468,335	1,277,961
Electricity and fuel	354,564	336,197
Telephone expenses	499,021	484,789
Printing and stationary	325,626	333,495
Rent and building services	2,098,555	1,963,457
Insurance	266,995	270,744
Subscriptions	1,574,544	1,380,831
Gifts and donations	457,136	208,125
Fees and taxes	965,880	1,108,175
Other	1,736,171	1,691,763
	15,684,416	14,789,388

40. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

The following table shows the income and share data used in the basic earnings per share calculation:

	2016 LBP'000	2015 LBP'000
Number of common shares outstanding during the year	62,000,000	62,000,000
Weighted average number of treasury shares	(621,628)	(558,712)
Weighted average number of common shares adjusted for the effect of treasury shares	61,378,372	61,441,288

	2016 LBP'000	2015 LBP'000
Net profit attributable to equity holders of the Group	23,842,788	19,490,701
Less dividends to preferred shares	(3,693,375)	(3,693,375)
Net profit attributable to equity holders of the Group	20,149,414	15,797,326
Basic earnings per share in LBP	328/28	257/11
Diluted earnings per share in LBP	328/28	257/11

41. 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 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.

Forward exchange contracts outstanding as of December 31, 2016 and 2015 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers.

42. FIDUCIARY DEPOSITS

	December 31	
	2016	2015
	Resident Customers	Resident Customers
	LBP'000	LBP'000
Fiduciary deposits from customers invested in certificates of deposit issued by the Central Bank of Lebanon	-	1,035,653
Fiduciary deposits from customers invested in other banks	30,977,402	20,313,226
Fiduciary deposits from related parties invested in loans granted to related party companies	14,195,935	3,015,000
Fiduciary deposits from customers invested in loans granted to other customers	24,120	16,023,973
	45,197,457	40,387,852

43. BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Balances with related parties excluding accrued interest and balances eliminated on consolidation consist of the following:

	December 31	
	2016	2015
	LBP'000	LBP'000
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
- Secured loans and advances	602,802	654,741
- Unsecured loans and advances	1,440,138	756,373
- Deposits	42,076,774	17,496,019
Associated companies:		
Direct facilities and credit balances:		
- Unsecured loans and advances	603,405	444,757
- Deposits	68,876,760	71,504,495
Indirect facilities:		
- Letters of guarantee	2,497,669	29,496

Interest rates charged on balances outstanding are the same as applicable rates that would be charged in an arm's length transaction. Secured loans and advances are covered by real estate mortgages to the extent of LBP678million as at December 31, 2016 (LBP448million as at December 31, 2015).

The remuneration of executive management amounted to LBP2.51billion during 2016 (LBP2.16billion during 2015).

44. CASH AND CASH EQUIVALENTS

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

	December 31,	
	2016	2015
	LBP'000	LBP'000
Cash	9,015,076	9,585,724
Current accounts with Central Banks (excluding compulsory reserve)	34,771,506	65,590,519
Term placements with Central Bank of Lebanon	161,762,500	20,552,500
Checks for collection and current accounts with banks and financial institutions	159,267,138	72,846,079
Term placements with banks and financial institutions	68,562,537	26,986,988
	433,378,757	195,561,810

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

45. COLLATERAL GIVEN

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

	December 31, 2016		
	Pledged Amount	Nature of Facility	Amount of Facility
	LBP'000		LBP'000
Deposits with banks and financial institutions	65,301,776	Forward contracts	57,653,925
		Options and swaps	29,874,806
		Acceptances less than one year	1,296,318
	65,301,776		

	December 31, 2015		
	Pledged Amount	Nature of Facility	Amount of Facility
	LBP'000		LBP'000
Deposits with banks and financial institutions	72,742,005	Forward contracts	179,416,597
		Options and swaps	41,005,459
		Acceptances less than one year	9,140,342
	72,742,005		

46. PARTLY - OWNED SUBSIDIARY

Bemo Invest Firm Ltd. is a partly owned subsidiary of the Group. Financial information of the subsidiary are provided below:

	2016	2015
	%	%
Portion of equity interests held by non-controlling interests	75	75

The summarized financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations:

	2016	2015
	LBP'000	LBP'000
Total Assets	1,443,075	2,705,302
Total Liabilities	1,039,019	1,911,258
Total Equity	404,056	794,044
(Loss)/profit for the year	(389,988)	37,466

	Year Ended December 31,	
	2016	2015
	LBP'000	LBP'000
Fee and commission income	353,418	687,129
Commission expense	(4,314)	(5,069)
Administrative expenses	(463,889)	(384,470)
Staff Costs	(274,682)	(259,290)
Depreciation and amortization	(521)	(834)
	(389,988)	37,466

Summarized statement of financial position:

	Year Ended December 31,	
	2016	2015
	LBP'000	LBP'000
Assets		
Deposits with banks and financial institutions	1,116,355	1,256,590
Property and equipment	-	522
Other assets	326,720	1,448,190
	1,443,075	2,705,302
Liabilities		
Other liabilities	802,351	1,470,625
Provisions	236,668	440,633
	1,039,019	1,911,258

47. 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.

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

Pursuant to Central Bank Decision No 10848 dated December 7, 2011, adopted with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Ratio	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
	%	%	%	%
Common Equity Tier 1 ratio	8.00	8.5	9	10
Tier 1 ratio	10.00	11	12	13
Total Capital ratio	12.00	14	14.5	15

The Group's capital is split as follows:

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

Tier II capital: Comprises qualifying subordinated liabilities, cumulative favorable change in fair value through other comprehensive income and revaluation surplus of owned properties.

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

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

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

The Group's risk based capital ratio according to Central Bank of Lebanon directives and Basel III as of December 31, 2016 and 2015, is as follows:

	December 31,	
	2016	2015
	LBP million	LBP million
Risk-weighted assets	1,735,782	1,563,724
Credit risk	1,544,134	1,447,389
Market risk	88,601	24,588
Operational risk	103,047	91,747
Common equity Tier I (net)	180,385	135,521
Tier I capital (including reserve for assets acquired in satisfaction of loans)	232,925	188,162
Tier II capital	37,688	37,688
Total capital	270,613	225,850
Capital adequacy ratio - Common Equity Tier I	10.39%	8.67%
Capital adequacy ratio - Tier I	13.42%	12.03%
Capital adequacy ratio - Tier I and Tier II	15.59%	14.44%

The Group's capital strategy is based on the following constraints:

- Comply with regulatory ratios, on individual and consolidated basis, primarily in respect of the Capital Adequacy Ratio under Central Bank of Lebanon directives and Basle III.
- Ensure a high Return on Equity for the common shareholders.
- Dividends payout policy is consistent to provide shareholders with acceptable dividend yield.

The Group's total equity funding consists of the following:

	Balances		Variation	
	December 31,			
	2016	2015	Amount	%
	LBP'000	LBP'000	LBP'000	
Equity allotted to common shares	189,713,253	150,042,572	32,670,681	26.44
Preferred shares	52,641,854	52,641,854	-	-
Subordinated bonds	37,687,500	37,687,500	-	-
Total equity	280,042,607	240,371,926		

48. SEGMENT INFORMATION

The Group's operating segments are organized as follows: Lebanon and subsidiaries.
Measurement of segment assets, liabilities, income and expenses is based on the Group's accounting policies.
Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.
The Group has two reportable business segments which reflect the basis on which senior management reviews operations:

	December 31, 2016			December 31, 2015		
	Lebanon and Middle East	Cyprus	Inter-Segment	Lebanon and Middle East	Cyprus	Inter-Segment
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Total Assets	2,604,048,920	58,745,723	(12,244,289)	2,382,951,697	72,807,352	(12,505,310)
Total Liabilities	2,367,034,833	43,018,731	(1,959,458)	2,188,428,295	55,377,563	(3,435,164)
Total Equity	237,014,087	15,726,992	(10,284,831)	194,523,402	17,429,789	(9,070,146)
Profit for the year	23,093,321	651,989	-	17,145,354	2,354,792	-
ASSETS						
Cash and Central Banks	549,165,457	394,662	-	439,794,200	419,401	-
Deposits with banks and financial institutions	294,335,787	16,125,597	(12,244,289)	196,951,347	16,796,014	(12,505,310)
Financial assets at fair value through profit or loss	85,164,618	88,450	-	24,723,818	976,832	-
Loans to banks and financial institutions	17,512,310	-	-	48,867,483	-	-
Loans and advances to customers	1,022,637,222	15,290,001	-	998,844,145	17,425,640	-
Loans and advances to related parties	2,627,298	19,047	-	1,813,974	41,897	-
Investment securities	568,891,667	25,632,154	-	610,879,937	27,676,463	-
Investment in associate	18,052,156	-	-	17,645,342	-	-
Other	45,662,405	1,195,812	-	43,431,451	9,471,105	-
LIABILITIES						
Deposits and borrowings from banks	126,651,112	1,959,467	(1,959,467)	111,351,617	3,364,230	(3,364,230)
Customers' accounts at amortized cost	2,038,099,268	40,092,760	-	1,907,728,053	42,293,790	(70,934)
Related parties' accounts at amortized cost	110,944,857	8,677	-	88,560,214	440,300	-
Other term borrowings	9,315,863	-	-	7,530,780	-	-
Other	44,336,242	957,827	-	35,570,131	9,279,243	-
Subordinated bonds	37,687,500	-	-	37,687,500	-	-

	2016			2015		
	Lebanon and Middle East	Cyprus	Inter-Segment	Lebanon and Middle East	Cyprus	Inter-Segment
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Interest income	114,242,753	2,882,594	(370,296)	105,773,985	2,393,625	(299,772)
Interest expense	(78,541,791)	(1,068,840)	370,296	(71,814,322)	(911,024)	299,772
Net interest income	35,700,962	1,813,754	-	33,959,663	1,482,601	-
Fee and commission income	19,754,188	421,747	-	9,524,658	226,842	-
Fee and commission expense	(309,340)	(617)	-	(371,516)	(5,443)	-
Net fee and commission income	19,444,848	421,130	-	9,153,142	221,399	-
Net interest and other gain on trading assets at fair value through profit or loss	4,473,048	58,695	-	6,067,216	639,167	-
Gain on exchange	2,856,741	(55)	-	2,527,593	365	-
Gain from sale of assets at amortized cost	1,934,797	-	-	2,575,456	-	-
Other operating income	4,712,706	(2,781)	-	2,908,938	56,071	-
Net financial revenues	69,123,102	2,290,743	-	57,192,008	2,399,603	-
Allowance for impairment of loans and advances and other receivables, (net)	(1,631,622)	26,062	-	(196,273)	(319,183)	-
Write-back of provision/ (provision for) collectively assessed loans, (net)	-	-	-	140,597	-	-
Net financial revenues after net impairment charge	67,491,480	2,316,805	-	57,136,332	2,080,420	-
Staff costs	(22,264,895)	(355,632)	-	(20,242,094)	(337,081)	-
Administrative expenses	(14,550,489)	(1,133,927)	-	(13,762,908)	(1,026,480)	-
Depreciation and amortization	(1,460,449)	(58,169)	-	(1,377,505)	(50,564)	-
(Provision)/write-back of provision for contingencies, net	(1,449,222)	-	-	(904,766)	1,976,333	-
	(39,725,055)	(1,547,728)	-	(36,287,273)	562,208	-
Profit before income tax	27,766,425	769,077	-	20,849,059	2,642,628	-
Income tax expense	(4,673,104)	(117,088)	-	(3,703,705)	(287,836)	-
Profit for the year	23,093,321	651,989	-	17,145,354	2,354,792	-

49. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a risk management department and various committees to develop and monitor the Group's risk management policies and their implementation.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Regular review of risk management policies and systems to reflect changes in market conditions, products and services offered is the responsibility of the various committees and the Board of Directors. The Group, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

A. Credit Risk

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

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

1. Management of credit risk

The Group manages credit risk by developing policies and procedures that are regularly reviewed to ensure continuous effective credit risk management in light of changes in business strategy.

Credit risk management policies and practices define lending limits, credit approval authorization matrices, and risk identification and monitoring systems. The Group applies an internal rating system that takes into account criteria related to the borrower (e.g. nature of the activity, financial performance and structure, credit history, cash flows, projected financials and management) and to the credit quality (e.g. purpose, amount, tenor, collateral presented as a second way out). The Group also sets lending limits to a single obligor or a related group of obligors.

2. Measurement of credit risk

(a) Loans and advances

The Group assesses the probability of default of individual counterparties using internal rating tools. The Group's rating scale reflects the range of default probabilities defined for each rating class as explained below:

- **Special Mention /Vulnerable:** Loans and advances rated Watch List are loans that are not impaired but for which the Group determines that they require special monitoring.

- **Past due but not impaired:** Loans past due but not impaired are loans where contractual interest or principal are past due but the Group's management believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Group.

- **Substandard loans:** Substandard loans are loans that are inadequately protected by current sound worth and paying capacity of the obligor or by any collateral pledged in favor of the group. Exposures where an indication of the possibility that the Group will sustain a loss if certain irregularities and deficiencies are not addressed exists are classified under this category.

- **Doubtful loans:** Doubtful loans have, in addition to the weaknesses existing in substandard loans, characteristics indicating that current existing facts and figures make the collection in full highly improbable. The probability of loss is high but certain reasonable and specific pending factors which if addressed could strengthen the probability of collection, result in the deferral of the exposure as an estimated loss until a more exact status is determined.

- **Loss:** Loans classified as loss are considered as uncollectible and of such minimal value that their classification as assets is not warranted. This does not mean that the loan is absolutely unrecoverable or has no salvage value. However, the amount of loss is difficult to measure and the Group does not wish to defer the writing of the loan even partial recovery might occur in the future. Loans are charged off in the period in which they are deemed uncollectible and therefore classified as loss.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in its loan portfolio. The main component of its allowance are specific loss component that relate to individually significant exposures, and a minor part of a collective loan loss allowance established for retail and Small and Medium Enterprises (SME's) where there is objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

3. Risk mitigation policies

Collateral:

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

4. Financial assets with credit risk exposure and related concentrations

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

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

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

	December 31, 2016	
Bracket	**Total Amount**	**% to Total Deposits**
	LBP'000	**%**
Less than LBP5billion	34,117,340	11.44
From LBP5billion to LBP15billion	90,262,477	30.28
Over LBP15billion	173,751,634	58.28
	298,131,451	100.00

	December 31, 2015	
Bracket	**Total Amount**	**% to Total Deposits**
	LBP'000	**%**
Less than LBP5billion	25,441,436	12.65
From LBP5billion to LBP15billion	85,547,053	42.53
Over LBP15billion	90,161,378	44.82
	201,149,867	100.00

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

Bracket	December 31, 2016		
	No. of Counter Parties	Total Amount LBP'000	% to Total %
Less than LBP500million	958	67,201,149	6.47
From LBP500million to LBP5billion	272	456,868,373	43.98
Over LBP5billion	57	514,724,101	49.55
	1,287	1,038,793,623	100.00

Bracket	December 31, 2015		
	No. of Counter Parties	Total Amount LBP'000	% to Total %
Less than LBP500million	1,003	63,245,206	6.22
From LBP500million to LBP5billion	268	445,768,535	43.82
Over LBP5billion	57	508,212,875	49.96
	1,328	1,017,226,616	100.00

(a.3) Loans and advances to related parties:

Bracket	December 31, 2016	
	Total Amount LBP'000	% to Total Deposits %
Less than LBP500million	2,646,345	100.00
	2,646,345	100.00

Bracket	December 31, 2015	
	Total Amount LBP'000	% to Total Deposits %
Less than LBP500million	1,855,871	100.00
	1,855,871	100.00

Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers:

	December 31, 2016						
	Gross Loans Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	Fair Value of Collateral Held		
					Property	Equities	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing Accounts	1,012,555,113	-	1,012,555,113	164,506,928	156,766,732	28,754,822	350,028,482
Past due but not impaired:							
Between 30-60 days	1,215,799	-	1,215,799	-	-	-	-
Between 60-90 days	407,854	-	407,854	-	-	-	-
Between 90-180 days	2,013,946	-	2,013,946	-	-	-	-
Beyond 180 days	863,532	-	863,532	-	-	-	-
Impaired:							
Substandard debts	15,522,046	-	15,522,046	-	26,403,862	138,946	26,542,808
Doubtful and bad debts	14,107,735	(6,628,920)	7,478,815	-	8,050,050	-	8,050,050
Collective provision for loan impairment:	-	(2,129,882)	(2,129,882)	-	-	-	-
	1,046,686,025	(8,758,802)	1,037,927,223	164,506,928	191,220,644	28,893,768	384,621,340

	December 31, 2015						
	Gross Loans Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	Fair Value of Collateral Held		
					Property	Equities	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing Accounts	1,009,357,545	-	1,009,357,545	173,270,895	174,326,866	29,192,983	376,790,744
Past due but not impaired:							
Between 30-60 days	206,151	-	206,151	-	-	-	-
Between 60-90 days	430,010	-	430,010	-	-	-	-
Between 90-180 days	82,475	-	82,475	-	-	-	-
Beyond 180 days	1,132,327	-	1,132,327	-	-	-	-
Impaired:							
Substandard debts	7,697,697	(753,750)	6,943,947	-	8,238,488	-	8,238,488
Restructured substandard debts	3,528,882	(3,281,670)	247,212	-	-		-
Doubtful and bad debts	1,555,782	(1,555,782)	-	-	512,550	-	512,550
Collective provision for loan impairment	-	(2,129,882)	(2,129,882)	-	-	-	-
	1,023,990,869	(7,721,084)	1,016,269,785	173,270,895	183,077,904	29,192,983	385,541,782

(b) Concentration of financial assets by industry or sector (excluding the collective provision for loan impairment):

	December 31, 2016									
	Sovereign	Financial Services	Real Estate Development	Manufacturing	Consumer Goods Trading	Real Estate Trading	Services	Individuals	Private Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance Sheet Exposure:										
Cash and deposits with central banks	549,560,119	-	-	-	-	-	-	-	-	549,560,119
Deposits with banks and financial institutions	-	298,217,095	-	-	-	-	-	-	-	298,217,095
Financial assets at fair value through profit or loss	75,511,132	8,117,181	-	39,673	20,424	1,527,821	36,837	-	-	85,253,068
Loans to banks and financial institutions and reverse repurchase agreement	-	17,512,310	-	-	-	-	-	-	-	17,512,310
Loans and advances to customers	-	6,672,532	195,780,277	147,196,726	470,397,284	-	59,888,364	158,857,983	1,263,939	1,040,057,105
Loans and advances to related parties	-	-	-	560,732	-	-	11,790	2,073,823	-	2,646,345
Financial assets at amortized cost	573,878,419	-	-	-	15,430,530	4,576,406	-	-	-	593,885,355
Financial assets at fair value through other comprehensive income	-	540,120	-	-	-	98,346	-	-	-	638,466
Customers' liability under acceptances	-	-	1,277,276	1,005,278	4,654,401	-	-	-	-	6,936,955
Other assets	-	-	-	-	-	-	-	-	10,934,179	10,934,179
	1,198,949,670	331,059,238	197,057,553	148,802,409	490,502,639	6,202,573	59,936,991	160,931,806	12,198,118	2,605,640,997
Off-Balance sheet Risks										
Documentary and commercial letters of credit	-	39,403	1,046,188	2,114,454	27,817,946	-	-	277,833	-	31,295,824
Guarantees and standby letters of credit	-	20,668,484	20,823,165	11,632,540	15,826,557	-	20,146,537	1,367,040	-	90,464,323
Forward Contracts	-	228,975,174	10,353,753	157,488	3,948,130	-	-	2,790,276	-	246,224,821

	December 31, 2015								
	Sovereign	Financial Services	Real Estate Development	Manufacturing	Consumer Goods Trading	Services	Private Individuals	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cash and deposits with central banks	440,213,601	-	-	-	-	-	-	-	440,213,601
Deposits with banks and financial institutions	-	201,242,051	-	-	-	-	-	-	201,242,051
Financial assets at fair value through profit or loss	16,504,060	5,951,662	-	227,046	41,448	2,976,434	-	-	25,700,650
Loans to banks and financial institutions and reverse repurchase agreements	-	48,867,483	-	-	-	-	-	-	48,867,483
Loans and advances to customers	-	9,111,003	194,839,621	154,744,816	459,291,755	66,374,895	134,030,902	6,675	1,018,399,667
Loans and advances to related parties	-	-	-	438,711	3,181	-	1,413,979	-	1,855,871
Financial assets at amortized cost	602,769,180	3,037,364	-	1,616,283	10,596,584	19,897,787	-	-	637,917,198
Financial assets at fair value through other comprehensive income	-	540,120	-	-	-	99,082	-	-	639,202
Customers' liability under acceptance	-	-	205,433	1,997,444	23,093,275	-	-	-	25,296,152
Other assets	-	-	-	-	-	-	-	6,826,181	6,826,181
	1,059,486,841	268,749,683	195,045,054	159,024,300	493,026,243	89,348,198	135,444,881	6,832,856	2,406,958,056
Off-Balance Sheet Risks:									
Documentary and commercial letters of credit	-	-	284,011	1,652,019	23,296,376	-	-	-	25,232,406
Guarantees and standby letters of credit	-	20,072,711	22,974,623	18,209,979	14,367,800	8,495,809	1,424,301	-	85,545,223
Forward contracts	-	417,735,090	8,965,517	1,484,707	3,197,261	-	1,241,142	-	432,623,717

(c) Concentration of assets and liabilities by geographical area:

	December 31, 2016					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with central banks	549,164,133	-	-	394,661	1,325	549,560,119
Deposits with banks and financial institutions	128,294,416	8,144,990	39,524,014	109,489,907	12,763,768	298,217,095
Financial assets at fair value through profit or loss	85,071,504	-	181,564	-	-	85,253,068
Loans to banks and financial institutions and reverse repurchase agreements	17,512,310	-	-	-	-	17,512,310
Loans and advances to customers	963,385,390	33,020,867	5,357	41,282,231	233,378	1,037,927,223
Loans and advances to related parties	2,646,345	-	-	-	-	2,646,345
Financial assets at amortized cost	593,885,355	-	-	-	-	593,885,355
Financial assets at fair value through other comprehensive income	615,120	-	-	23,346	-	638,466
Customers' liability under acceptances	5,803,005	1,133,950	-	-	-	6,936,955
Investments in associates	-	18,052,156	-	-	-	18,052,156
Assets acquired in satisfaction of loans	2,046,944	-	-	-	-	2,046,944
Property and equipment	23,520,036	-	-	447,708	-	23,967,744
Intangible assets	949,140	-	-	32,540	-	981,680
Other assets	12,549,332	-	-	48,842	326,720	12,924,894
Total Assets	2,385,443,030	60,351,963	39,710,935	151,719,235	13,325,191	2,650,550,354
LIABILITIES						
Deposits and borrowings from banks and financial institutions	26,030,655	100,025,446	-	595,011	-	126,651,112
Customers' accounts at amortized cost	1,570,955,316	374,348,984	30,674,598	70,019,272	32,193,858	2,078,192,028
Related parties' accounts at amortized cost	78,892,982	32,056,213	-	4,339	-	110,953,534
Acceptance liability	1,169,233	142,896	164,318	2,823,505	2,637,003	6,936,955
Other term borrowings	9,315,863	-	-	-	-	9,315,863
Other liabilities	29,863,008	-	-	195,108	802,351	30,860,467
Provisions	7,163,979	-	-	96,000	236,668	7,496,647
Subordinated bonds	37,687,500	-	-	-	-	37,687,500
Total liabilities	1,761,078,536	506,573,539	30,838,916	73,733,235	35,869,880	2,408,094,106
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK						
Documentary and commercial letters of credit	30,200,261	897,171	58,340	140,052	-	31,295,824
Guarantees and standby letters of Credit	71,879,791	4,617,995	12,214,209	1,752,328	-	90,464,323
Forward exchange contracts	131,333,987	56,521,450	-	58,369,384	-	246,224,821

	December 31, 2015					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with central banks	439,794,200	-	-	419,401	-	440,213,601
Deposits with banks and financial institutions	103,722,790	1,680,525	27,105,717	67,686,114	1,046,905	201,242,051
Financial assets at fair value through profit or loss	21,924,645	1,268,013	688,542	810,099	1,009,351	25,700,650
Loans to banks and financial institutions and reverse repurchase agreement	48,867,483	-	-	-	-	48,867,483
Loans and advances to customers	901,124,199	54,018,406	188,427	54,638,307	6,300,446	1,016,269,785
Loans and advances to related parties	1,813,973	-	-	41,898	-	1,855,871
Financial assets at amortized cost	636,300,915	-	-	1,616,283	-	637,917,198
Financial assets at fair value through other comprehensive income	615,120	-	-	24,082	-	639,202
Customers' liability under acceptances	14,178,576	11,117,576	-	-	-	25,296,152
Investments in associates	-	17,645,342	-	-	-	17,645,342
Assets acquired in satisfaction of loans	2,046,944	-	-	-	-	2,046,944
Property and equipment	16,237,494	-	-	460,508	-	16,698,002
Intangible assets	618,183	-	-	18	-	618,201
Other assets	8,193,542	-	-	49,715	-	8,243,257
Total Assets	2,195,438,064	85,729,862	27,982,686	125,746,425	8,356,702	2,443,253,739
LIABILITIES						
Deposits and borrowings from banks	63,152,931	43,276,338	4,922,348	-	-	111,351,617
Customers' accounts at amortized cost	1,431,828,159	367,055,121	94,444,628	21,606,951	35,016,050	1,949,950,909
Related parties' accounts at amortized cost	57,160,240	31,840,274	-	-	-	89,000,514
Acceptance liability	298,272	2,069,553	17,507,854	-	5,420,473	25,296,152
Other term borrowings	7,530,780	-	-	-	-	7,530,780
Other liabilities	13,283,673	-	226,760	-	-	13,510,433
Provisions	5,951,170	-	91,619	-	-	6,042,789
Subordinated bonds	37,687,500	-	-	-	-	37,687,500
Total Liabilities	1,616,892,725	444,241,286	117,193,209	21,606,951	40,436,523	2,240,370,694
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK						
Documentary and commercial letters of credit	23,392,240	1,840,166	-	-	-	25,232,406
Guarantees and standby letters of credit	67,006,878	17,209,874	1,328,471	-	-	85,545,223
Forward exchange contracts	58,677,723	194,303,520	179,642,474	-	-	432,623,717

B. Liquidity Risk

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

1. Management of liquidity risk

Liquidity risk is the Group's ability to ensure the availability of funding to meet commitments, both on-balance and off-balance sheet commitments, at a reasonable cost on time. The management of liquidity should not lead to threats to the Group's solvency.

Liquidity risk arises when in case of crisis, refinancing may only be raised at higher market rates (funding risk), or assets may only be liquidated at a discount to market rates (market liquidity risk). Liquidity risk is also caused by mismatches in the maturities of assets and liabilities (uses and sources of funds).

Residual contractual maturities of assets and liabilities:

The tables below show the Group's assets and liabilities in **Lebanese Pounds** base accounts segregated by maturity:

	December 31, 2016							
	LBP Base Accounts							
	Accounts with No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and deposits with central banks	66,643,974	109,000,000	-	-	-	-	-	175,643,974
Deposits with banks and financial institutions	1,637,863	-	5,000,000	-	-	-	-	6,637,863
Financial assets at fair value through profit or loss	321,651	-	-	5,799,928	3,097,894	8,909,833	4,880,607	23,009,913
Loans and advances to customers	34,019,527	26,720,462	12,600	30,230	-	-	-	60,782,819
Loans and advances to related parties	14,907	-	-	-	-	-	-	14,907
Financial assets at amortized cost	3,663,166	1,722,480	34,694,995	35,841,489	48,189,815	84,926,219	-	209,038,164
Financial assets at fair value through other comprehensive income	615,120	-	-	-	-	-	-	615,120
Property and equipment	23,520,035	-	-	-	-	-	-	23,520,035
Intangible assets	943,868	-	-	-	-	-	-	943,868
Other assets	7,095,199	-	-	-	-	-	-	7,095,199
Total Assets	138,475,310	137,442,942	39,707,595	41,671,647	51,287,709	93,836,052	4,880,607	507,301,862
LIABILITIES								
Deposits and borrowings from banks and financial institutions	1,342,615	20,052,000	2,030,000	-	-	-	-	23,424,615
Customers' accounts at amortized cost	59,252,101	235,002,890	34,719,601	-	-	-	-	328,974,592
Related parties' accounts at amortized cost	3,691,253	930,518	-	-	-	-	-	4,621,771
Other term borrowings	88,596	395,949	864,477	2,315,701	2,204,529	2,850,214	596,397	9,315,863
Other liabilities	3,408,804	-	-	-	-	-	-	3,408,804
Provisions	6,402,691	-	-	-	-	-	-	6,402,691
Total Liabilities	74,186,060	256,381,357	37,614,078	2,315,701	2,204,529	2,850,214	596,397	376,148,336
Maturity Gap	64,289,250	(118,938,415)	2,093,517	39,355,946	49,083,180	90,985,838	4,284,210	131,153,526

The tables below show the Group's assets and liabilities in **Foreign Currencies** base accounts segregated by maturity:

	December 31, 2016 F/Cy Base Accounts							
	Accounts with No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and deposits with central banks	31,485,879	52,762,500	32,145,846	100,073,100	103,178,820	54,270,000	-	373,916,145
Deposits with banks and financial institutions	157,700,213	102,606,933	30,713,384	558,702	-	-	-	291,579,232
Financial assets at fair value through profit or loss	7,832,884	41,429	753,750	699,821	8,636,409	32,784,007	11,494,855	62,243,155
Loans to banks and financial institutions and reverse repurchase agreement	-	16,066,256	1,446,054	-	-	-	-	17,512,310
Loans and advances to customers	654,060,113	301,435,707	20,691,835	851,939	104,810	-	-	977,144,404
Loans and advances to related parties	1,998,180	569,777	53,825	9,656	-	-	-	2,631,438
Financial assets at amortized cost	8,404,037	2,494,903	3,457,127	30,674,370	36,846,835	272,275,305	30,694,614	384,847,191
Financial assets at fair value through other comprehensive income	23,346	-	-	-	-	-	-	23,346
Customers' liability under acceptances	-	6,149,582	770,765	16,608	-	-	-	6,936,955
Investments in associates	18,052,156	-	-	-	-	-	-	18,052,156
Assets acquired in satisfaction of loans	2,046,944	-	-	-	-	-	-	2,046,944
Property and equipment	447,709	-	-	-	-	-	-	447,709
Intangible assets	37,812	-	-	-	-	-	-	37,812
Other assets	5,829,695	-	-	-	-	-	-	5,829,695
Total Assets	887,918,968	482,127,087	90,032,586	132,884,196	148,766,874	359,329,312	42,189,469	2,143,248,492
LIABILITIES								
Deposits and borrowings from banks and financial institutions	76,644,311	26,582,186	-	-	-	-	-	103,226,497
Customers' accounts at amortized cost	338,768,547	1,024,726,594	324,691,608	60,019,154	1,011,533	-	-	1,749,217,436
Related parties' accounts at amortized cost	31,546,869	41,193,271	33,591,623	-	-	-	-	106,331,763
Acceptance liability	-	6,149,582	770,765	16,608	-	-	-	6,936,955
Other liabilities	27,451,663	-	-	-	-	-	-	27,451,663
Provisions	1,093,956	-	-	-	-	-	-	1,093,956
Subordinated bonds	-	-	-	-	37,687,500	-	-	37,687,500
Total Liabilities	475,505,346	1,098,651,633	359,053,996	60,035,762	38,699,033	-	-	2,031,945,770
Maturity Gap	412,413,622	(616,524,546)	(269,021,410)	72,848,434	110,067,841	359,329,312	42,189,469	111,302,722

The tables below show the Group's assets and liabilities in **Lebanese Pounds** base accounts segregated by maturity:

	December 31, 2015							
	LBP Base Accounts							
	Accounts with No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and deposits with central banks	53,620,133	10,000,000	-	-	-	-	-	63,620,133
Deposits with banks and financial institutions	2,686,503	-	5,000,000	-	-	-	-	7,686,503
Financial assets at fair value through profit or loss	358,275	400,573	-	-	-	14,801,537	-	15,560,385
Loans and advances to customers	37,162,312	1,381	12,000	28,248	9,765	-	-	37,213,706
Loans and advances to related parties	14,221	-	-	-	-	-	-	14,221
Financial assets at amortized cost	6,975,357	-	14,217,209	69,626,783	83,793,499	87,334,286	103,259,970	365,207,104
Financial assets at fair value through other comprehensive income	615,120	-	-	-	-	-	-	615,120
Property and equipment	16,029,993	-	-	-	-	-	-	16,029,993
Intangible assets	614,762	-	-	-	-	-	-	614,762
Other assets	2,501,519	-	-	-	-	-	-	2,501,519
Total Assets	120,578,195	10,401,954	19,229,209	69,655,031	83,803,264	102,135,823	103,259,970	509,063,446
LIABILITIES								
Deposits and borrowings from banks and financial institutions	1,336,032	37,052,000	15,377,500	-	-	-	-	53,765,532
Customers' accounts at amortized cost	41,505,760	246,339,154	68,445,830	1,254,603	1,753,637	-	-	359,298,984
Related parties' accounts at amortized cost	3,789,136	632,023	-	-	-	-	-	4,421,159
Other term borrowings	68,955	278,517	676,756	1,810,734	1,782,188	2,532,379	381,251	7,530,780
Other liabilities	8,508,270	-	-	-	-	-	-	8,508,270
Provisions	4,975,375	-	-	-	-	-	-	4,975,375
Total Liabilities	60,183,528	284,301,694	84,500,086	3,065,337	3,535,825	2,532,379	381,251	438,500,100
Maturity Gap	60,394,667	(273,899,740)	(65,270,877)	66,589,694	80,267,439	99,603,444	102,878,719	70,563,346

The tables below show the Group's assets and liabilities in **Foreign Currencies** base accounts segregated by maturity:

	December 31, 2015 F/Cy Base Accounts							
	Accounts with No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and deposits with central banks	67,336,188	19,736,640	37,559,880	63,407,610	141,820,650	46,732,500	-	376,593,468
Deposits with banks and financial institutions	70,251,760	80,755,738	42,548,050	-	-	-	-	193,555,548
Financial assets at fair value through profit or loss	5,488,941	-	-	75,375	286,802	2,332,707	1,956,440	10,140,265
Loans to banks and financial institutions and reverse repurchase agreement	185,453	31,816,105	16,865,925	-	-	-	-	48,867,483
Loans and advances to customers	634,296,266	329,190,935	14,647,276	863,115	58,487	-	-	979,056,079
Loans and advances to related parties	1,378,527	431,911	20,351	10,861	-	-	-	1,841,650
Financial assets at amortized cost	3,367,887	-	184,838	46,475,805	41,247,080	129,095,994	52,338,490	272,710,094
Financial assets at fair value through other comprehensive income	24,082	-	-	-	-	-	-	24,082
Customers' liability under acceptances	-	21,534,748	3,761,404	-	-	-	-	25,296,152
Investments in associates	17,645,342	-	-	-	-	-	-	17,645,342
Assets acquired in satisfaction of loans	2,046,944	-	-	-	-	-	-	2,046,944
Property and equipment	668,009	-	-	-	-	-	-	668,009
Intangible assets	3,439	-	-	-	-	-	-	3,439
Other assets	5,741,738	-	-	-	-	-	-	5,741,738
Total Assets	808,434,576	483,466,077	115,587,724	110,832,766	183,413,019	178,161,201	54,294,930	1,934,190,293
LIABILITIES								
Deposits and borrowings from banks and financial institutions	17,086,634	40,499,451	-	-	-	-	-	57,586,085
Customers' accounts at amortized cost	309,176,024	1,039,523,076	200,839,746	40,101,546	1,011,533	-	-	1,590,651,925
Related parties' accounts at amortized cost	40,395,927	34,045,482	8,630,446	1,507,500	-	-	-	84,579,355
Acceptance liability	-	21,534,748	3,761,404	-	-	-	-	25,296,152
Other liabilities	5,002,163	-	-	-	-	-	-	5,002,163
Provisions	1,067,414	-	-	-	-	-	-	1,067,414
Subordinated Bonds	-	-	-	-	-	37,687,500	-	37,687,500
Total Liabilities	372,728,162	1,135,602,757	213,231,596	41,609,046	1,011,533	37,687,500	-	1,801,870,594
Maturity Gap	435,706,414	(652,136,680)	(97,643,872)	69,223,720	182,401,486	140,473,701	54,294,930	132,319,699

Concentration of Liabilities by counterparty:

Information regarding the concentration of liabilities by counterparty is disclosed under the respective notes to the financial statements.

C. Market Risks

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

1. Management of market risks:

Market risks include interest rate risk and exchange risk.

The Group has established an Assets and Liabilities Management Committee (ALCO) to manage market risks. ALCO's primary objective is to maximize interest income spread and trading income while maintaining market risks at an appropriate level through regular management and measurement of these risks.

The Group has developed policies and procedures to manage market risks and ensure compliance with regulatory requirements and limits in addition to internal risk strategies and limits.

2. Foreign exchange risk:

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Group's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimizing the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Group that it will, at all times, adhere to the limits laid down by the Central Bank as referred to below. It is not the Group's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The treasury department is responsible for monitoring the compliance with the regulatory ratios set by the regulatory authorities. ALCO is supported by the finance department by reports of any breach of these ratios.

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

	December 31, 2016					
	LBP	USD C/V in LBP	Euro C/V in LBP	GBP C/V in LBP	Other Currencies C/V in LBP	Total
ASSETS	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cash and deposits with central banks	175,643,974	282,239,383	88,774,593	2,888,830	13,339	549,560,119
Deposits with banks and financial institutions	6,637,863	157,987,863	98,469,012	23,566,997	11,555,360	298,217,095
Financial assets at fair value through profit or loss	23,009,913	62,243,155	-	-	-	85,253,068
Loans to banks and financial institutions and reverse repurchase agreements	-	17,512,310	-	-	-	17,512,310
Loans and advances to customers	60,782,819	844,379,245	111,527,193	5,893,249	15,344,717	1,037,927,223
Loans and advances to related parties	14,907	2,576,868	54,570	-	-	2,646,345
Financial assets at amortized cost	209,038,164	384,847,191	-	-	-	593,885,355
Financial assets at fair value through other comprehensive income	615,120	-	23,346	-	-	638,466
Customers' liability under acceptances	-	3,577,187	2,892,540	-	467,228	6,936,955
Investments in associates	-	18,052,156	-	-	-	18,052,156
Assets acquired in satisfaction of loans	-	2,046,944	-	-	-	2,046,944
Property and equipment	23,520,035	447,709	-	-	-	23,967,744
Intangible assets	943,868	37,812	-	-	-	981,680
Other assets	7,095,199	(40,512,208)	53,016,089	(6,725,725)	(4,374,158)	8,499,197
Total Assets	507,301,862	1,735,435,615	354,757,343	25,623,351	23,006,486	2,646,124,657
LIABILITIES						
Deposits and borrowings from banks and financial institutions	23,424,615	59,860,207	27,366,105	4,428,923	11,571,262	126,651,112
Customers' accounts at amortized cost	328,974,592	1,489,145,482	209,801,233	31,342,129	18,928,592	2,078,192,028
Related parties' accounts at amortized cost	4,621,771	94,253,772	8,585,076	3,237,844	255,071	110,953,534
Acceptance liability	-	3,577,186	2,892,540	-	467,229	6,936,955
Other term borrowings	9,315,863	-	-	-	-	9,315,863
Other liabilities	3,408,804	8,061,042	29,912,115	(6,662,790)	(3,858,704)	30,860,467
Provisions	6,402,691	997,956	96,000	-	-	7,496,647
Subordinated bonds	-	37,687,500	-	-	-	37,687,500
Total Liabilities	376,148,336	1,693,583,145	278,653,069	32,346,106	27,363,450	2,408,094,106
Currencies to be delivered	-	139,492,237	73,829,051	16,098,677	16,804,856	246,224,821
Currencies to be received	-	(94,206,024)	(125,789,800)	(9,372,952)	(12,430,348)	(241,799,124)
	-	45,286,213	(51,960,749)	6,725,725	4,374,508	4,425,697
Net on-balance sheet financial position	131,153,526	87,138,683	24,143,525	2,970	17,544	242,456,248

	December 31, 2015					
	LBP	USD C/V in LBP	Euro C/V in LBP	GBP C/V in LBP	Other Currencies C/V in LBP	Total
ASSETS	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cash and deposits with central banks	63,620,133	307,148,282	68,857,793	447,248	140,145	440,213,601
Deposits with banks and financial institutions	7,686,503	94,420,835	88,754,075	4,190,054	6,190,584	201,242,051
Financial assets at fair value through profit or loss	15,560,385	7,903,665	2,199,303	37,297	-	25,700,650
Loans to banks and financial institutions and reverse repurchase agreements	-	48,867,483	-	-	-	48,867,483
Loans and advances to customers	37,213,706	869,930,282	82,189,233	9,960,008	16,976,556	1,016,269,785
Loans and advances to related parties	14,221	1,832,862	8,788	-	-	1,855,871
Financial assets at amortized cost	365,207,104	271,093,809	1,616,285	-	-	637,917,198
Financial assets at fair value through other comprehensive income	615,120	-	24,082	-	-	639,202
Customers' liability under acceptances	-	13,255,331	10,917,811	-	1,123,010	25,296,152
Investments in associates	-	17,645,342	-	-	-	17,645,342
Assets acquired in satisfaction of loans	-	2,046,944	-	-	-	2,046,944
Property and equipment	16,029,993	668,009	-	-	-	16,698,002
Intangible assets	614,762	3,439	-	-	-	618,201
Other assets	2,501,519	4,987,536	753,874	140	188	8,243,257
Total Assets	509,063,446	1,639,803,819	255,321,244	14,634,747	24,430,483	2,443,253,739
LIABILITIES						
Deposits and borrowings from banks and financial institutions	53,765,532	31,396,703	20,650,113	3,892,894	1,646,375	111,351,617
Customers' accounts at amortized cost	359,298,984	1,325,298,473	226,705,280	22,835,553	15,812,619	1,949,950,909
Related parties' accounts at amortized cost	4,421,159	84,579,355	-	-	-	89,000,514
Acceptance liability	-	13,255,330	10,917,812	-	1,123,010	25,296,152
Other term borrowings	7,530,780	-	-	-	-	7,530,780
Other liabilities	8,508,270	(9,113,643)	4,166,273	12,173,458	(5,188,258)	10,546,100
Provisions	4,975,375	975,795	91,619	-	-	6,042,789
Subordinated bonds	-	37,687,500	-	-	-	37,687,500
Total Liabilities	438,500,100	1,484,079,513	262,531,097	38,901,905	13,393,746	2,237,406,361
Currencies to be delivered	-	200,300,744	205,467,260	16,963,543	10,777,087	433,508,634
Currencies to be received	-	(213,813,093)	(201,804,074)	(4,822,114)	(16,033,686)	(436,472,967)
	-	(13,512,349)	3,663,186	12,141,429	(5,256,599)	(2,964,333)
Net on-balance sheet financial position	70,563,346	142,211,957	(3,546,667)	(12,125,729)	5,780,138	202,883,045

3. Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Group's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on the Group's net interest income, while a long term impact is on Group's net worth since the economic value of Group's assets, liabilities and off-balance sheet exposures are affected.

Interest rate risk is the risk that changes in interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimizing the return on risk.

Below is a summary of the Group's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Lebanese Pound** base accounts:

	December 31, 2016									
	Lebanese Pounds Base Accounts									
	Floating Interest Rate			Fixed Interest Rate						
	Non-Interest Bearing	Up to Three Months	Total	Over 3 Months Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS										
Cash and deposits with central banks	66,643,974	109,000,000	109,000,000	-	-	-	-	-	-	175,643,974
Deposits with banks and financial institutions	-	1,637,863	1,637,863	5,000,000	-	-	-	-	5,000,000	6,637,863
Financial assets at fair value through profit or loss	321,651	-	-	-	5,799,928	3,097,894	8,909,833	4,880,607	22,688,262	23,009,913
Loans and advances to customers	1,595	60,738,394	60,738,394	12,600	30,230	-	-	-	42,830	60,782,819
Loans and advances to related parties	-	14,907	14,907	-	-	-	-	-	-	14,907
Financial assets at amortized cost	3,663,166	1,722,480	1,722,480	34,694,995	35,841,489	48,189,815	84,926,219	-	203,652,518	209,038,164
Financial assets at fair value through other comprehensive income	615,120	-	-	-	-	-	-	-	-	615,120
Property and equipment	23,520,035	-	-	-	-	-	-	-	-	23,520,035
Intangible assets	943,868	-	-	-	-	-	-	-	-	943,868
Other assets	7,095,199	-	-	-	-	-	-	-	-	7,095,199
Total Assets	102,804,608	173,113,644	173,113,644	39,707,595	41,671,647	51,287,709	93,836,052	4,880,607	231,383,610	507,301,862
LIABILITIES										
Deposits and borrowings from banks and financial institutions	1,342,615	20,052,000	20,052,000	2,030,000	-	-	-	-	2,030,000	23,424,615
Customers' accounts at amortized cost	2,914,064	291,340,927	291,340,927	34,719,601	-	-	-	-	34,719,601	328,974,592
Related parties' accounts at amortized cost	3,454,678	1,167,093	1,167,093	-	-	-	-	-	-	4,621,771
Other term borrowings	88,596	395,949	395,949	864,477	2,315,701	2,204,529	2,850,214	596,397	8,831,318	9,315,863
Other liabilities	3,408,804	-	-	-	-	-	-	-	-	3,408,804
Provisions	6,402,691	-	-	-	-	-	-	-	-	6,402,691
Total Liabilities	17,611,448	312,955,969	312,955,969	37,614,078	2,315,701	2,204,529	2,850,214	596,397	45,580,919	376,148,336
Interest rate gap position	85,193,160	(139,842,325)	(139,842,325)	2,093,517	39,355,946	49,083,180	90,985,838	4,284,210	185,802,691	131,153,526

	December 31, 2015										
	Lebanese Pounds Base Accounts										
		Floating Interest Rate			Fixed Interest Rate						
	Non-Interest Bearing	Up to Three Months	Over 3 Months Less than 1 Year	Total	Over 3 Months Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS											
Cash and deposits with central banks	3,176,378	60,443,755	-	60,443,755	-	-	-	-	-	-	63,620,133
Deposits with banks and financial institutions	2,686,503	-	5,000,000	5,000,000	-	-	-	-	-	-	7,686,503
Financial assets at fair value through profit or loss	358,275	400,573	-	400,573	-	-	-	14,801,537	-	14,801,537	15,560,385
Loans and advances to customers	3,349	37,160,344	-	37,160,344	12,000	28,248	9,765	-	-	50,013	37,213,706
Loans and advances to related parties	-	14,221	-	14,221	-	-	-	-	-	-	14,221
Financial assets at amortized cost	6,975,357	-	-	-	14,217,209	69,626,783	83,793,499	87,334,286	103,259,970	358,231,747	365,207,104
Financial assets at fair value through other comprehensive income	615,120	-	-	-	-	-	-	-	-	-	615,120
Property and equipment	16,029,993	-	-	-	-	-	-	-	-	-	16,029,993
Intangible assets	614,762	-	-	-	-	-	-	-	-	-	614,762
Other assets	2,501,519	-	-	-	-	-	-	-	-	-	2,501,519
Total Assets	32,961,256	98,018,893	5,000,000	103,018,893	14,229,209	69,655,031	83,803,264	102,135,823	103,259,970	373,083,297	509,063,446
LIABILITIES											
Deposits and borrowings from banks and financial institutions	1,336,032	37,052,000	-	37,052,000	15,377,500	-	-	-	-	15,377,500	53,765,532
Customers' accounts at amortized cost	514,486	287,330,428	-	287,330,428	68,445,830	1,254,603	1,753,637	-	-	71,454,070	359,298,984
Related parties' accounts at amortized cost	2,876,906	1,544,253	-	1,544,253	-	-	-	-	-	-	4,421,159
Other term borrowings	68,955	278,517	-	278,517	676,756	1,810,734	1,782,188	2,532,379	381,251	7,183,308	7,530,780
Other liabilities	8,508,270	-	-	-	-	-	-	-	-	-	8,508,270
Provisions	4,975,375	-	-	-	-	-	-	-	-	-	4,975,375
Total Liabilities	18,280,024	326,205,198	-	326,205,198	84,500,086	3,065,337	3,535,825	2,532,379	381,251	94,014,878	438,500,100
Interest rate gap position	14,681,232	(228,186,305)	5,000,0000	(223,186,305)	(70,270,877)	66,589,694	80,267,439	99,603,444	102,878,719	279,068,419	70,563,346

Below is a summary of the Group's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Foreign Currencies** base accounts:

	December 31, 2016												
		Floating Interest Rate					Fixed Interest Rate						
	Non-interest Bearing	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Total	Over 3 Months Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS													
Cash and deposits with central banks	8,589,250	75,659,130	32,145,846	100,073,100	103,178,820	311,056,896	-	-	-	54,270,000	-	54,270,000	373,916,146
Deposits with banks and financial institutions	183,976,326	76,330,820	-	-	-	76,330,820	30,713,384	558,702	-	-	-	31,272,086	291,579,232
Financial assets at fair value through profit or loss	7,832,884	41,429	-	-	-	41,429	753,750	699,821	8,636,409	32,784,007	11,494,855	54,368,842	62,243,155
Loans to banks and financial institutions and reverse repurchase agreements	9,974,810	7,537,500	-	-	-	7,537,500	-	-	-	-	-	-	17,512,310
Loans and advances to customers	955,552	954,540,268	-	-	-	954,540,268	20,691,835	851,939	104,810	-	-	21,648,584	977,144,404
Loans and advances to related parties	-	2,567,957	-	-	-	2,567,957	53,825	9,656	-	-	-	63,481	2,631,438
Financial assets at amortized cost	8,404,037	2,494,903	-	-	-	2,494,903	3,457,127	30,674,370	36,846,835	272,275,305	30,694,614	373,948,251	384,847,191
Financial assets at fair value through other comprehensive income	23,346	-	-	-	-	-	-	-	-	-	-	-	23,346
Customers' liability under acceptances	6,936,955	-	-	-	-	-	-	-	-	-	-	-	6,936,955
Investments in associates	18,052,156	-	-	-	-	-	-	-	-	-	-	-	18,052,156
Assets acquired in satisfaction of loans	2,046,944	-	-	-	-	-	-	-	-	-	-	-	2,046,944
Property and equipment	447,709	-	-	-	-	-	-	-	-	-	-	-	447,709
Intangible assets	37,812	-	-	-	-	-	-	-	-	-	-	-	37,812
Other assets	5,829,695	-	-	-	-	-	-	-	-	-	-	-	5,829,695
Total Assets	253,107,476	1,119,172,007	32,145,846	100,073,100	103,178,820	1,354,569,773	55,669,921	32,794,488	45,588,054	359,329,312	42,189,469	535,571,244	2,143,248,493
LIABILITIES													
Deposits and borrowings from banks and financial institutions	14,699,311	88,527,186	-	-	-	88,527,186	-	-	-	-	-	-	103,226,497
Customers' accounts at amortized cost	110,647,363	1,252,847,778	-	-	-	1,252,847,778	324,691,608	60,019,154	1,011,533	-	-	385,722,295	1,749,217,436
Related parties' accounts at amortized cost	3,683,442	69,056,698	-	-	-	69,056,698	33,591,623	-	-	-	-	33,591,623	106,331,763
Acceptance liability	6,936,955	-	-	-	-	-	-	-	-	-	-	-	6,936,955
Other liabilities	27,451,663	-	-	-	-	-	-	-	-	-	-	-	27,451,663
Provisions	1,093,956	-	-	-	-	-	-	-	-	-	-	-	1,093,956
Subordinated bonds	-	-	-	-	-	-	-	-	37,687,500	-	-	37,687,500	37,687,500
Total Liabilities	164,512,690	1,410,431,662	-	-	-	1,410,431,662	358,283,231	60,019,154	38,699,033	-	-	457,001,418	2,031,945,770
Interest rate gap position	88,594,786	(291,259,655)	32,145,846	100,073,100	103,178,820	(55,861,889)	(302,613,310)	(27,224,666)	6,889,021	359,329,312	42,189,469	78,569,826	111,302,723

	December 31, 2015												
		Floating Interest Rate					Fixed Interest Rate						
	Non-interest Bearing	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Total	Over 3 Months Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS													
Cash and deposits with central banks	67,336,188	19,736,640	37,559,880	63,407,610	141,820,650	262,524.780	-	-	-	46,732,500	-	46,732,500	376,593,468
Deposits with banks and financial institutions	70,251,760	80,755,738	-	-	-	80,755,738	42,548,050	-	-	-	-	42,548,050	193,555,548
Financial assets at fair value through profit or loss	5,488,941	-	-	-	-	-	-	75,375	286,802	2,332,707	1,956,440	4,651,324	10,140,265
Loans to banks and financial institutions and reverse repurchase agreements	8,425,509	25,366,974	-	-	-	25,366,974	15,075,000	-	-	-	-	15,075,000	48,867,483
Loans and advances to customers	497,088	962,990,113	-	-	-	962,990,113	14,647,276	863,115	58,487	-	-	15,568,878	979,056,079
Loans and advances to related parties	665,750	1,144,688	-	-	-	1,144,688	20,351	10,861	-	-	-	31,212	1,841,650
Financial assets at amortized cost	3,367,887	-	-	-	-	-	184,838	46,475,805	41,247,080	129,095,994	52,338,490	269,342,207	272,710,094
Financial assets at fair value through other comprehensive income	24,082	-	-	-	-	-	-	-	-	-	-	-	24,082
Customers' liability under acceptances	25,296,152	-	-	-	-	-	-	-	-	-	-	-	25,296,152
Investments in associates	17,645,342	-	-	-	-	-	-	-	-	-	-	-	17,645,342
Assets acquired in satisfaction of loans	2,046,944	-	-	-	-	-	-	-	-	-	-	-	2,046,944
Property and equipment	668,009	-	-	-	-	-	-	-	-	-	-	-	668,009
Intangible assets	3,439	-	-	-	-	-	-	-	-	-	-	-	3,439
Other assets	5,741,738	-	-	-	-	-	-	-	-	-	-	-	5,741,738
Total Assets	207,458,829	1,089,994,153	37,559,880	63,407,610	141,820,650	1,332,782,293	72,475,515	47,425,156	41,592,369	178,161,201	54,294,930	393,949,171	1,934,190,293
LIABILITIES													
Deposits and borrowings from banks and financial institutions	17,086,634	40,499,451	-	-	-	40,499,451	-	-	-	-	-	-	57,586,085
Customers' accounts at amortized cost	5,382,078	1,343,317,022	-	-	-	1,343,317.022	200,839,746	40,101,546	1,011,533	-	-	241,952,825	1,590,651,925
Related parties' accounts at amortized cost	372,586	74,068,823	-	-	-	74,068,823	8,630,446	1,507,500	-	-	-	10,137,946	84,579,355
Acceptance liability	25,296,152	-	-	-	-	-	-	-	-	-	-	-	25,296,152
Other liabilities	5,002,163	-	-	-	-	-	-	-	-	-	-	-	5,002,163
Provisions	1,067,414	-	-	-	-	-	-	-	-	-	-	-	1,067,414
Subordinated bonds	-	-	-	-	-	-	-	-	-	37,687,500	-	37,687,500	37,687,500
Total Liabilities	54,207,027	1,457,885,296	-	-	-	1,457,885,296	209,470,192	41,609,046	1,011,533	37,687,500	-	289,778,271	1,801,870,594
Interest rate gap position	153,251,802	(367,891,143)	37,559,880	63,407,610	141,820,650	(125,103,003)	(136,994,677)	5,816,110	40,580,836	140,473,701	54,294,930	104,170,900	132,319,699

The effect of a 200 basis point change in interest rates upwards or downwards on the earnings of the Group for the subsequent fiscal year is LBP7.87billion increase/decrease.

50. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	December 31, 2016				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets measured at fair value through profit or loss:					
Quoted equity securities	7,099,123	7,099,123	-	-	7,099,123
Lebanese treasury bills	16,777,541	-	16,777,541	-	16,777,541
Lebanese Government bonds	20,113,835	-	20,113,835	-	20,113,835
Certificates of deposit issued by the Central Bank of Lebanon	37,568,221	-	37,568,221	-	37,568,221
Certificates of deposit issued by banks	753,750	-	753,750	-	753,750
Corporate bonds	1,885,186	1,885,186	-	-	1,885,186
	84,197,656	8,984,309	75,213,347	-	84,197,656
Financial assets at fair value through other comprehensive income:					
Equities - Unquoted	638,466	-	-	638,466	638,466
	638,466	-	-	638,466	638,466
Financial assets at amortized cost:					
Lebanese treasury bills	149,290,331	-	152,536,263	-	152,536,263
Lebanese Government bonds	115,685,102	-	105,933,735	-	105,933,735
Certificates of deposit issued by Central Bank	301,835,094	-	298,179,326	-	298,179,326
Corporate bonds	19,819,866	19,874,922	-	-	19,874,922
	586,630,393	19,874,922	556,649,324	-	576,524,246
Financial liabilities measured at amortized cost:					
Subordinated bonds	37,687,500	-	-	36,894,934	36,894,934
	37,687,500	-	-	36,894,934	36,894,934

	December 31, 2015				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets measured at fair value through profit or loss:					
Quoted equity securities	5,406,294	5,406,294	-	-	5,406,294
Lebanese treasury bills	14,166,027	-	14,166,027	-	14,166,027
Foreign Government treasury bills	327,681	327,681	-	-	327,681
Lebanese Government bonds	608,062	-	608,062	-	608,062
Certificates of deposit issued by the Central Bank of Lebanon	1,036,083	-	1,036,083	-	1,036,083
Corporate bonds	3,715,581	3,715,581	-	-	3,715,581
	25,259,728	9,449,556	15,810,172	-	25,259,728
Financial assets at fair value through other comprehensive income:					
Equities - Unquoted	639,202	-	-	639,202	639,202
	639,202	-	-	639,202	639,202
Financial assets at amortized cost:					
Lebanese treasury bills	170,611,032	-	175,665,881	-	175,665,881
Lebanese Government Bonds	151,730,640	-	148,936,447	-	148,936,447
Certificates of deposit issued by Central Bank	270,384,749	-	272,160,482	-	272,160,482
Corporate bonds	34,847,533	34,831,549	-	-	34,831,549
	627,573,954	34,831,549	596,762,810	-	631,594,359
Financial liabilities measured at amortized cost:					
Subordinated bonds	37,687,500	-	-	36,811,085	36,811,085
	37,687,500	-	-	36,811,085	36,811,085

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

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

	December 31, 2016	
Financial Assets	**Date of Valuation**	**Valuation Technique and key Inputs**
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2016	DCF at a discount rate based on observable yield curve at measurement date
Certificates of deposit issued by banks	December 31, 2016	DCF at a discount rate based on observable yield curve at measurement date
Lebanese Government bonds	December 31, 2016	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Swap applicable to Lebanon subject to Illiquidity factor
At fair value through other comprehensive income:		
Equities - Unquoted	December 31, 2016	N/A
At amortized cost:		
Lebanese treasury bills	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government Bonds	December 31, 2016	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Swap applicable to Lebanon subject to Illiquidity factor
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to to Lebanese treasury bills, adjusted adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2016	DCF at a discount rate based on observable yield curve at measurement date
Financial Liabilities		
At amortized cost:		
Subordinated bonds	December 31, 2016	DCF at a discount rate determined based on unobservable input related to risk.

There have been no transfers between Level 1 and Level 2 during the period.

	December 31, 2015	
Financial Assets	**Date of Valuation**	**Valuation Technique and key Inputs**
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2015	DCF at a discount rate based on observable yield curve at measurement date
Lebanese Government bonds	December 31, 2015	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
At fair value through other comprehensive income:		
Equities - Unquoted	December 31, 2015	N/A
At amortized cost:		
Lebanese treasury bills	December 31, 2015	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government bonds	December 31, 2015	DCF at a discount rate determined based USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2015	DCF at a discount rate determined based on the yield curve applicable Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2015	DCF at a discount rate based on observable yield curve at measurement date
Financial Liabilities		
At amortized cost:		
Subordinated bonds	December 31, 2015	DCF at a discount rate determined based on unobservable input related to risk.

There have been no transfers between Level 1 and Level 2 during the period.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2016 were approved by the Board of Directors in its meeting held on March 24, 2017.

BANQUE BEMO S.A.L.

CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION AND REVIEW REPORT SIX-MONTH PERIOD ENDED JUNE 30, 2017

BANQUE BEMO S.A.L.
CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION AND REVIEW REPORT
SIX-MONTH PERIOD ENDED JUNE 30, 2017

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REVIEW REPORT

To the Chairman and Members of the Board
Banque Bemo S.A.L.
Beirut, Lebanon

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Banque Bemo S.A.L. and its Subsidiaries (collectively the "Group") as of June 30, 2017 and the related interim consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory information. Management is responsible for the preparation and fair presentation of this condensed interim consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures within the framework of local banking regulations. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial information is not prepared in all material respects, in accordance with International Accounting Standard 34.

Beirut, Lebanon
September 13, 2017

Deloitte & Touche

DFK Fiduciaire du Moyen Orient

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	(Unaudited) June 30, 2017 LBP'000	December 31, 2016 LBP'000
Cash and deposits with central banks		446,152,887	549,560,119
Deposits with banks and financial institutions		173,246,680	298,217,095
Financial assets at fair value through profit or loss	5	51,641,425	85,253,068
Loans to banks and financial institutions and reverse repurchase agreements	6	39,698,117	17,512,310
Loans and advances to customers	7	1,133,050,578	1,037,927,223
Loans and advances to related parties	20	2,160,004	2,646,345
Investment securities	8	653,472,310	594,523,821
Customers' liability under acceptances		15,476,543	6,936,955
Investments in an associate	9	19,449,762	18,052,156
Assets acquired in satisfaction of loans		2,046,944	2,046,944
Property and equipment		29,672,233	23,967,744
Intangible assets		889,520	981,680
Other assets		13,698,652	12,924,894
Total Assets		2,580,655,655	2,650,550,354
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:	18		
Documentary and commercial letters of credit		13,764,332	31,295,824
Guarantees and standby letters of credit		106,522,059	90,464,323
Forward exchange contracts		320,511,314	246,224,821
FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT	19	77,302,040	45,197,457

THE ACCOMPANYING NOTES 1 TO 22 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

LIABILITIES	Notes	(Unaudited) June 30, 2017 LBP'000	December 31, 2016 LBP'000
Deposits and borrowings from banks and financial institutions		126,798,548	126,651,112
Customers' accounts at amortized cost	10	2,004,395,243	2,078,192,028
Related parties' accounts at amortized cost	20	106,555,384	110,953,534
Acceptance liability		15,476,543	6,936,955
Other term borrowings		10,037,369	9,315,863
Other liabilities		26,440,210	30,860,467
Provisions		7,069,268	7,496,647
		2,296,772,565	2,370,406,606
Subordinated bonds		37,687,500	37,687,500
Total liabilities		2,334,460,065	2,408,094,106
EQUITY			
Share capital	11	62,248,000	62,248,000
Treasury shares	11	(2,970,486)	(2,931,915)
Preferred shares	12	52,641,854	52,641,854
Shareholders' cash contribution to capital		29,104,984	29,104,984
Reserves		56,137,562	50,065,272
Retained earnings		36,619,295	27,384,124
Currency translation adjustment		314,842	-
Profit for the year		11,989,712	23,842,788
Equity attributable to the Group		246,085,763	242,355,107
Non-controlling interest		109,827	101,141
Total equity		246,195,590	242,456,248
Total Liabilities and Equity		2,580,655,655	2,650,550,354

THE ACCOMPANYING NOTES 1 TO 22 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	(Unaudited) Six-Month Period Ended June 30, 2017 LBP'000	2016 LBP'000
Interest income	14	58,620,053	58,349,953
Interest expense	15	(40,250,262)	(38,489,024)
Net interest income		18,369,791	19,860,929
Fee and commission income		4,009,577	3,671,928
Fee and commission expense		(167,981)	(118,604)
Net fee and commission income		3,841,596	3,553,324
Net interest and other gains/(losses) on financial assets at fair value through profit or loss	16	6,889,092	2,483,465
Gain on exchange		1,855,509	1,518,440
Gain from derecognition of assets at amortized cost	8	117,217	1,954,424
Other operating income, (net)		2,841,108	3,577,978
Net financial revenues		33,914,313	32,948,560
Allowance for impairment of loans and advances and other receivables	7	(121,568)	(510,338)
Write-back of impairment loss on loans and advances	7	2,206	66,640
Net financial revenues after net impairment charge		33,794,951	32,504,862
Staff costs		(11,687,841)	(11,141,983)
Administrative expenses		(7,052,705)	(7,021,074)
Depreciation and amortization		(1,094,287)	(903,442)
Provision for contingencies		(40,650)	(229,489)
		(19,875,483)	(19,295,988)
Profit before income tax		13,919,468	13,208,874
Income tax expense		(1,921,070)	(2,152,250)
Profit for the period		11,998,398	11,056,624
Attributable to:			
Equity holders of the Bank		11,989,712	11,069,273
Non-Controlling interest		8,686	(12,649)
		11,998,398	11,056,624
Basic and diluted earning per shares in LBP	17	135/43	126/00

THE ACCOMPANYING NOTES 1 TO 22 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	(Unaudited) Six-Month Period Ended June 30, 2017 LBP'000	2016 LBP'000
Profit for the period		11,998,398	11,056,624
Other comprehensive income ("OCI")			
Items that may be reclassified subsequently to profit or loss:			
Gain/(loss) arising from currency translation Adjustment	9	314,842	(431,908)
		314,842	(431,908)
Total comprehensive income for the period		12,313,240	10,624,716
Attributable to:			
Equity holders of the Bank		12,304,554	10,637,365
Non-controlling interests		8,686	(12,649)
		12,313,240	10,624,716

THE ACCOMPANYING NOTES 1 TO 22 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Equity Attributable to the Bank														
	Share Capital LBP'000	Treasury Shares LBP'000	Preferred Shares LBP'000	Shareholders' Cash Contribution in Capital LBP'000	Legal Reserve LBP'000	Reserve for General Banking Risk LBP'000	Other Reserves LBP'000	General Reserve LBP'000	Reserve for Assets Acquired in Satisfaction of Debts LBP'000	Currency Translation Adjustment LBP'000	Retained Earnings LBP'000	Profit for the Year/Period LBP'000	Total LBP'000	Non-Controlling Interests LBP'000	Total LBP'000
Balance at December 31, 2015	62,248,000	(2,696,018)	52,641,854	29,104,984	5,048,091	26,523,875	5,700,443	1,500,000	767,610	(23,440,267)	25,795,153	19,490,701	202,684,426	198,619	202,883,045
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	(431,908)	-	11,069,273	10,637,365	(12,649)	10,624,716
Allocation of 2015 profit	-	-	-	-	1,798,014	6,284,660	804,495	1,650,000	102,347	-	8,851,185	(19,490,701)	-	-	-
Dividends paid - Note 13	-	-	-	-	-	-	-	-	-	-	(7,376,477)	-	(7,376,477)	-	(7,376,477)
Acquisition of treasury shares	-	(122,859)	-	-	-	-	-	-	-	-	-	-	(122,859)	-	(122,859)
Other movement	-	-	-	-	-	-	-	-	-	-	13,657	-	13,657	-	13,657
Balance at June 30,2016	62,248,000	(2,818,877)	52,641,854	29,104,984	6,846,105	32,808,535	6,504,938	3,150,000	869,957	(23,872,175)	27,283,518	11,069,273	205,836,112	185,970	206,022,082
Balance at December 31, 2016	62,248,000	(2,931,915)	52,641,854	29,104,984	6,846,103	31,904,035	10,445,177	-	869,957	-	27,384,124	23,842,788	242,355,107	101,141	242,456,248
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	314,842	-	11,989,712	12,304,554	-	12,304,554
Allocation of 2016 profit	-	-	-	-	2,258,466	3,647,665	15,000	-	151,159	-	17,770,498	(23,842,788)	-	8,686	8,686
Dividends paid - Note 13	-	-	-	-	-	-	-	-	-	-	(8,599,000)	-	(8,599,000)	-	(8,599,000)
Acquisition of treasury shares	-	(38,571)	-	-	-	-	-	-	-	-	-	-	(38,571)	-	(38,571)
Other movement	-	-	-	-	-	-	-	-	-	-	63,673	-	63,673	-	63,673
Balance at June 30, 2017	62,248,000	(2,970,486)	52,641,854	29,104,984	9,104,569	35,551,700	10,460,177	-	1,021,116	314,842	36,619,295	11,989,712	246,085,763	109,827	246,195,590

THE ACCOMPANYING NOTES 1 TO 22 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	(Unaudited) Six-Month Period Ended June 30, 2017	2016
		LBP'000	LBP'000
Cash flows from operating activities:			
Profit before tax		13,919,468	13,208,874
Adjustments to reconcile profit to net cash (used in)/generated by operating activities:			
Accrued interest payable on subordinated loans		-	1,127,527
Depreciation and amortization		1,094,287	903,442
Provisions for contingencies		72,608	229,489
Allowance for impairment of loans and advances and other receivables		121,568	510,338
Provision for employees' end-of-service indemnities		324,000	430,704
Write-back of impairment loss on loans and advances	7	(34,164)	(66,640)
Unrealized (gain)/loss on financial assets at fair value through profit or loss	16	(1,866,660)	294,445
Share in gain of an associate	9	(1,019,091)	(654,113)
Decrease in deposits with banks and financial institutions		42,687,612	27,684,523
Decrease/(increase) of financial assets at fair value through profit or loss		35,478,303	58,532,074
Increase in loans and advances		(116,910,225)	(61,047,484)
Decrease in customers' and related parties ' deposits at amortized cost		(78,194,935)	(19,267,382)
Increase in due to banks and financial institutions		868,942	62,541,023
Increase in provision		(807,314)	(858,698)
Net (decrease)/increase in other liabilities		(1,551,135)	2,579,236
Taxes paid		(4,790,192)	(3,991,541)
Settlement of employees' end-of-service indemnities		(16,673)	(95,169)
Others		(773,758)	(734,142)
Net cash used in operating activities		(111,397,359)	(35,737,642)
Cash flows from investing activities:			
(Increase)/decrease in investment securities		(58,948,489)	61,306,788
Acquisition of treasury shares		(38,571)	(122,859)
Acquisition of property and equipment		(6,558,776)	(1,119,756)
Acquisition of intangible assets		(147,840)	(419,435)
Net cash (used in)/generated by investing activities		(65,693,676)	59,644,738
Cash flows from financing activities:			
Dividends paid	13	(8,599,000)	(7,376,477)
Net cash used in financing activities		(8,599,000)	(7,376,477)
Net (decrease)/increase in cash and cash equivalents		(185,690,035)	16,530,619
Cash and cash equivalents - Beginning of period	21	433,378,757	195,561,810
Cash and cash equivalents - End of period	21	247,688,722	212,092,429

THE ACCOMPANYING NOTES 1 TO 22 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

Banque Bemo S.A.L. is a Lebanese joint-stock company listed on the Beirut Stock Exchange and registered in the Commercial Register under Number 17837 and on the list of banks published by the Central Bank of Lebanon under Number 93. The Bank's headquarters are located in Beirut.

The Bank provides a full range of commercial, corporate and private banking activities through a network of 9 branches in Lebanon in addition to a branch in Limassol, Cyprus.

Banque Bemo S.A.L. is owned by Sharikat Al Istismarat Al Oropia Lil Shareq Al Aousat (Holding) S.A.L. to the extent of 61.06% as at December 31, 2016 and 2015.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

In the current period, the Group has applied the following new and revised Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective with a date of initial application of January 1, 2017 and that are applicable to the Group.

Amendments to IAS 12 Income Taxes
Relating to the recognition of deferred tax assets for unrealized losses

Amendments to IAS 7 Statement of Cash Flows
To provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The above did not have any impact on the Group’s condensed interim financial information.

In addition, and as of the date of authorization of these financial information, certain Standards and Interpretations were in issue but not yet effective. Except for IFRS 9, the Directors of the Group do not anticipate that the adoption of these Standards and Interpretations (where applicable) in the related future periods will have a significant effect on the Group’s financial statements.

The effect of the adoption of IFRS 9 cannot be determined at present.

3. SIGNIFICANT ACCOUNTING POLICIES

A. Statement of Compliance:

The condensed interim consolidated financial information for the six-month period ended June 30, 2017 has been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2016.

In addition, it is not necessary that the results of operations of the Group for the six-month period ended June 30, 2017 give an accurate forecast of the Group's results for the year ending on December 31, 2017.

The accounting policies adopted in the preparation of the condensed interim consolidated financial information are consistent with the accounting policies adopted in the preparation of the annual consolidated financial statements for the year ended December 31,2016, except for the adoption of new standards, and interpretations described in note 2, as applicable.

B. Basis of Preparation and Measurement

The condensed interim consolidated financial information has been prepared on the historical cost basis except for the following:

- Financial assets and liabilities at fair value through profit or loss which are measured at fair value.
- Derivative financial instruments which are measured at fair value.

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

C. Basis of Consolidation:

The condensed interim consolidated financial information of Banque Bemo S.A.L. include the condensed interim financial information of the Bank as at June 30, 2017 and entities which the Bank controls. Control is achieved where the Bank:

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

The Bank and its subsidiaries (collectively the "Group") have the same financial reporting year. Where necessary, adjustments are made to the condensed interim financial information of the subsidiaries and associates to bring their accounting policies in line with those used by other entities of the Group.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the interim consolidated statement of profit or loss from the effective date of acquisition and up to the effective date of disposal, as appropriate.

The consolidated subsidiaries as at June 30, 2017 and December 31, 2016 consist of:

Company	Country of Incorporation	Date of Acquisition or Incorporation	Percentage of Ownership %	Business Activities
Bemo Securitization S.A.L.	Lebanon	1998	96	Securitization and Structured Finance
Ferticed Limited Holding	Luxembourg	1995	100.00	Holding Company
Depository & Custody Company S.A.L.	Lebanon	2007	99.9	Depository and Custody of Securities
Bemo Investment Firm Ltd.	United Arab Emirates	2013	75	Securitization & Structured Finance

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.

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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and underlying assumptions made by the Group's management for the preparation of the condensed interim consolidated financial information were consistent with those used in the preparation of the consolidated financial statements as at and for the year ended December 31, 2016.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	(Unaudited), June 30, 2017			December 31, 2016		
	LBP Base Account	Foreign Currency Base Account	Total	LBP Base Account	Foreign Currency Base Account	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	-	9,794,681	9,794,681	-	7,099,123	7,099,123
Lebanese treasury bills	25,309,846	-	25,309,846	16,777,541	-	16,777,541
Lebanese Government bonds	-	8,257,358	8,257,358	-	20,113,835	20,113,835
Certificates of deposit issued by the Central Bank of Lebanon	1,028,738	6,030,000	7,058,738	5,910,721	31,657,500	37,568,221
Certificates of deposit issued by banks	-	-	-	-	753,750	753,750
Corporate bonds	-	498,259	498,259	-	1,885,186	1,885,186
Accrued interest receivable	535,700	186,843	722,543	321,650	733,762	1,055,412
	26,874,284	24,767,141	51,641,425	23,009,912	62,243,156	85,253,068

6. LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	(Unaudited) June 30, 2017 LBP'000	December 31, 2016 LBP'000
Discounted letters of credit and acceptances	8,942,856	9,974,810
Loans to a resident financial institution (a)	-	7,537,500
Loans under reverse repurchase agreements (b)	30,602,250	-
Accrued interest on reverse repurchase agreements	153,011	-
	39,698,117	17,512,310

(a) Loans to a resident financial institution outstanding as at December 31, 2016 comprise a 1 year term loan in the amount of USD5million (LBP7.54billion) originated during the year 2014 and secured by a pledged deposit in Lebanese Pounds amounting to LBP12.5billion. This term loan was subject to a fixed annual interest rate of 4.25% and was being renewed on a yearly basis at maturity under the same terms and conditions. This loan matured during February 2017.

(b) Loans under reverse repurchase agreement represent short term loans granted to a resident financial institution. These loans are secured by certificates of deposit in USD issued by the Central Bank of Lebanon in the amount of USD20million (LBP30.15billion) as at June 30, 2017. Interest income for the period ended June 30, 2017 amounted to LBP218billion recorded under interest income in the accompanying consolidated statement of profit or loss (LBP159million for the period ended June 30, 2016) (Refer to Note 14).

7. LOANS AND ADVANCES TO CUSTOMERS

	(Unaudited), June 30, 2017				December 31, 2016			
	Gross Amount Net of Unearned Interest	Unrealized Interest	Allowance for Impairment	Carrying Amount	Gross Amount Net of Unearned Interest	Unrealized Interest	Allowance for Impairment	Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing Retail Customers:								
Mortgage loans	61,025,906	-	-	61,025,906	61,203,856	-	-	61,203,856
Personal loans	8,452,335	-	-	8,452,335	9,346,674	-	-	9,346,674
Overdrafts	33,926,009	-	-	33,926,009	32,180,224	-	-	32,180,224
Other	12,546,873	-	-	12,546,873	8,932,017	-	-	8,932,017
Performing Corporate Customers:								
Large enterprises	699,946,161	-	-	699,946,161	632,130,785	-	-	632,130,785
Small and medium enterprises	290,479,898	-	-	290,479,898	270,489,706	-	-	270,489,706
Non performing – Retail Customers:								
Substandard	1,692,825	(181,684)	-	1,511,141	1,604,648	(95,148)	-	1,509,500
Bad and doubtful	494,437	(306,108)	(188,329)	-	450,316	(263,113)	(187,203)	-
Non performing- Corporate Customers:								
Substandard	19,693,250	(1,079,266)	-	18,613,984	15,869,844	(347,798)	-	15,522,046
Bad and doubtful	20,791,285	(6,787,214)	(6,516,096)	7,487,975	19,857,862	(5,937,330)	(6,441,717)	7,478,815
Allowance for Impairment for Collectively Assessed Loans:								
Corporate loans	-	-	(2,095,421)	(2,095,421)	-	-	(2,095,421)	(2,095,421)
Retail loans	-	-	(34,460)	(34,460)	-	-	(34,460)	(34,460)
Accrued interest receivable	1,190,177	-	-	1,190,177	1,263,481	-	-	1,263,481
	1,150,239,156	(8,354,272)	(8,834,306)	1,133,050,578	1,053,329,413	(6,643,389)	(8,758,801)	1,037,927,223

The movement of allowance for impairment of loans and advances and other receivables during the six-month period ended June 30, 2017 and June 30, 2016 is summarized as follows:

	(Unaudited) June 30,	
	2017	2016
	LBP'000	LBP'000
Balance January 1	6,628,920	7,721,084
Additions to allowance for impairment	-	506,302
Write-back	(2,206)	(66,640)
Write-off	-	(238,358)
Exchange difference	77,711	24,138
Balance June 30	6,704,425	7,946,526

8. INVESTMENT SECURITIES

	(Unaudited) June 30, 2017			December 31, 2016		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBO'000	LBP'000
Financial assets at fair value through other comprehensive income	615,120	25,140	640,260	615,120	23,346	638,466
	615,120	25,140	640,260	615,120	23,346	638,466
Financial assets at amortized cost (A)	248,934,422	395,436,191	644,370,613	205,374,999	381,255,394	586,630,393
Accrued interest receivable	4,259,666	4,201,771	8,461,437	3,663,165	3,591,797	7,254,962
	253,194,088	399,637,962	652,832,050	209,038,164	384,847,191	593,885,355
	253,809,208	399,663,102	653,472,310	209,653,284	384,870,537	594,523,821

A. Financial assets at amortized cost:

	(Unaudited), June 30, 2017					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBO'000	LBP'000
Lebanese treasury bills	170,051,388	173,057,335	2,487,840	-	-	-
Lebanese Government bonds	-	-	-	138,057,331	137,330,885	1,917,379
Certificates of deposit issued by the Central Bank of Lebanon	78,883,034	79,122,610	1,771,826	237,922,907	233,964,000	2,043,575
Corporate bonds	-	-	-	19,455,953	19,544,790	240,817
	248,934,422	252,179,945	4,259,666	395,436,191	390,839,675	4,201,771

	December 31, 2016					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	149,290,331	152,536,263	2,249,737	-	-	-
Lebanese Government bonds	-	-	-	115,685,102	105,933,735	1,403,208
Certificates of deposit issued by the Central Bank of Lebanon	56,084,668	56,677,826	1,413,428	245,750,426	241,501,500	2,001,519
Corporate bonds	-	-	-	19,819,866	19,874,922	187,070
	205,374,999	209,214,089	3,663,165	381,255,394	367,310,157	3,591,797

During the first half of 2016, the Bank entered into sales transactions of Lebanese Treasury bills in Lebanese Pounds designated between fair value through profit or loss and amortized cost securities and having a nominal value of LBP9.5billion and LBP37billion respectively concluded in conjunction with the acquisition of certificates of deposit issued by the Central Bank of Lebanon in U.S. Dollars with longer maturity designated between fair value through profit or loss and amortized cost with a nominal value of USD12million and USD19million respectively. The resulting surplus of the inter-related transaction in the amount of LBP14.8billion was deferred under "Other liabilities" in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 according to regulatory requirements.

Gain from derecognition of financial assets at amortized cost consists of the following:

	(Unaudited) Six-Month Period June 30,	
	2017	2016
	LBP'000	LBP'000
Lebanese treasury bills	-	588,800
Certificates of deposit issued by the Central Bank of Lebanon	-	1,145,230
Lebanese Government bonds	117,217	215,889
Corporate bonds issued by banks	-	4,505
	117,217	1,954,424

During the first half of 2016, the Group entered into several sales transactions of Lebanese treasury bills, Lebanese Government bonds, certificates of deposit issued by the Central Bank of Lebanon and corporate bonds of aggregate carrying value of LBP33billion, LBP21.5billion, LBP51billion and LBP2.9billion, respectively.

During the first half of 2017, the Group entered into several sales transactions of Lebanese Government bonds of aggregate carrying value of LBP10,55billions.

The Group entered into the above transactions for the purpose of duration and yield management.

9. INVESTMENT IN AN ASSOCIATE

Investment in an associate, which is not listed, consists of:

	Country of Incorporation	Interest Held	(Unaudited) June 30, 2017 Carrying Value	December 31, 2016 Carrying Value
		%	LBP'000	LBP'000
Banque Bemo Saudi Fransi S.A.	Syria	22	19,449,762	18,052,156
			19,449,762	18,052,156

The movement of investment in an associate is as follows:

	(Unaudited) Six-Month Period June 30,	
	2017	2016
	LBP'000	LBP'000
Balance, January 1	18,052,156	17,645,342
Share in net gain of an associate	1,019,091	654,113
Currency translation adjustment	314,842	(431,908)
Prior years adjustment	63,673	13,657
Balance - End of period	19,449,762	17,881,204

10. CUSTOMERS' ACCOUNTS AT AMORTIZED COST

Time deposits at amortized cost as at June 30, 2017 include fiduciary deposits received from ratea non-resident related bank in the amount of LBP11.8billion (LBP19.15billion as at December 31, 2016).

11. SHARE CAPITAL

The Bank's capital as at June 30, 2017 and December 31, 2016 is composed of 62,000,000 issued shares of LBP1,004 par value each authorized and fully paid and divided as follows:

- Listed Shares : 51,400,000
- Unlisted Shares : 10,600,000

The movement of treasury shares was as follows:

	(Unaudited) Six-Month Period Ended June 30, 2017		Year Ended December 31, 2016	
	# of Shares	Amount LBP'000	# of Shares	Amount LBP'000
Balance - January 1	664,285	2,931,915	568,428	2,696,018
Acquisition	15,051	38,571	95,857	235,897
Balance - December 31	679,336	2,970,486	664,285	2,931,915

12. PREFERRED SHARES

On December 19, 2013, the Group issued Non-cumulative Perpetual Preferred Shares in the amount of USD35million (LBP52billion) on the basis of 350,000 shares at USD100 each. The Group offered discounts to preferred shares subscribers for the aggregate amount of USD80,960 (LBP122million). These preferred shares generate benefits at an annual rate of 7%.

13. DIVIDENDS PAID

The following dividends were declared and paid by the Bank during the period:

	(Unaudited) Six-Month Period Ended June 30,	
	2017	2016
	LBP'000	LBP'000
USD7 per preferred share (USD7 per preferred share in 2016)	3,693,375	3,693,375
LBP79 per common share (LBP59 per common share in 2016)	4,905,625	3,683,102
	8,599,000	7,376,477

14. INTEREST INCOME

	(Unaudited) Six-Month Period Ended June 30,	
	2017	2016
	LBP'000	LBP'000
Interest income from:		
Term deposits with Central Banks	4,125,585	3,537,048
Deposits with banks and financial institutions	681,097	512,406
Deposits with related party banks and financial institutions	126,311	159,440
Loans to banks and financial institutions	41,835	572,003
Reverse repurchase agreements	218,251	159,169
Financial assets at amortized cost	19,783,027	20,669,734
Loans and advances to customers	33,419,866	32,675,483
Loans and advances to related parties	19,407	22,729
Interest realized on impaired loans and advances to customers	204,674	41,941
	58,620,053	58,349,953

Interest income on financial assets at fair value through profit or loss is included under "Net results on financial assets at fair value through profit or loss" (Note 16).

15. INTEREST EXPENSE

	(Unaudited) Six-Month Period Ended June 30,	
	2017	2016
	LBP'000	LBP'000
Interest expense on:		
Deposits and borrowings from banks and financial institutions	582,329	1,542,262
Deposits and borrowings from related party banks and financial institutions	113,950	219,428
Customers' deposits at amortized cost	38,392,421	34,591,898
Related parties' deposits at amortized cost	40,230	1,007,909
Subordinated bonds	1,121,332	1,127,527
	40,250,262	38,489,024

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

	(Unaudited) Six-Month Period Ended June 30,	
	2017	2016
	LBP'000	LBP'000
Dividends received on equity securities	371,239	228,198
Interest received on debt securities	2,422,157	1,971,808
Change in fair value of financial assets at fair value through profit or loss (net)	1,866,660	(294,445)
Gain on sale of financial assets at fair value through profit or loss	2,229,036	577,904
	6,889,092	2,483,465

17. EARNINGS PER SHARE

The computation of the basic earnings per share is based on the Group's income before non-recurring income net of dividends paid to holders of preferred shares, and the weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

The weighted average number of shares to compute basic and diluted earnings per share is 61,323,834 shares for the six-month period ended June 30, 2017 (61,378,372 shares for 2016).

18. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

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

19. FIDUCIARY DEPOSITS

	(Unaudited) June 30, 2017	December 31, 2016
	LBP'000	LBP'000
Fiduciary deposits from customers invested in other banks	30,589,708	30,977,402
Fiduciary deposits from related parties invested in loans granted to related party companies	14,281,484	14,195,935
Fiduciary deposits from customers invested in loans granted to other customers	32,430,848	24,120
	77,302,040	45,197,457

20. BALANCES / TRANSACTIONS WITH RELATED PARTIES

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

	(Unaudited) June 30, 2017	December 31, 2016
	LBP'000	LBP'000
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
- Secured loans and advances	976,197	602,802
- Unsecured loans and advances	670,581	1,440,138
- Deposits	38,344,880	42,076,774
Associated companies:		
Direct facilities and credit balances:		
- Unsecured loans and advances	513,226	603,405
- Deposits	68,210,504	68,876,760
Indirect facilities:		
- Letters of guarantee	2,043,125	2,497,669

Interest rates charged on balances outstanding are the same as applicable rates that would be charged in an arm's length transaction. Secured loans and advances are covered by real estate mortgages to the extent of LBP302million as at June 30, 2017 (real estate mortgages to the extent of LBP678million as at December 31, 2016).

The remuneration of executive management amounted to LBP1.28billion during the six-months period ended June 30, 2017 (LBP1.2billion for the six-months period ended June 30, 2016) in addition to incentives linked to performance.

21. CASH AND CASH EQUIVALENTS

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

	(Unaudited) June 30,	
	2017	2016
	LBP'000	LBP'000
Cash	9,191,536	8,043,722
Current accounts with Central Bank of Lebanon (excluding compulsory reserve)	59,100,281	52,574,696
Term placements with Central Bank of Lebanon	37,687,500	71,531,250
Checks for collection and current accounts with banks and financial institutions	56,765,221	69,989,121
Term placements with banks and financial institutions	84,944,184	9,953,640
	247,688,722	212,092,429

	December 31,	
	2016	2015
	LBP'000	LBP'000
Cash	9,015,076	9,585,724
Current accounts with Central Banks (excluding compulsory reserve)	34,771,506	65,590,519
Term placements with Central Bank of Lebanon	161,762,500	20,552,500
Checks for collection and current accounts with banks and financial institutions	159,267,138	72,846,079
Term placements with banks and financial institutions	68,562,537	26,986,988
	433,378,757	195,561,810

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

22. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows the fair values of financial assets and liabilities (excluding accrued interest) 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:

	(Unaudited), June 30, 207				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets measured at fair value through profit or loss:					
Quoted equity securities	9,794,681	9,794,681	-	-	9,794,681
Lebanese treasury bills	25,309,846	-	25,309,846	-	25,309,846
Lebanese Government bonds	8,257,358	-	8,257,358	-	8,257,358
Certificates of deposit issued by the Central Bank of Lebanon	7,058,738	-	7,058,738	-	7,058,738
Corporate bonds	498,259	498,259	-	-	498,259
	50,918,882	10,292,940	40,625,942	-	50,918,882
Financial assets at fair value through other comprehensive income:					
Equities - Unquoted	640,260	-	-	640,260	640,260
	640,260	-	-	640,260	640,260
Financial assets at amortized cost:					
Lebanese treasury bills	170,051,388	-	173,057,335	-	173,057,335
Lebanese Government Bonds	138,057,331	-	137,618,555	-	137,618,555
Certificates of deposit issued by Central Bank	316,805,941	-	313,086,610	-	313,086,610
Notes issued by securitization funds	19,455,953	-	-	19,544,790	19,544,790
	644,370,613	-	623,762,500	19,544,790	643,307,290
Financial liabilities measured at amortized cost:					
Subordinated bonds	37,687,500	-	-	36,807,749	36,807,749
	37,687,500	-	-	36,807,749	36,807,749

	December 31, 2016				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets measured at fair value through profit or loss:					
Quoted equity securities	7,099,123	7,099,123	-	-	7,099,123
Lebanese treasury bills	16,777,541	-	16,777,541	-	16,777,541
Lebanese Government bonds	20,113,835	-	20,113,835	-	20,113,835
Certificates of deposit issued by the Central Bank of Lebanon	37,568,221	-	37,568,221	-	37,568,221
Certificates of deposit issued by banks	753,750	-	753,750	-	753,750
Corporate bonds	1,885,186	1,885,186	-	-	1,885,186
	84,197,656	8,984,309	75,213,347	-	84,197,656
Financial assets at fair value through other comprehensive income:					
Equities - Unquoted	638,466	-	-	638,466	638,466
	638,466	-	-	638,466	638,466
Financial assets at amortized cost:					
Lebanese treasury bills	149,290,331	-	152,536,263	-	152,536,263
Lebanese Government bonds	115,685,102	-	105,933,735	-	105,933,735
Certificates of deposit issued by Central Bank	301,835,094	-	298,179,326	-	298,179,326
Notes issued by securitization funds	19,819,866	-	-	19,874,922	19,874,922
	586,630,393	-	556,649,324	19,874,922	576,524,246
Financial liabilities measured at amortized cost:					
Subordinated bonds	37,687,500	-	-	36,894,934	36,894,934
	37,687,500	-	-	36,894,934	36,894,934

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

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

	(Unaudited) June 30, 2017	
Financial Assets	**Date of Valuation**	**Valuation Technique and key Inputs**
At fair value through profit or loss:		
Lebanese treasury bills	June 30, 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	June 30, 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	June 30, 2017	DCF at a discount rate based on observable yield curve at measurement date
Lebanese Government bonds	June 30, 2017	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
At fair value through other comprehensive income:		
Equities - Unquoted	June 30, 2017	N/A
At amortized cost:		
Lebanese treasury bills	June 30, 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government bonds	June 30, 2017	DCF at a discount rate determined based USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	June 30, 2017	DCF at a discount rate determined based on the yield curve applicable Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	June 30, 2017	DCF at a discount rate based on observable yield curve at measurement date
Notes issued by securitization funds	June 30, 2017	Valued at par
Financial Liabilities		
At amortized cost:		
Subordinated bonds	June 30, 2017	DCF at a discount rate determined based on unobservable input related to risk.

There have been no transfers between Level 1 and Level 2 during the period.

December 31, 2016		
Financial Assets	**Date of Valuation**	**Valuation Technique and key Inputs**
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2016	DCF at a discount rate based on observable yield curve at measurement date
Certificates of deposit issued by banks	December 31, 2016	DCF at a discount rate based on observable yield curve at measurement date
Lebanese Government bonds	December 31, 2016	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Swap applicable to Lebanon subject to Illiquidity factor
At fair value through other comprehensive income:		
Equities - Unquoted	December 31, 2016	N/A
At amortized cost:		
Lebanese treasury bills	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Lebanese Government Bonds	December 31, 2016	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Swap applicable to Lebanon subject to Illiquidity factor
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2016	DCF at a discount rate determined based on the yield curve applicable to to Lebanese treasury bills, adjusted adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2016	DCF at a discount rate based on observable yield curve at measurement date
Notes issued by securitization funds	December 31, 2016	Valued at par
Financial Liabilities		
At amortized cost:		
Subordinated bonds	December 31, 2016	DCF at a discount rate determined based on unobservable input related to risk.

There have been no transfers between Level 1 and Level 2 during the period.

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