

BYBLOS BANK SAL

SEPARATE FINANCIAL STATEMENTS

31 DECEMBER 2017

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

Qualified Opinion

We have audited the separate financial statements of Byblos Bank SAL (the "Bank") which comprise the separate statement of financial position as at 31 December 2017, and the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion*" section of our report, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2017 and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As disclosed in note 35 to the separate financial statements, during 2016, the Bank did not recognize in the separate income statement an amount of LL 126,682 million in gains realized from certain transactions on financial instruments with the Central Bank of Lebanon. The Bank recognized this amount under "Deferred revenues" within "Other liabilities" in compliance with Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016. Furthermore, as disclosed in note 36 to the separate financial statements, the Bank recorded excess provisions amounting to LL 102,480 million under "Provisions for risks and charges" in order to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016. The Bank's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards (IFRSs). This caused us to qualify our audit opinion on the separate financial statements relating to the year ended 31 December 2016.

During 2017, the Bank transferred an amount of LL 40,000 million from "Deferred revenues" within "Other liabilities" to "Provisions for risks and charges".

Had the Bank properly accounted for these transactions, events and conditions, in accordance with International Financial Reporting Standards, the effects on the separate financial statements would have been as follows:

- Net income for the year ended 31 December 2016 would have increased by LL 229,162 million through an increase in "Net gain from financial instruments at fair value through profit or loss" by LL 108,392 million, an increase in "Net gain from sale of financial assets at amortized cost" by LL 40,692 million, a decrease in "Provisions for risks and charges" by LL 102,480 million and an increase in "Income tax expense" by LL 22,402 million;
- Total liabilities as at 31 December 2017 and 31 December 2016 would have decreased by LL 229,162 million, through a decrease in "Deferred revenues" (reflected under "Other liabilities") by LL 86,682 million as at 31 December 2017 and LL 126,682 million as at 31 December 2016, and a decrease in "Provisions for risks and charges" by LL 142,480 million as at 31 December 2017 and LL 102,480 million as at 31 December 2016; and
- Total equity as at 31 December 2017 and 31 December 2016 would have increased by LL 229,162 million.

Basis for Qualified Opinion (continued)

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements of the year ended 31 December 2017. In addition to the matter described in the “*Basis for Qualified Opinion*” section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Our description of how our audit addressed this matter is provided in that context.

We have fulfilled the responsibilities described in the “*Auditors’ Responsibilities for the Audit of the Separate Financial Statements*” section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our qualified audit opinion on the accompanying separate financial statements.

Key Audit Matter	How our audit addresses the Key Audit Matter
<i>Impairment of Loans and Advances</i>	
<p>Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgement and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk.</p> <p>The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management’s knowledge of each individual borrower. This includes the analysis of the financial performance of the borrower, historic experience when assessing the likelihood of incurred losses in the portfolios and the adequacy of collateral for secure lending.</p> <p>However, consumer loans generally comprise much smaller value loans to a much greater number of customers. Provisions are not calculated on an individual basis but are determined by grouping by product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of loan loss provision.</p> <p>Note 22 to the separate financial statements provides details relating to the impairment of loans and advances.</p>	<p>These risks were addressed by us as follows:</p> <p>For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.</p> <p>Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Bank’s source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.</p> <p>For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of repayments due but not yet paid. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.</p>

Responsibilities of Management and the Audit Committee for the Separate Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditors' Responsibilities for the Audit of the Separate Financial Statements (continued)

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

The partners in charge of the audit resulting in this independent auditors' report are Walid Nakfour for Ernst & Young and Antoine Gholam for BDO, Semaan, Gholam & Co.

Ernst & Young

BDO, Semaan, Gholam & Co.

23 March 2018
Beirut, Lebanon

Byblos Bank SAL

SEPARATE INCOME STATEMENT

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Interest and similar income	5	1,645,374	1,475,342
Interest and similar expense	6	(1,255,893)	(1,152,273)
NET INTEREST INCOME		389,481	323,069
Fee and commission income	7	112,856	105,837
Fee and commission expense	7	(8,423)	(6,848)
NET FEE AND COMMISSION INCOME	7	104,433	98,989
Net gain from financial instruments at fair value through profit or loss	8	42,286	43,972
Net gain from sale of financial assets at amortized cost	9	34,929	417,406
Dividend income from financial assets at fair value through other comprehensive income	24	4,350	3,865
Other operating income	10	15,287	14,382
TOTAL OPERATING INCOME		590,766	901,683
Net credit (losses) gains	11	(15,153)	7,620
Provision for impairment of investments in subsidiaries	25	(3,028)	(152,806)
NET OPERATING INCOME		572,585	756,497
Personnel expenses	12	(181,884)	(166,776)
Other operating expenses	13	(114,609)	(127,926)
Depreciation of property and equipment	26	(19,499)	(19,523)
Amortization of intangible assets	27	(113)	(114)
Impairment of goodwill	25	-	(12,427)
TOTAL OPERATING EXPENSES		(316,105)	(326,766)
OPERATING PROFIT		256,480	429,731
Provisions for risks and charges	36	-	(102,480)
Net gain on disposal of property and equipment		1,253	59
PROFIT BEFORE TAX		257,733	327,310
Income tax expense	14	(45,073)	(93,399)
PROFIT FOR THE YEAR		212,660	233,911
Earnings per share			
Basic earnings per share	15	291.45	329.43
Diluted earnings per share	15	280.55	311.58

The attached notes 1 to 53 form part of these separate financial statements.

Byblos Bank SAL

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Notes</i>	2017 <i>LL million</i>	2016 <i>LL million</i>
PROFIT FOR THE YEAR		212,660	233,911
<i>Items not to be reclassified to the income statement in subsequent periods:</i>			
Net unrealized gain (loss) from financial assets at fair value through other comprehensive income	43	3,039	(3,882)
Income tax effect	43	(456)	580
		2,583	(3,302)
Re-measurement gain (loss) on defined benefit plan	36 (a)	2,164	(100)
Net other comprehensive income (loss) not to be reclassified to the income statement in subsequent periods		4,747	(3,402)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		4,747	(3,402)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		217,407	230,509

The attached notes 1 to 53 form part of these separate financial statements.

Byblos Bank SAL

SEPARATE STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
ASSETS			
Cash and balances with central banks	16	11,838,836	8,641,013
Due from banks and financial institutions	17	2,734,861	2,158,324
Due from subsidiaries	18	6,099	24,776
Loans to banks and financial institutions and reverse repurchase agreements	19	460,574	820,342
Derivative financial instruments	20	2,144	3,942
Financial assets at fair value through profit or loss	21	218,214	752,087
Net loans and advances to customers at amortized cost	22	7,836,518	7,413,500
Net loans and advances to related parties at amortized cost	45	16,183	14,757
Debtors by acceptances		309,644	201,994
Financial assets at amortized cost	23	7,821,753	9,346,463
Financial assets at fair value through other comprehensive income	24	74,636	70,339
Investments in subsidiaries	25	260,541	250,597
Property and equipment	26	263,351	236,084
Intangible assets	27	267	380
Assets obtained in settlement of debt	28	42,689	39,247
Other assets	29	45,512	61,847
TOTAL ASSETS		31,931,822	30,035,692
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	30	863,059	265,075
Due to banks and financial institutions	31	586,905	470,888
Due to subsidiaries	32	67,003	53,905
Derivative financial instruments	20	2,956	1,561
Customers' deposits at amortized cost	33	25,619,873	24,573,938
Deposits from related parties at amortized cost	45	545,641	519,921
Debt issued and other borrowed funds	34	452,866	452,866
Engagements by acceptances		309,644	201,994
Other liabilities	35	228,904	344,530
Provisions for risks and charges	36	235,406	189,473
Subordinated debt	37	433,701	430,723
TOTAL LIABILITIES		29,345,958	27,504,874
Equity			
Share capital – common shares	38	684,273	684,273
Share capital – preferred shares	38	4,840	4,840
Share premium – common shares	38	229,013	229,013
Share premium – preferred shares	38	591,083	591,083
Non-distributable reserves	39	771,028	694,707
Distributable reserves	40	84,798	84,813
Treasury shares	41	(6,002)	(5,160)
Retained earnings		9,475	10,930
Revaluation reserve of real estate	42	5,689	5,689
Change in fair value of financial assets at fair value through other comprehensive income	43	(792)	(3,375)
Net results of the financial period - profit		212,660	233,911
Foreign currency translation reserve		(201)	94
TOTAL EQUITY		2,585,864	2,530,818
TOTAL LIABILITIES AND EQUITY		31,931,822	30,035,692

The separate financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 23 March 2018.

Semaan Bassil
Chairman and General Manager

Ziad El-Zoghbi
Head of Finance and Administration

The attached notes 1 to 53 form part of these separate financial statements.

Byblos Bank SAL

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital common shares LL million	Share capital preferred shares LL million	Share premium - common shares LL million	Share premium - preferred shares LL million	Non-distributable reserves LL million	Distributable reserves LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million	Change in value of financial assets at fair value through other comprehensive income LL million	Net results of the financial period- profit LL million	Foreign currency translation reserve LL million	Total LL million
Balance at 1 January 2017	684,273	4,840	229,013	591,083	694,707	84,813	(5,160)	10,930	5,689	(3,375)	233,911	94	2,530,818
Profit for the year	-	-	-	-	-	-	-	-	-	-	212,660	-	212,660
Other comprehensive income	-	-	-	-	-	-	-	2,164	-	2,583	-	-	4,747
Total comprehensive income	-	-	-	-	-	-	-	2,164	-	2,583	212,660	-	217,407
Transfer to retained earnings	-	-	-	-	-	-	-	233,911	-	-	(233,911)	-	-
Appropriations from retained earnings	-	-	-	-	76,321	-	-	(76,321)	-	-	-	-	-
Dividends paid (note 52)	-	-	-	-	-	-	-	(161,137)	-	-	-	-	(161,137)
Translation difference	-	-	-	-	-	(15)	-	(72)	-	-	-	(295)	(382)
Treasury shares	-	-	-	-	-	-	(842)	-	-	-	-	-	(842)
Balance at 31 December 2017	684,273	4,840	229,013	591,083	771,028	84,798	(6,002)	9,475	5,689	(792)	212,660	(201)	2,585,864

	Share capital common shares LL million	Share capital preferred shares LL million	Share premium - common shares LL million	Share premium - preferred shares LL million	Non-distributable reserves LL million	Distributable reserves LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million	Change in value of financial assets at fair value through other comprehensive income LL million	Net results of the financial period- profit LL million	Foreign currency translation reserve LL million	Total LL million
Balance at 1 January 2016	684,273	4,840	229,013	591,083	640,411	84,830	(6,807)	11,833	5,689	(73)	213,203	26	2,458,321
Profit for the year	-	-	-	-	-	-	-	-	-	-	233,911	-	233,911
Other comprehensive income (loss)	-	-	-	-	-	-	-	(100)	-	(3,302)	-	-	(3,402)
Total comprehensive income (loss)	-	-	-	-	-	-	-	(100)	-	(3,302)	233,911	-	230,509
Transfer to retained earnings	-	-	-	-	-	-	-	213,203	-	-	(213,203)	-	-
Appropriations from retained earnings	-	-	-	-	55,384	-	-	(55,384)	-	-	-	-	-
Dividends paid (note 52)	-	-	-	-	-	-	-	(161,060)	-	-	-	-	(161,060)
Merge of a subsidiary (note 25)	-	-	-	-	-	-	-	2,524	-	-	-	-	2,524
Translation difference	-	-	-	-	(970)	(17)	-	(86)	-	-	-	68	(1,005)
Treasury shares	-	-	-	-	(118)	-	1,647	-	-	-	-	-	1,529
Balance at 31 December 2016	684,273	4,840	229,013	591,083	694,707	84,813	(5,160)	10,930	5,689	(3,375)	233,911	94	2,530,818

The attached notes 1 to 53 form part of these separate financial statements.

Byblos Bank SAL

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 LL million	2016 LL million
OPERATING ACTIVITIES			
Profit before tax		257,733	327,310
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortization		19,612	19,637
Provision (write-back of provision) for loans and advances and direct write-offs, net	11	15,153	(7,620)
Provision for impairment of investments in subsidiaries	25	3,028	152,806
Gain on disposal of property and equipment		(1,253)	(59)
Gain on disposal of assets obtained in settlement of debt	10	(3,656)	(4,093)
Provisions for risks and charges, net		13,101	138,172
Unrealized fair value loss on financial instruments at fair value through profit or loss		3,941	5,806
Impairment of goodwill	25	-	12,427
Realized gain from financial assets at fair value through profit or loss		6,107	19,878
Realized gain from financial assets at amortized cost	9	(34,929)	(417,406)
Derivative financial instruments		3,193	(2,758)
Operating profit before working capital changes		282,030	244,100
Changes in operating assets and liabilities			
Due from central banks		(2,664,427)	(1,588,739)
Due to central banks		596,784	223,352
Due from banks and financial institutions		(9,321)	-
Due from subsidiaries		21,715	(15,089)
Financial assets at fair value through profit or loss		523,825	(507,433)
Due to banks and financial institutions		126,829	(23,094)
Due to subsidiaries		(61)	(10)
Net loans and advances to customers and related parties		(439,597)	(350,892)
Assets obtained in settlement of debt	28	(4,242)	(2,836)
Proceeds from sale of assets obtained in settlement of debt		4,456	5,398
Other assets		16,335	(4,025)
Customers' and related parties' deposits		1,071,655	595,468
Other liabilities		(10,125)	229,475
Cash used in operations		(484,144)	(1,194,325)
Provision for risks and charges paid	36	(5,004)	(3,253)
Taxation paid		(110,574)	(46,205)
Net cash used in operating activities		(599,722)	(1,243,783)
INVESTING ACTIVITIES			
Financial assets at fair value through other comprehensive income		(1,714)	(1,559)
Investments in subsidiaries		(12,972)	(79,356)
Financial assets at amortized cost		1,559,639	1,341,941
Loans to banks and financial institutions and reserve purchase agreements		29,372	476,157
Purchase of property and equipment	26	(47,854)	(33,661)
Proceeds from sale of property and equipment		2,213	151
Acquisition of a subsidiary, net of cash acquired	25	-	200,345
Net cash from investing activities		1,528,684	1,904,018
FINANCING ACTIVITIES			
Subordinated debt		2,978	2,765
Treasury shares		(842)	1,528
Dividends paid	52	(161,137)	(161,060)
Net cash used in financing activities		(159,001)	(156,767)
INCREASE IN CASH AND CASH EQUIVALENTS		769,961	503,468
Net effect of foreign exchange		(254)	(1,005)
Cash and cash equivalents at 1 January		4,674,045	4,171,582
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44	5,443,752	4,674,045
Operational cash flows from interest and dividends			
Interest paid		(1,234,414)	(1,139,166)
Interest received		1,678,742	1,503,333
Dividends received		4,865	4,488

The attached notes 1 to 53 form part of these separate financial statements.

1 CORPORATE INFORMATION

Byblos Bank SAL (the “Bank”), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks’ list published by the Central Bank of Lebanon. The Bank’s head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon. The Bank’s shares are listed on the Beirut Stock Exchange and London SEAQ.

The Bank provides a wide range of banking services through its headquarter and branches in Lebanon and abroad (Cyprus and Iraq).

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The separate financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The separate financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest LL million except when otherwise indicated.

These financial statements incorporate the results of operations, assets and liabilities of the Bank and foreign branches only, without consolidating the operating results and financial position of the subsidiaries. Consolidated financial statements as at 31 December 2017 are also presented by the Bank, and are available at the Bank’s offices.

Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission (“BCC”).

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount is reported in the separate statement of financial position only in the ordinary course of business, in the event of default, in the event of insolvency or bankruptcy of the Bank and/or its counterparties or when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously without being contingent on a future event. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the separate statement of financial position. Income and expense will not be offset in the separate income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Bank applied the amendments retrospectively. However, their application has no material effect on the Bank's financial position and performance.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments do not have any impact on the Bank.

2.3 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard on the required effective date along with the provisions of the Central Bank of Lebanon ('BDL') basic circular number 143 and the Banking Control Commission ('BCC') circular number 293.

In accordance with the transition provisions of IFRS 9 (2014), the Bank will apply this standard retrospectively. The changes in measures arising on initial application will be incorporated through an adjustment to opening retained earnings or reserves (as applicable) as at 1 January 2018.

Estimated impact of the adoption of IFRS 9 on the opening equity at 1 January 2018:

Based on assessments undertaken to date, the expected increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model (see II below) compared to IAS 39 incurred loss model is estimated at approximately LL 90 billion, which is already covered by the Bank's excess provisions disclosed in note 36. Accordingly, there will be no impact on the Bank's equity from the adoption of the IFRS 9 impairment requirements.

2 ACCOUNTING POLICIES (continued)**2.3 Standards issued but not yet effective (continued)*****IFRS 9 Financial Instruments (continued)***

The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- Although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- The Bank has not finalized the testing and assessment of control over its new IT systems and changes to its governance framework;
- The Bank is refining and finalizing its models for ECL calculations; and
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalizes its first financial statements that include the date of initial application.

I. Classification and measurement	<p>The Bank has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortized cost information, as well as fair value information is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets.</p> <p>At the date of application of IFRS 9 (2014), the Bank reassessed the classification and measurement category for all financial assets debt instruments that satisfy the contractual cash flow characteristics (SPPI test) and classified them within the category that is consistent with the business model for managing these financial assets on the basis of facts and circumstances that existed at that date.</p> <p>The classification and measurement requirements for financial assets that are equity instruments or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9.</p> <p>The Bank does not expect a material impact on the classification of the Bank's financial assets nor their carrying values.</p>
II. Impairment	<p>The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current model of IAS 39.</p> <p>The ECL model contains a three-stage approach, which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.</p>

2 ACCOUNTING POLICIES (continued)**2.3 Standards issued but not yet effective (continued)*****IFRS 9 Financial Instruments (continued)***

II. Impairment	<p><u>Stage 1</u> 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months.</p> <p><u>Stage 2</u> Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.</p> <p><u>Stage 3</u> Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.</p> <p>Key Considerations Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:</p> <p><i>Assessment of Significant Increase in Credit Risk</i> The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank existing risk management processes.</p> <p>Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:</p> <ol style="list-style-type: none"> (1) We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition. (2) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk. (3) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.
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2 ACCOUNTING POLICIES (continued)**2.3 Standards issued but not yet effective (continued)*****IFRS 9 Financial Instruments (continued)***

II. Impairment	<p><i>Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios</i></p> <p>The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.</p> <p>PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.</p> <p>Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.</p> <p>Our base case scenario will be based on macroeconomic forecasts published by our internal economics group. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.</p> <p>Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.</p> <p><i>Definition of default</i></p> <p>The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.</p> <p><i>Expected Life</i></p> <p>When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.</p>
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2 ACCOUNTING POLICIES (continued)**2.3 Standards issued but not yet effective (continued)*****IFRS 9 Financial Instruments (continued)***

II. Impairment	<p><i>Governance</i></p> <p>In addition to the existing risk management framework, we have established an internal committee to provide oversight to the IFRS 9 implementation. The committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for Expected Credit Losses.</p> <p>The expected impact on the Bank's statement of financial position and equity is discussed above.</p>
III. Hedge accounting	<p>IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Bank, however, has elected to adopt the new hedge accounting provisions of IFRS 9.</p> <p>The Bank does not have hedging relationships.</p>
IV. Financial instruments: disclosures (IFRS 7)	<p>The Bank will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.</p>

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the separate statement of profit or loss. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2019 with early adoption permitted. The Bank is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies

Foreign currency translation

The separate financial statements are presented in Lebanese Lira which is the Bank's presentation currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Bank's at the functional currency spot rate of exchange ruling at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain (loss) from financial instruments at fair value through profit or loss" in the separate income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

Financial instruments –classification and measurement

(i) Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Classification and measurement of financial instruments

a. Financial assets

The classification of financial assets depends on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortized cost or fair value.

An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

Financial assets at amortized cost

Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the separate income statement. The losses arising from impairment are recognized in the separate income statement in "Net credit losses".

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

a. Financial assets (continued)

Financial assets at amortized cost (continued)

Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify financial assets.

Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "Net gain (loss) from sale of financial assets at amortized cost" in the separate income statement.

Balances with central banks, due from banks and financial institutions, loans to banks and financial institutions and loans and advances to customers and related parties – at amortized cost

After initial measurement, "Balances with central banks", "Due from banks and financial institutions", "Loans to banks and financial institutions" and "Loans and advances to customers and related parties" are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the separate income statement. The losses arising from impairment are recognized in the separate income statement in "Net credit losses".

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

a. Financial assets (continued)

Financial assets at fair value through profit or loss

Included in this category are those debt instruments that do not meet the conditions in “*at amortized cost*” above, debt instruments designated at fair value through profit or loss upon initial recognition and equity instruments at fair value through profit or loss.

i. Debt instruments at fair value through profit or loss

These financial assets are recorded in the separate statement of financial position at fair value. Changes in fair value and interest income are recorded under “Net gain (loss) from financial instruments at fair value through profit or loss” in the separate income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Gains and losses arising from the derecognition of debt instruments at fair value through profit or loss are also reflected under “Net gain (loss) from financial instruments at fair value through profit or loss” in the separate income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

ii. Equity instruments at fair value through profit or loss

Investments in equity instruments are classified at fair value through profit or loss, unless the Bank designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income.

These financial assets are recorded in the separate statement of financial position at fair value. Changes in fair value and dividend income are recorded under “Net gain (loss) from financial instruments at fair value through profit or loss” in the separate income statement.

Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under “Net gain (loss) from financial instruments at fair value through profit or loss” in the separate income statement.

Financial assets at fair value through other comprehensive income

Investments in equity instruments designated at initial recognition as not held for trading are classified at fair value through other comprehensive income.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the separate income statement on disposal of the investments.

Dividends on these investments are recognized under “Revenues from financial assets at fair value through other comprehensive income” in the separate income statement when the entity’s right to receive payment of dividend is established in accordance with IAS 18: “Revenue”, unless the dividends clearly represent a recovery of part of the cost of the investment.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

b. Financial liabilities

Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortized cost or fair value.

The Bank classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

Fair value option

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The amount of changes in fair value of a financial liability designated at fair value through profit or loss at initial recognition that is attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the separate income statement. Changes in fair value attributable to changes in credit risk are not reclassified to separate income statement.

Debt issued and other borrowed funds and subordinated debt

Financial instruments issued by the Bank, which are not designated at fair value through profit or loss, are classified as liabilities under "Debt issued and other borrowed funds", where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

b. Financial liabilities (continued)

Debt issued and other borrowed funds and subordinated debt (continued)

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to central banks, due to banks and financial institutions, customers' deposits and related parties deposits

After initial measurement, due to central banks, due to banks and financial institutions, customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

c. Derivatives recorded at fair value through profit or loss

The Bank uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in "Net gain (loss) from financial instruments at fair value through profit or loss" in the separate income statement.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- (a) the hybrid contract contains a host that is not an asset within the scope of IFRS 9
- (b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
- (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (d) the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss

(iii) Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the separate income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the separate income statement when the inputs become observable, or when the instrument is derecognized.

(iv) Reclassification of financial assets

The Bank reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes when significant to the Bank's operations and demonstrable to external parties.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(iv) Reclassification of financial assets (continued)

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognized gains, losses or interest are not restated.

If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognized in profit or loss. If a financial asset is reclassified so that it is measured at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either:
 - ▶ The Bank has transferred substantially all the risks and rewards of the asset, or
 - ▶ The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the separate income statement.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the separate statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the separate statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within “Due to banks and financial institutions”, reflecting the transaction’s economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in its statement of financial position to “Financial assets at fair value through profit or loss pledged as collateral” as appropriate.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Repurchase and reverse repurchase agreements (continued)

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the separate statement of financial position. The consideration paid, including accrued interest is recorded in the separate statement of financial position within “Due from banks and financial institutions and reverse repurchase agreements”, reflecting the transaction’s economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in “Net interest income” and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within “Financial liabilities at fair value through profit or loss” and measured at fair value with any gains or losses included in “Net gain (loss) from financial instruments at fair value through profit or loss” in the separate income statement.

Fair value measurement

The Bank measures financial instruments, such as, derivatives, and financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in the notes.

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 Bank. 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 Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising 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 value 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 Bank 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.

The Bank’s management determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Bank 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

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization default or delinquency in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the separate income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized; the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Net credit losses" in the separate income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not the foreclosure is probable.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(i) Financial assets carried at amortized cost (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral repossessed

The Bank occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the separate income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for capital increase" in the following financial year.

Hedge accounting

The Bank 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 Bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Bank 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 separate income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the separate income statement.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Hedge accounting (continued)

(i) Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the separate income statement in “Net gain (loss) from financial instruments at fair value through profit or loss”. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the separate statement of financial position and is also recognized in “Net gain (loss) from financial instruments at fair value through profit or loss” in the separate income statement.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated effective interest rate (EIR) method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the separate income statement.

(ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the “Cash flow hedge” reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the separate income statement.

When the hedged cash flow affects the separate income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the separate income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the separate income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the separate income statement.

(iii) Hedge of a net investment

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the separate income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in other comprehensive statement is transferred to the separate income statement.

Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the separate income statement on a straight line basis over the lease term. Contingent rental payable are recognized as an expense in the period in which they are incurred.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Leasing (continued)

Bank as a lessor

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest and similar income and expense

For all financial instruments measured at amortized cost, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as "Interest and similar income" for financial assets and "Interest and similar expense" for financial liabilities.

Once the recorded value of a financial asset on a group of similar financial assets has been reduced due to an impairment loss, interest income continue to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized as revenues on expiry.

Fee income from providing transaction services

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission income from providing insurance services

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

2 ACCOUNTING POLICIES (continued)**2.4 Summary of significant accounting policies (continued)****Recognition of income and expenses (continued)****(iii) Dividend income**

Dividend income is recognized when the right to receive the payment is established.

(iv) Net gain (loss) from financial instruments at fair value through profit or loss

Results arising from financial instruments at fair value through profit or loss, include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

(vi) Insurance revenue

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorated method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

Property and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the separate income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Office equipment and furniture	6.66 – 12.5 years
Computer equipment and software	3.33 – 5 years
General installations	5 years
Vehicles	4 years

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in “Net gain (loss) on disposal of fixed assets” in the year the asset is derecognized.

The asset’s residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Bank elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Bank makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest in the acquiree is remeasured at fair value at the acquisition date through the separate income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 "Operating Segments".

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Intangible assets (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the separate income statement.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Key money 10-15 years

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

The Bank does not have intangible assets with indefinite economic life.

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the separate income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within “Other liabilities”) at fair value, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the separate income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the separate income statement in “Net credit losses”. The premium received is recognized in the separate income statement on a straight line basis over the life of the guarantee in “Net fee and commission income”.

Pensions and other post-employment benefits

The Bank operates defined benefit pension plans, which requires contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method which involves making actuarial assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Bank recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Bank recognizes the following changes in the net defined benefit obligation under “Personnel expenses” in separate statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Provisions for risks and charges

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the separate income statement net of any reimbursement.

Taxes

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Bank operates.

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Taxes (continued)

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or 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 taxable temporary differences associated with investments in subsidiaries and associates, where 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, carry forward of unused tax credits and unused tax losses, 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 utilised except:

- Where 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 and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income and not in the separate income statement.

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

Treasury shares

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized in the separate income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

When the Bank holds own equity instruments on behalf of its clients, those holdings are not included in the Bank's separate statement of financial position.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Treasury shares (continued)

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the separate income statement.

Assets held in custody and under administration

The Bank provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in custody or under administration, are not treated as assets of the Bank and accordingly are recorded as off financial position items.

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 Bank.

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

Customers' acceptances

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

Segment reporting

The Bank's segmental reporting is based on the following operating segments: consumer banking, corporate banking, and treasury and capital markets.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Bank's separate financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

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

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank 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 Bank's ability to continue as a going concern. Therefore, the separate financial statements continue to be prepared on the going concern basis.

Business model

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Judgements (continued)

Business model (continued)

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

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether sold assets are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets

The Bank exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized cost measurement. In making the assessment the Bank considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the separate 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 Bank. Such changes are reflected in the assumptions when they occur.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the separate income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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 and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates and assumptions (continued)

Deferred tax assets

Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Pensions obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

4 SEGMENT INFORMATION

For management purposes, the Bank is organized into three operating segments based on products and services as follows:

Retail banking provides a diversified range of products and services to meet the personal banking and consumer finance needs of individuals. The range includes deposits, housing loans, consumer loans, credit cards, funds transfers, foreign exchange and other branch related services.

Corporate banking provides a comprehensive product and service offering to corporate and institutional customers, including loans and other credit facilities, deposits and current accounts, trade finance and foreign exchange operations.

Treasury and capital markets is mostly responsible for the liquidity management and market risk of the Bank as well as managing the Bank's own portfolio of stocks, bonds and other financial instruments. In addition, this segment provides treasury and investment products and services to investors and other institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as performance measure, not the gross income and expense amounts.

Transfer prices between operating segments are on an arms' length basis in a manner similar to transactions with third parties.

4 SEGMENT INFORMATION (continued)

The following table presents net operating income, profit and total assets and liabilities information in respect of the Bank's operating segments:

Profit for the year information

	2017				
	<i>Retail banking LL million</i>	<i>Corporate banking LL million</i>	<i>Treasury and capital markets LL million</i>	<i>Other¹ LL million</i>	<i>Total LL million</i>
Net interest income	163,187	107,052	119,242	-	389,481
Net fee and commission income	62,536	39,721	2,176	-	104,433
Net gain from financial instruments at fair value through profit or loss	-	-	42,286	-	42,286
Net gain from sale of financial assets at amortized cost	-	-	34,929	-	34,929
Dividend income from financial assets at fair value through other comprehensive income	-	-	4,350	-	4,350
Other operating income	-	-	-	15,287	15,287
Net credit losses	(5,823)	(9,330)	-	-	(15,153)
Provision for impairment of investments in subsidiaries	-	-	-	(3,028)	(3,028)
Net operating income	219,900	137,443	202,983	12,259	572,585

	2016				
	<i>Retail banking LL million</i>	<i>Corporate banking LL million</i>	<i>Treasury and capital markets LL million</i>	<i>Other¹ LL million</i>	<i>Total LL million</i>
Net interest income	188,701	103,519	30,849	-	323,069
Net fee and commission income	56,986	42,022	(19)	-	98,989
Net gain from financial instruments at fair value through profit or loss	-	-	43,972	-	43,972
Net gain from sale of financial assets at amortized cost	-	-	417,406	-	417,406
Dividend income from financial assets at fair value through other comprehensive income	-	-	3,865	-	3,865
Other operating income	-	-	-	14,382	14,382
Net credit gains	(11,640)	19,260	-	-	7,620
Provision for impairment of investments in subsidiaries	-	-	-	(152,806)	(152,806)
Net operating income	234,047	164,801	496,073	(138,424)	756,497

Financial position information

	2017				
	<i>Retail banking LL million</i>	<i>Corporate banking LL million</i>	<i>Treasury and capital markets LL million</i>	<i>Other¹ LL million</i>	<i>Total LL million</i>
Total assets	2,897,901	5,264,444	23,157,117	612,360	31,931,822
Total liabilities	24,701,071	1,464,443	2,406,489	773,955	29,345,958

	2016				
	<i>Retail banking LL million</i>	<i>Corporate banking LL million</i>	<i>Treasury and capital markets LL million</i>	<i>Other¹ LL million</i>	<i>Total LL million</i>
Total assets	2,677,446	4,952,805	21,817,286	588,155	30,035,692
Total liabilities	23,615,817	1,478,042	1,675,018	735,997	27,504,874

¹ Other includes all non-banking activities.

4 SEGMENT INFORMATION (continued)**Geographic information**

The Bank operates in two geographical segments, Lebanon and other countries. The following table shows the distribution of the Bank's net operating income and non-current assets.

	<i>2017</i>		
	<i>Lebanon</i> <i>LL million</i>	<i>Other</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Total operating income	566,527	24,239	590,766
Net credit losses	(15,039)	(114)	(15,153)
Provision for impairment of investments in subsidiaries	(3,028)	-	(3,028)
Net operating income²	548,460	24,125	572,585
Non-current assets³	280,705	25,602	306,307
	<i>2016</i>		
	<i>Lebanon</i> <i>LL million</i>	<i>Other</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Total operating income	880,194	21,489	901,683
Net credit gains	7,467	153	7,620
Provision for impairment of investments in subsidiaries	(152,806)	-	(152,806)
Net operating income²	734,855	21,642	756,497
Non-current assets³	259,155	16,556	275,711

² Net operating income is attributed to the geographical segment on the basis of the location of the branch responsible for reporting the results or advancing the funds.

³ Non-current assets consist of property and equipment, intangible assets, and certain other assets (other than financial instruments and deferred taxes) expected to be recovered in more than twelve months after the reporting date.

5 INTEREST AND SIMILAR INCOME

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Balances with central banks	532,518	325,660
Due from banks and financial institutions	35,460	11,632
Due from subsidiaries	1,032	635
Loans to banks and financial institutions and reverse repurchase agreements	16,020	21,148
Loans and advances to customers at amortized cost	506,558	476,083
Loans and advances to related parties at amortized cost	1,141	1,324
Financial assets at amortized cost	552,645	638,860
	1,645,374	1,475,342

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6 INTEREST AND SIMILAR EXPENSE

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Due to central banks	15,785	2,957
Due to banks and financial institutions	19,678	22,572
Due to subsidiaries	1,236	1,165
Customers' deposits at amortized cost	1,126,848	1,035,192
Deposits from related parties at amortized cost	28,307	26,563
Debt issued and other borrowed funds	31,658	31,658
Subordinated debt	32,381	32,166
	<u>1,255,893</u>	<u>1,152,273</u>

7 NET FEES AND COMMISSION INCOME

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Fee and commission income		
Loans and advances	24,896	23,332
Letters of guarantee	10,792	12,024
Acceptances	2,649	2,345
Letters of credit	6,926	6,436
Credit cards	19,810	17,655
Domiciled bills	2,322	2,241
Checks for collection	2,901	3,015
Maintenance of accounts	16,066	13,522
Transfers	8,952	7,040
Safe rental	1,171	1,188
Portfolio commission	1,934	2,681
Refund of banking services	11,072	11,881
Other commissions	3,365	2,477
	<u>112,856</u>	<u>105,837</u>
Fee and commission expense	<u>(8,423)</u>	<u>(6,848)</u>
Net fee and commission income	<u>104,433</u>	<u>98,989</u>

8 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
<i>Interest and similar income from debt instruments</i>		
- Lebanese treasury bills	23,215	27,125
- Certificates of deposit issued by the Central Bank of Lebanon	9,412	27,991
- Foreign governmental debt securities	-	26
- Other debt securities	-	18
	<u>32,627</u>	<u>55,160</u>
<i>(Loss) gain from sale of debt instruments</i>		
- Lebanese treasury bills	(2,857)	(2,722)
- Certificates of deposit issued by the Central Bank of Lebanon	(3,909)	(17,519)
- Foreign governmental debt securities	-	120
- Other debt securities	22	39
	<u>(6,744)</u>	<u>(20,082)</u>
<i>Unrealized (loss) gain from revaluation of debt instruments</i>		
- Lebanese treasury bills	(3,645)	1,061
- Certificates of deposit issued by the Central Bank of Lebanon	-	(6,809)
	<u>(3,645)</u>	<u>(5,748)</u>
Net gain from debt instruments	<u>22,238</u>	<u>29,330</u>
<i>Equity instruments</i>		
- Gain from sale	637	204
- Unrealized loss from revaluation	(296)	(58)
- Dividend income	515	623
Net gain from equity instruments	<u>856</u>	<u>769</u>
Foreign exchange	19,192	18,664
Fair value of put options on non-controlling interests	-	(4,791)
	<u>42,286</u>	<u>43,972</u>

Foreign exchange income includes gains and losses from spot and forward contracts, other currency derivatives and the revaluation of the daily open trading position.

9 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

The Bank derecognizes some debt instruments classified at amortized cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Bank's investment policy;
- Liquidity gap and yield management;
- Exchange of certificates of deposit by the Lebanese Central Bank;
- Currency risk management as a result of change in the currency base of deposits; or
- Liquidity for capital expenditures.

The schedule below details the gains and losses arising from the de-recognition of these financial assets:

	2017		
	<i>Gains</i> <i>LL million</i>	<i>Losses</i> <i>LL million</i>	<i>Net</i> <i>LL million</i>
Lebanese treasury bills	22,577	(591)	21,986
Certificates of deposit issued by the Central Bank of Lebanon	12,943	-	12,943
	<u>35,520</u>	<u>(591)</u>	<u>34,929</u>
	2016		
	<i>Gains</i> <i>LL million</i>	<i>Losses</i> <i>LL million</i>	<i>Net</i> <i>LL million</i>
Lebanese treasury bills	285,927	(6,757)	279,170
Certificates of deposit issued by the Central Bank of Lebanon	136,003	-	136,003
Foreign governmental debt securities	828	-	828
Other debt securities	1,493	(88)	1,405
	<u>424,251</u>	<u>(6,845)</u>	<u>417,406</u>

During 2016, the Central Bank of Lebanon bought from the Bank long-term treasury bills and certificates of deposit denominated in Lebanese Lira at prices significantly exceeding their fair values. These transactions were available to banks provided that they are able to reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or Certificates of Deposit issued by the Central Bank of Lebanon denominated in US Dollars and purchased at their fair values. The gains arising from such trades amounted to LL 271,699 million from the Lebanese treasury bills portfolio and LL 130,539 million from the Certificates of Deposit portfolio.

10 OTHER OPERATING INCOME

	2017 <i>LL million</i>	2016 <i>LL million</i>
Net gain from sale of assets obtained in settlement of debt	3,656	4,093
Rental income from assets obtained in settlement of debt	539	688
Write-back of provisions for risks and charges (note 36 (b))	1,484	2,997
Income from subsidiaries	7,551	5,492
Others	2,057	1,112
	<u>15,287</u>	<u>14,382</u>

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11 NET CREDIT LOSSES

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
<i>Charge for the year:</i>		
Loans and advances to customers at amortized cost (note 22)	(41,072)	(22,297)
Bad debts written-off	(102)	(48)
	<u>(41,174)</u>	<u>(22,345)</u>
<i>Recoveries during the year:</i>		
Loans and advances to customers (note 22)	23,316	28,100
Unrealized interest on loans and advances to customers (note 22)	2,705	1,865
	<u>26,021</u>	<u>29,965</u>
	<u>(15,153)</u>	<u>7,620</u>

12 PERSONNEL EXPENSES

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
Salaries and related charges	135,655	129,831
Social security contributions	17,326	16,929
Bonuses	22,534	13,913
Provision for end of service benefits (note 36 (a))	6,369	6,103
	<u>181,884</u>	<u>166,776</u>

13 OTHER OPERATING EXPENSES

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
Taxes on interest	3,546	3,299
Taxes and duties	3,495	3,112
Contribution to deposits guarantee fund	12,238	11,724
Rent and related charges	5,732	5,045
Professional fees	9,170	13,262
Telecommunications and postage expenses	6,208	6,267
Board of Directors' attendance fees	1,080	830
Maintenance and repairs	15,084	14,338
Electricity and fuel	5,263	5,091
Travel and entertainment	2,333	2,567
Publicity and advertising	14,276	14,345
Subscriptions	3,788	4,862
Legal expenses	4,446	4,052
Insurance	2,205	2,485
Guarding fees	2,368	2,194
Printings and stationery	2,486	2,478
Provisions for risks and charges (note 36 (b))	8,098	20,766
Donations	2,664	2,326
Others	10,129	8,883
	<u>114,609</u>	<u>127,926</u>

14 INCOME TAX EXPENSE

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Lebanese tax rate, are shown in the table below:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Operating profit before tax – Lebanese Branches	248,205	333,895
<i>Impact of increase resulting from:</i>		
Non-deductible provisions	13,460	404,422
Non-deductible expenses	19,709	55,465
	281,374	793,782
<i>Decrease resulting from:</i>		
Revenues previously subject to tax	(4,906)	(4,507)
Provisions already taxed	(8,494)	(20,856)
Indemnities already taxed	(1,762)	(688)
	266,212	767,731
Effective income tax rate	15.416%	15.000%
Income tax	41,040	115,160
Tax on non-residents	674	758
Other	123	-
Total income tax expense	41,837	115,918
Income tax as per income statement for the headquarters and other Lebanese branches	43,050	106,586

The movement of current tax liabilities during the year is as follows:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Balance at 1 January	89,466	19,870
Charge for the year	45,073	93,399
Deferred taxes related to deferred revenues (note 35 (b))	-	22,402
	134,539	135,671
<i>Less taxes paid:</i>		
Current year tax liability *	(21,048)	(28,687)
Prior year's tax liabilities	(89,526)	(17,518)
Balance at 31 December (note 35 (a))	23,965	89,466

(*) Represents taxes paid on interest received from treasury bills and central banks' certificates of deposits.

14 INCOME TAX EXPENSE (continued)

Income tax expenses as shown on the income statement are as follows:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Headquarters and Lebanese Branches		
5% tax expense on interest income	22,002	28,687
Provision on tax expense	21,048	63,899
	<u>43,050</u>	<u>92,586</u>
Branches in Iraq and in Cyprus	2,023	813
	<u>45,073</u>	<u>93,399</u>

15 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit of the Bank (after adjusting for interest on the convertible instruments net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential shares into ordinary shares.

The following table shows the income and share data used in the basic earnings per share calculation:

	<i>2017</i>	<i>2016</i>
Weighted average number of common shares outstanding during the year (*)	563,322,218	562,891,539
	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Profit for the year	212,660	233,911
Less: proposed dividends to preferred shares	(48,480)	(48,480)
Net profit attributable to common shareholders of the Bank	<u>164,180</u>	<u>185,431</u>
Basic earnings per share in LL	<u>291.45</u>	<u>329.43</u>

(*) The weighted average number of ordinary shares adopted for the computation of basic earnings per share takes into account the weighted average number of treasury shares.

15 EARNINGS PER SHARE (continued)**Diluted earnings per share**

The following table shows the income and share data used in the diluted earnings per share calculation:

	<i>2017</i>	<i>2016</i>
Weighted average number of ordinary shares for basic earnings per share	563,322,218	562,891,539
Effect of dilution:		
Convertible subordinated debt	120,000,000	120,000,000
Weighted average number of ordinary shares adjusted for the effect of dilution	683,322,218	682,891,539
	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
Net profit attributable to common shareholders of the Bank	164,180	185,431
Interest on convertible debt	32,382	32,166
Less: income tax	(4,857)	(4,825)
Net profit attributable to equity holders of the Bank adjusted for the effect of convertible debt	191,705	212,772
Diluted earnings per share in LL	280.55	311.58

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these separate financial statements which would require the restatement of earnings per share.

16 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
Cash on hand	245,663	245,798
Balances with the Central Bank of Lebanon:		
- Current accounts	271,665	441,280
- Time deposits	11,038,716	7,707,705
	11,310,381	8,148,985
Balances with Central Banks in other countries:		
- Current accounts	196,063	154,151
- Time deposits	-	38,400
- Provision for balances with Central Banks in other countries (a)	(31,533)	(31,561)
	164,530	160,990
Accrued interest receivable	118,262	85,240
	11,838,836	8,641,013

16 CASH AND BALANCES WITH CENTRAL BANKS (continued)*(a) Provision for balances with Central Banks in other countries*

Movement in the provision for balances with Central Banks in other countries during the year was as follows:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
At 1 January	31,561	31,546
Foreign exchange	(28)	15
At 31 December	31,533	31,561

“Provision for balances with Central Banks in other countries” amounting to LL 31,533 million booked by the Bank represents balances held with the Central Bank of Iraq – Kurdistan as at 31 December 2017 (2016: LL 31,561 million).

Obligatory reserves:

- In accordance with the Central Bank of Lebanon’s rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts amounted to LL 2,719,320 million and LL 2,763,003 million respectively as at 31 December 2017 (2016: LL 2,650,875 million and LL 2,703,653 million respectively).
- Branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2017, obligatory reserve requirements for branches operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LL 19,028 million (2016: LL 26,613 million).

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17 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Banks:		
- Current accounts	1,085,042	700,464
- Time deposits	1,644,565	1,453,477
- Accrued interest receivable	1,003	957
- Doubtful banks accounts	1,919	1,718
- Provision for doubtful banks accounts	(1,919)	(1,718)
	2,730,610	2,154,898
Financial institutions:		
- Current accounts	3,616	2,312
Registered exchange companies:		
- Current accounts	70	243
- Doubtful exchange companies accounts	-	2,306
- Provision for doubtful exchange companies accounts	-	(2,306)
	70	243
Brokerage companies:		
- Current accounts	565	871
	2,734,861	2,158,324

Doubtful banks and registered exchange companies

Following is the movement in the provisions for doubtful banks and registered exchange companies during the year:

	<i>2017</i>			<i>2016</i>		
	<i>Banks</i> <i>LL million</i>	<i>Registered</i> <i>exchange</i> <i>companies</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>	<i>Banks</i> <i>LL million</i>	<i>Registered</i> <i>exchange</i> <i>companies</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January	1,718	2,306	4,024	1,766	1,922	3,688
Acquisition of a subsidiary	-	-	-	-	384	384
Transferred to off-financial position	-	(2,306)	(2,306)	-	-	-
Exchange difference	201	-	201	(48)	-	(48)
Balance at 31 December	1,919	-	1,919	1,718	2,306	4,024

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18 DUE FROM SUBSIDIARIES

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Current accounts	6,099	9,687
Term loans	-	15,089
	6,099	24,776

This caption comprises the following as at 31 December 2017 and 2016:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Byblos Bank Europe SA	6,099	9,664
Byblos Bank RDC SARL (Congo)	-	15,112
	6,099	24,776

19 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Loans to banks and financial institutions	59,119	51,857
Accrued interest receivable	422	379
	59,541	52,236
Discounted acceptances	10,234	13,432
Interest received in advance	(106)	(106)
	10,128	13,326
Reverse repurchase agreements	388,220	754,483
Accrued interest receivable	2,685	297
	390,905	754,780
	460,574	820,342

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19 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS (continued)

Reverse repurchase agreements held by the Bank as at 31 December 2017 and 2016 comprise of the following:

As at 31 December 2017:

	<i>Balance (000)</i>	<i>Balance LL million</i>	<i>Average interest rate %</i>	<i>Collateral type</i>	<i>Collateral value LL million</i>
USD	97,997	147,731	3.52	BDL CDs	150,750
LL	240,489,000	240,489	3.59	BDL CDs	228,000

As at 31 December 2016:

	<i>Balance (000)</i>	<i>Balance LL million</i>	<i>Average interest rate %</i>	<i>Collateral type</i>	<i>Collateral value LL million</i>
USD	301,060	453,847	1.43	BDL CDs	452,250
LL	300,636,000	300,636	3.24	BDL CDs	285,000

The Bank has a programme to purchase securities under agreements to resell (reverse repos). The Bank has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Bank, which instead record a separate asset under reverse repurchase agreement reflecting the transaction's economic substance as a loan by the Bank.

As of 31 December 2017, the Bank had Certificates of Deposit issued by the Central Bank of Lebanon with a total nominal amount of US\$ 100 million and LL 228,000 million bought from a financial institution under the agreement to resell them during the first half of 2018 (31 December 2016: US\$ 300 million and LL 285,000 million under the agreement to resell them during the first half of 2017).

Net interest income on the reverse repurchase agreements amounted to LL 14,212 million for the year ended 31 December 2017 (31 December 2016: LL 17,623 million).

20 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Bank.

	2017			2016		
	<i>Assets LL million</i>	<i>Liabilities LL million</i>	<i>Notional Amount LL million</i>	<i>Assets LL million</i>	<i>Liabilities LL million</i>	<i>Notional amount LL million</i>
<i>Held for trading</i>						
Currency swaps	1,522	1,937	260,345	1,958	938	194,933
Forward foreign exchange contracts	622	1,019	133,561	1,984	623	63,693
	<u>2,144</u>	<u>2,956</u>	<u>393,906</u>	<u>3,942</u>	<u>1,561</u>	<u>258,626</u>

20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**Forwards**

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Derivative financial instruments held or issued for trading purposes

Most of the Bank's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. Also included under this classification are any derivatives entered into for risk management purposes that do not meet the hedge accounting criteria.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
<i>Quoted</i>		
Lebanese treasury bills – Eurobonds	65,409	19,391
Equity securities	2,534	10,134
	67,943	29,525
<i>Unquoted</i>		
Lebanese treasury bills – denominated in LL	150,271	293,990
Certificates of deposit issued by the Central Bank of Lebanon	-	428,572
	150,271	722,562
	218,214	752,087

22 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Commercial loans	5,084,064	4,875,966
Consumer loans	2,996,999	2,786,290
	8,081,063	7,662,256
Less:		
- Unrealized interest	(48,481)	(50,438)
- Individual impairment allowances	(134,966)	(130,393)
- Collective impairment allowances	(61,098)	(67,925)
	7,836,518	7,413,500

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 214,368 million as of 31 December 2017 (2016: LL 167,558 million).

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22 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

Movement of unrealized interest on substandard, doubtful, and bad loans during the year was as follows:

	<i>2017</i>		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	47,564	2,874	50,438
Add (less):			
- Unrealized interest for the year	19,032	1,638	20,670
- Amounts transferred from off financial position	1,251	-	1,251
- Amounts transferred to off financial position	(20,729)	-	(20,729)
- Recoveries (note 11)	(2,682)	(23)	(2,705)
- Amounts written-off	(176)	(522)	(698)
- Difference of exchange	252	2	254
Balance at 31 December	<u>44,512</u>	<u>3,969</u>	<u>48,481</u>
	<i>2016</i>		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	56,173	1,414	57,587
Add (less):			
- Unrealized interest for the year	15,281	2,032	17,313
- Acquisition of a subsidiary	12,612	-	12,612
- Amounts transferred from off financial position	206	1	207
- Transfer to off financial position	(30,552)	-	(30,552)
- Recoveries (note 11)	(1,355)	(510)	(1,865)
- Amounts written-off	(4,906)	(40)	(4,946)
- Difference of exchange	105	(23)	82
Balance at 31 December	<u>47,564</u>	<u>2,874</u>	<u>50,438</u>

22 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

Movement of the individual impairment allowances during the year was as follows:

	<i>2017</i>		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	36,258	94,135	130,393
Add (less):			
- Charge for the year (note 11)	20,869	18,315	39,184
- Amounts written-off	(780)	(396)	(1,176)
- Recoveries (note 11)	(1,833)	(14,483)	(16,316)
- Transfer from off financial position	1,758	208	1,966
- Transfer to off financial position	(15,733)	(5,270)	(21,003)
- Transfer from collective impairment allowances	1,685	-	1,685
- Difference of exchange	196	37	233
Balance at 31 December	<u>42,420</u>	<u>92,546</u>	<u>134,966</u>
Gross amount of loans individually determined to be impaired	<u>208,072</u>	<u>155,725</u>	<u>363,797</u>
	<i>2016</i>		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	41,075	83,861	124,936
Add (less):			
- Charge for the year (note 11)	3,520	17,761	21,281
- Acquisition of a subsidiary	9,224	-	9,224
- Amounts written-off	(421)	(380)	(801)
- Recoveries (note 11)	(1,318)	(7,185)	(8,503)
- Transfer from off financial position	296	78	374
- Transfer to off financial position	(14,820)	-	(14,820)
- Transfer to collective impairment allowances	(1,247)	-	(1,247)
- Difference of exchange	(51)	-	(51)
Balance at 31 December	<u>36,258</u>	<u>94,135</u>	<u>130,393</u>
Gross amount of loans individually determined to be impaired	<u>191,244</u>	<u>141,308</u>	<u>332,552</u>

22 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

Movement of the collective impairment allowances during the year was as follows:

	<i>2017</i>		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	56,091	11,834	67,925
Add (less):			
- Charge for the year (note 11)	262	1,626	1,888
- Recoveries (note 11)	(7,000)	-	(7,000)
- Transfer to individual impairment allowances	(1,685)	-	(1,685)
- Difference of exchange	(30)	-	(30)
Balance at 31 December	47,638	13,460	61,098
	<i>2016</i>		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	71,937	10,799	82,736
Add (less):			
- Charge for the year (note 11)	-	1,016	1,016
- Acquisition of a subsidiary	963	19	982
- Recoveries (note 11)	(19,597)	-	(19,597)
- Transfer from individual impairment allowances	1,247	-	1,247
- Transfer from provisions for risks and charges (note 36 (b))	1,532	-	1,532
- Difference of exchange	9	-	9
Balance at 31 December	56,091	11,834	67,925

Byblos Bank SAL

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23 FINANCIAL ASSETS AT AMORTIZED COST

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
<i>Quoted</i>		
Lebanese treasury bills – Eurobonds	2,032,754	1,956,379
Foreign governmental debt securities	13,394	-
	2,046,148	1,956,379
<i>Unquoted</i>		
Lebanese treasury bills – denominated in LL	1,805,051	2,653,803
Lebanese treasury bills – denominated in LL given as collateral*	735,962	224,044
Certificates of deposit issued by the Central Bank of Lebanon – denominated in LL	1,736,194	2,525,812
Certificates of deposits issued by the Central Bank of Lebanon – Euro CDs	1,498,398	1,956,230
Certificates of deposit issued by banks and financial institutions	-	30,195
	5,775,605	7,390,084
	7,821,753	9,346,463

*This balance represents Lebanese treasury bills pledged as collateral against loans obtained from the Central Bank of Lebanon (note 30).

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Quoted shares	47,452	44,388
Unquoted shares	27,184	25,951
	74,636	70,339

The table below details the financial assets at fair value through other comprehensive income as at 31 December:

	<i>2017</i>			<i>2016</i>		
	<i>Carrying amount</i> <i>LL million</i>	<i>Cumulative fair value changes</i> <i>LL million</i>	<i>Dividend income</i> <i>LL million</i>	<i>Carrying amount</i> <i>LL million</i>	<i>Cumulative fair value changes</i> <i>LL million</i>	<i>Dividend income</i> <i>LL million</i>
<u>Quoted shares:</u>						
Jordan Ahli Bank	47,452	(6,536)	1,978	44,388	(9,600)	3,865
<u>Unquoted shares:</u>						
Intra Investment Company SAL	17,591	4,567	-	17,591	4,567	-
Arab Trade Financing Program	2,118	625	-	2,118	625	-
Leap Investments 1 SAL (Holding)	2,598	-	-	1,841	-	-
Impact Fund	2,686	-	-	2,237	-	-
Berytech Fund	1,393	-	-	1,393	-	-
Others	798	374	2,372	771	399	-
	74,636	(970)	4,350	70,339	(4,009)	3,865

Dividend income amounted to LL 4,350 million for the year ended 31 December 2017 (2016: LL 3,865 million) and resulted from equity instruments held at year end (2016: the same).

Byblos Bank SAL

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25 INVESTMENTS IN SUBSIDIARIES

	<i>Country of incorporation</i>	<i>Activity</i>	<i>Percentage ownership</i>		<i>2017 LL million</i>	<i>2016 LL million</i>
			<i>2017 %</i>	<i>2016 %</i>		
Byblos Bank Europe SA	Belgium	Commercial banking	99.95	99.95	39,418	34,830
Byblos Invest Bank SAL	Lebanon	Investment banking	99.99	99.99	29,998	29,998
Byblos Bank Armenia CJSC	Armenia	Banking	100.00	100.00	85,175	85,175
Adonis Insurance and Reinsurance Co. (ADIR) Syria	Syria	Insurance	40.00	40.00	15,151	15,151
Adonis Brokerage House SAL	Lebanon	Insurance brokerage	99.40	99.40	30	30
Byblos Bank RDC SARL (Congo)	Congo	Banking	66.67	66.67	15,075	15,075
					184,847	180,259
Subordinated Debt:						
Byblos Bank Europe SA					54,207	47,897
Byblos Bank Armenia CJSC					32,823	30,762
					87,030	78,659
Provision for impairment:						
Byblos Bank Armenia CJSC					(8,321)	(8,321)
Byblos Bank RDC SARL (Congo)					(3,015)	-
					(11,336)	(8,321)
					260,541	250,597

The movement of the provision for impairment of investments in subsidiaries was as follows:

	<i>2017 LL million</i>	<i>2016 LL million</i>
Balance at 1 January	8,321	-
Charge during the year	3,028	152,806
Write-off during the year	-	(143,785)
Exchange difference	(13)	(700)
Balance at 31 December	11,336	8,321

Acquisition of ownership interest in Banque Pharaon & Chiha SAL

During 2016, the Bank acquired 100% of the voting shares of Banque Pharaon & Chiha SAL, an unlisted bank operating in Lebanon, for a total consideration of LL 148,732 million. Banque Pharaon & Chiha SAL was engaged in providing a wide range of banking services to its customers through its Head Office and branches located in Lebanon. The acquisition was accounted for under the acquisition method. The results of Banque Pharaon & Chiha SAL for the six-month period from 30 April 2016, the acquisition date, until 31 October 2016 when the assets and liabilities of Banque Pharaon & Chiha SAL were merged with the assets and liabilities of Byblos Bank SAL amounting to LL 2,524 million were directly transferred to the retained earnings in the separate statement of changes in equity. If the acquisition had taken place at the beginning of the year 2016, separate net income for the year would have increased by LL 5,015 million.

	<i>LL million</i>
Cash paid	(148,732)
Net cash acquired with the subsidiary	349,077
Net cash outflow	200,345

25 INVESTMENTS IN SUBSIDIARIES (continued)***Acquisition of ownership interest in Banque Pharaon & Chiha SAL (continued)***

The fair value of the identifiable assets and liabilities acquired arising as at 30 April 2016, the date of acquisition, was:

	<i>Fair value recognized on acquisition LL million</i>
Assets	
Cash and balances with central bank	90,604
Due from banks and financial institutions	27,139
Financial assets at fair value through profit or loss	794
Net loans and advances to customers at amortized cost	135,165
Debtors by acceptances	1,228
Financial assets at amortized cost	206,564
Property and equipment	520
Assets obtained in settlement of debt	47
Other assets	2,030
	<hr/> 464,091 <hr/>
Liabilities	
Deposits from customers at amortized cost	(307,863)
Deposits from related parties at amortized cost	(37,899)
Engagements by acceptances	(1,228)
Other liabilities	(7,734)
Provisions for risks and charges	(2,138)
	<hr/> (356,862) <hr/>
Total identifiable net assets	<hr/> 107,229 <hr/>
	<hr/> <i>LL million</i> <hr/>
Acquisition percentage	100%
Fair value of net assets acquired	(107,229)
Consideration paid	148,732
Excess fair value of soft loan (*)	(73,159)
Additional expenses to be incurred upon acquisition	44,083
	<hr/> 12,427 <hr/>

(*) On 20 October 2016, the Central Bank of Lebanon approved the merger of the assets and liabilities of Banque Pharaon & Chiha SAL and, in this respect, granted the Bank two loans with favourable terms compared to the market. In accordance with the Central Bank of Lebanon's approval, the difference between the fair value of the loans and the proceeds received amounting to LL 73,159 million should be allocated by the Bank to cover the expected costs that will be incurred as a result of the merger. As at 31 December 2016, the Bank allocated the excess received against the below costs:

	<i>LL million</i>
Impairment of goodwill	29,076
Credit losses	27,094
Employees indemnities	16,989
Total	<hr/> 73,159 <hr/>

During 2016, the Bank wrote-off the remaining carrying amount of goodwill amounting to LL 12,427 million in the separate statement of income.

25 INVESTMENTS IN SUBSIDIARIES (continued)

Acquisition of ownership interest in Banque Pharaon & Chiha SAL (continued)

Out of the total consideration paid, an amount of LL 11,005 million was deposited in an escrow account, the purpose of which is to indemnify the Bank from losses incurred by Banque Pharaon & Chiha SAL as a result of unrecorded or undisclosed liabilities, shortfall of provisions for loans and advances to customers and court cases brought against Banque Pharaon & Chiha SAL before the closing date of 30 April 2016. As at 31 December 2017, the unrecorded losses incurred by Banque Pharaon & Chiha SAL as a result of the above amounted to LL 6,229 million (2016: LL 5,247 million) and were paid from the escrow account. The remaining balance of the escrow account amounting to LL 4,776 million (2016: LL 5,758 million) (note 35) will be released to the sellers during the year 2018 unless additional unforeseen liabilities relating to the period before the closing date are incurred by Banque Pharaon & Chiha SAL.

Transactions costs of LL 1,610 million were expensed and included in the “Other operating expenses” in the separate statement of income.

Byblos Bank Armenia CJSC

On 8 April 2016, the Extraordinary General Assembly meeting of Byblos Bank Armenia CJSC resolved to increase Byblos Bank Armenia CJSC’s capital by an amount of LL 49,629 million in which the Bank fully participated. As a result of this capital increase, the Bank’s ownership interest increased from 65.00% to 88.06%.

Effective 24 June 2016, the Bank acquired an additional 8.53% interest in the voting shares of Byblos Bank Armenia CJSC, increasing its ownership interest to 96.59%. A cash consideration of LL 6,130 million was paid to the non-controlling interest shareholders.

Effective 20 July 2016, the Bank acquired an additional 3.41% ownership of Byblos Bank Armenia CJSC shares, increasing its ownership interest to 100%. A cash consideration of LL 2,452 million was paid to non-controlling interest shareholders.

On 27 March 2015, the Bank granted a subordinated loan of USD 5 million to strengthen the private funds of Byblos Bank Armenia under the following conditions:

- The term of the loan is ten years, maturing on 27 March 2025 (subject for an extension period). This loan generates an interest rate of 8.5% yearly, payable every six months. The interest payment and principal of the loan are deferred if the standard ratios applicable to the Bank's activity are not met in accordance with the legislation of the Republic of Armenia.
- The borrower may repay the loan principal and interest before the expiry of the agreed upon period, if the issuer uses the amount paid for the purchase of ordinary shares included in the calculation of the principal private capital of Byblos Bank Armenia, or if the Central Bank of Armenia approves it at least five years from the grant date.
- In the event of deterioration of the financial situation of the borrower, Byblos Bank is required to collect part of the loan specified by the Central Bank of Armenia and is used for the purchase of ordinary shares included in the calculation of the principal private funds of Byblos Armenia.
- The Issuer shall be entitled to replace the loan or part of it, with ordinary shares, provided that at least five years have passed from the grant date.

Interest on this loan amounted to LL 403 million for the year 2017 (2016: LL 642 million).

25 INVESTMENTS IN SUBSIDIARIES (continued)

Byblos Bank Armenia CJSC (continued)

On 30 September 2016, the Bank granted an additional subordinated loan of USD 5.2 million and EUR 9.375 million to strengthen the private funds of Byblos Bank Armenia, under the following conditions:

- The term of the loan is ten years, maturing on 27 September 2026 (subject for an extension period). This loan generates interest at the rate of 6% yearly, payable every six months. The interest payment and principal of the loan are deferred if the standard ratios applicable to the Bank's activity are not met in accordance with the legislation of the Republic of Armenia.
- The borrower has the right to repay the principal of the loan and the interest before the expiry of the agreed upon period, if the issuer used the amount paid for the purchase of ordinary shares included in the calculation of the principal private capital of Byblos Bank Armenia, or if the Central Bank of Armenia has obtained the consent of at least five years from the grant date.
- In the event of deterioration of the financial situation of the borrower, Byblos Bank is required to collect part of the loan specified by the Central Bank of Armenia and is used for the purchase of ordinary shares included in the calculation of the principal private funds of Byblos Armenia.
- The Issuer shall have the right to replace the loan or part of it, with ordinary shares at least five years from the grant date.

Interest on this loan amounted to LL 470 million for the portion granted in US\$ and LL 958 million for the portion granted in Euro for 2017 (2016: LL 24 million and LL 234 million respectively).

Byblos Bank Europe SA

The Bank granted to Byblos Bank Europe in 2014 a subordinated loan of EUR 30 million in accordance with the following conditions:

- The loan is allocated to cover the losses of Byblos Bank Europe.
- The duration of the contract is indefinite and is subordinated to the rest of the debt of Byblos Bank Europe.
- Interest rate of 6% for the first ten years and thereafter the Swap interest on Euro in addition to 4.58% (for 10 years).
- Interest is payable semi-annually on 30 June and 31 December of each year.

Interest on this loan amounted to LL 3,063 million for the year 2017 (2016: LL 3,004 million).

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26 PROPERTY AND EQUIPMENT

	<i>Buildings</i> <i>LL million</i>	<i>Motor</i> <i>vehicles</i> <i>LL million</i>	<i>Furniture</i> <i>and</i> <i>equipment</i> <i>LL million</i>	<i>Deposits</i> <i>LL million</i>	<i>Advance</i> <i>payments</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost:						
At 1 January 2017	234,218	1,789	225,959	554	12,604	475,124
Additions	16,419	139	18,083	2	13,211	47,854
Transfers	16,977	46	1,111	-	(18,134)	-
Disposals	(918)	(89)	(7,426)	-	-	(8,433)
Foreign exchange difference	(130)	(2)	(83)	-	-	(215)
At 31 December 2017	266,566	1,883	237,644	556	7,681	514,330
Depreciation:						
At 1 January 2017	55,566	1,497	181,977	-	-	239,040
Depreciation during the year	4,190	124	15,185	-	-	19,499
Related to disposals	(424)	(89)	(6,960)	-	-	(7,473)
Foreign exchange difference	(22)	(2)	(63)	-	-	(87)
At 31 December 2017	59,310	1,530	190,139	-	-	250,979
Net carrying value:						
At 31 December 2017	207,256	353	47,505	556	7,681	263,351
	<i>Buildings</i> <i>LL million</i>	<i>Motor</i> <i>vehicles</i> <i>LL million</i>	<i>Furniture</i> <i>and</i> <i>equipment</i> <i>LL million</i>	<i>Deposits</i> <i>LL million</i>	<i>Advance</i> <i>payments</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost:						
At 1 January 2016	227,394	1,713	208,406	485	4,131	442,129
Additions	6,824	110	17,347	69	9,311	33,661
Transfers	-	-	838	-	(838)	-
Disposals	-	(34)	(632)	-	-	(666)
At 31 December 2016	234,218	1,789	225,959	554	12,604	475,124
Depreciation:						
At 1 January 2016	50,399	1,403	168,289	-	-	220,091
Depreciation during the year	5,167	128	14,228	-	-	19,523
Related to disposals	-	(34)	(540)	-	-	(574)
At 31 December 2016	55,566	1,497	181,977	-	-	239,040
Net carrying value:						
At 31 December 2016	178,652	292	43,982	554	12,604	236,084

The cost of buildings at 31 December 2017 and 2016 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LL 5,689 million as at 31 December 2017 (2016: the same) (note 42).

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27 INTANGIBLE ASSETS

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Cost:		
At 1 January and 31 December	1,827	1,827
Accumulated amortization:		
At 1 January	1,447	1,333
Amortization expense for the year	113	114
At 31 December	1,560	1,447
Net carrying value:		
At 31 December	267	380

28 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Cost:		
At 1 January	49,205	48,273
Additions	4,242	2,580
Provision transferred from acquisition of subsidiary	-	256
Disposals	(809)	(1,904)
At 31 December	52,638	49,205
Impairment:		
At 1 January	9,958	10,604
Provision transferred from acquisition of subsidiary	-	256
Write-back	(9)	(902)
At 31 December	9,949	9,958
Net carrying value:		
At 31 December	42,689	39,247

Advance payments received in connection with future sale transactions for the above assets amounted to LL 885 million as of 31 December 2017 (2016: LL 372 million) (note 35).

29 OTHER ASSETS

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Management fees due from subsidiaries	2,454	1,314
Prepaid rent	2,798	2,845
Printings and stationery	3,710	3,307
Credit card balances due from customers	15,685	27,307
Receivables from the National Social Security Fund	12,442	12,361
Deferred tax assets	137	593
Other debit balances	8,286	14,120
	45,512	61,847

30 DUE TO CENTRAL BANKS

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Current accounts	-	1,978
Loans due to the Central Bank of Lebanon	858,202	261,277
Accrued interest payable	4,857	1,820
	863,059	265,075

Loans due to the Central Bank of Lebanon:

- The Bank signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision no. 6116 dated 7 March 1996 relating to the facilities which can be granted by the Central Bank of Lebanon to banks. The balance amounted to LL 197,240 million as of 31 December 2017 (2016: LL 111,145 million).
- During 2010, the Bank obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war. These loans were originally granted in the amount of LL 8,810 million, out of which LL 1,895 million matured during 2013 and LL 5,528 million matured during 2015. These loans are secured by the pledge of Lebanese treasury bills amounting to LL 1,387 million included under financial assets at amortized cost as of 31 December 2017 and 2016 (note 23).
- During 2016, the Bank obtained 2 loans from the Central Bank of Lebanon to finance the merger of the assets and liabilities of Banque Pharaon & Chiha SAL and are secured by the pledge of Lebanese treasury bills for the same amount (note 23).
- During 2017, the Bank obtained 10 loans from the Central Bank of Lebanon having maturities ranging between the years 2022 and 2027. These loans are secured by the pledge of Lebanese treasury bills for the same amount included under financial assets at amortized cost as of 31 December 2017 (note 23).

31 December 2017

31 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
<i>Banks:</i>		
- Current accounts	62,139	62,343
- Time deposits	51,010	56,834
- Term loans	253,950	164,177
- Cash margins	6,114	18,075
- Accrued interest payable	2,698	1,910
	375,911	303,339
<i>Financial institutions:</i>		
- Current accounts	6,275	7,118
- Time deposits	21,610	38,473
- Term loans	174,573	115,437
- Accrued interest payable	1,889	1,396
	204,347	162,424
<i>Registered exchange companies:</i>		
- Current accounts	362	462
- Time deposits	6,212	4,557
- Accrued interest payable	43	15
	6,617	5,034
<i>Brokerage institutions:</i>		
- Current accounts	30	91
	586,905	470,888

32 DUE TO SUBSIDIARIES

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Current accounts	26,151	18,247
Time deposits	40,852	35,658
	67,003	53,905

This caption comprises the following as at 31 December 2017 and 2016:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Byblos Invest Bank SAL	44,744	37,023
Byblos Bank Europe SA	5,967	8,654
Byblos Bank Armenia CJSC	1,727	985
Byblos Bank RDC SARL (Congo)	14,565	7,243
	67,003	53,905

33 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Current accounts	3,020,502	2,810,259
Term deposits	21,219,422	20,490,150
Cash margins	1,237,855	1,147,945
Accrued interest payable	142,094	125,584
	25,619,873	24,573,938

34 DEBT ISSUED AND OTHER BORROWED FUNDS

	<i>Maturity</i>	<i>Interest rate %</i>	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Bonds (*)				
Issue 2011	24/06/2021	7.00	452,250	452,250
Accrued interest payable			616	616
			452,866	452,866

(*) The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or Democratic Republic of Congo. The Bank shall pay interest on the bonds without deduction or withholding for taxes. The bonds are redeemable, in whole or in part, at the option of the Bank at any time after the first anniversary of the issue date, in the event of changes in the Lebanese tax law that will result in taxes on interest on the bonds in excess of the current applicable tax rate.

35 OTHER LIABILITIES

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Accrued expenses	37,277	28,390
Fixed assets suppliers	150	567
Unearned commission and interest	1,891	1,651
Cash margins related to companies under establishment	1,525	1,663
Insurance premiums received in advance	2,540	2,795
Payables to the National Social Security Fund	1,319	1,832
Advance payments linked to assets obtained in settlement of debt (note 28)	885	372
Current tax liability (a)	35,359	99,485
Deferred revenues (b)	86,682	126,682
Put options on non-controlling interests	4,791	4,791
Amounts to be incurred upon acquisition of a subsidiary (note 25)	24,953	44,083
Escrow account (note 25)	4,776	5,758
Other creditors	26,756	26,461
	228,904	344,530

35 OTHER LIABILITIES (continued)*(a) Current tax liability*

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Income tax due (note 14)	23,965	89,466
Withholding tax on salaries	2,201	2,167
Withholding tax on interest earned by customers	8,662	6,913
Value added tax	106	214
Other taxes	425	725
	35,359	99,485

(b) Deferred revenues

During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, capped to the extent of the losses recorded to comply with recent regulatory provisioning requirements (refer to note 36), the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One.

The Bank did not recognize in its separate income statement LL 126,682 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon. The related taxes amounting to LL 22,402 million were recorded directly in current tax liability (refer to note 14). During 2017, the Bank transferred an amount of LL 40,000 million (net of tax) from “Deferred revenues” to “Provisions for risks and charges” (note 36). The amount recorded as “Deferred revenues” qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

36 PROVISIONS FOR RISKS AND CHARGES

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Provision for employees’ end of service benefits (a)	42,478	43,277
Other provisions (b)	192,928	146,196
	235,406	189,473

36 PROVISIONS FOR RISKS AND CHARGES (continued)*(a) Provision for employees' end of service benefits*

The Bank has two defined benefit plans covering substantially all of its employees. The first requires contributions to be made to the National Social Security Fund. The entitlement to and level of these end of service benefits provided depend on the employees' length of service, the employees' salaries, contributions paid to the National Social Security Fund and other requirements outlined in the Lebanese Labour Law. Under the second plan, no contributions are required to be made, however a fixed end of service lump sum amount should be paid for long service employees. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. End-of-service benefits for employees at foreign branches are accrued for in accordance with the laws and regulations of the respective countries in which the branches are located.

Movement in the provision for employees' end of service benefits during the year was as follows:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Balance at 1 January	43,277	38,978
<i>Costs charged to the income statement (note 12):</i>		
Service costs	3,250	3,178
Net interest	3,119	2,925
	6,369	6,103
<i>Re-measurement gains in other comprehensive income:</i>		
Experience adjustments	(2,164)	100
	(2,164)	100
Acquisition of a subsidiary	-	1,349
End of service benefits paid during the year	(5,004)	(3,253)
Balance at 31 December	42,478	43,277

The principal assumptions used in determining the end of service benefit obligations of these plans are shown below:

	<i>2017</i>	<i>2016</i>
Economic assumptions		
Discount rate	8.0%	8.0%
Future salary increase	5.5%	5.5%
Future expected return on contributions	5.0%	5.0%
Bonus	Last 2-years average as a % of basic	Last 2-years average as a % of basic
Demographic assumptions		
Retirement age	Earliest of 64 or completion of 20 contribution years	Earliest of 64 or completion of 20 contribution years
Mortality rate	None	None
Turnover rate	2.0%	2.0%

36 PROVISIONS FOR RISKS AND CHARGES (continued)*(a) Provision for employees' end of service benefits (continued)*

A quantitative sensitivity analysis as a result of an increase/decrease of 50 basis points in the significant assumptions as at 31 December 2017 and 2016 is shown as below:

	<i>Discount rate</i>		<i>Future salary increase</i>		<i>Future expected return on contributions</i>	
	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>	<i>Increase</i>	<i>Decrease</i>
	<i>LL</i>	<i>LL</i>	<i>LL</i>	<i>LL</i>	<i>LL</i>	<i>LL</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Impact on net defined benefit obligation						
2017	(1,435)	1,541	3,069	(2,909)	(1,466)	1,419
2016	(1,397)	1,501	2,984	(2,830)	(1,425)	1,377

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

(b) Other provisions

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
Provisions to comply with the Central Bank of Lebanon Intermediate Circular 439 (note 35) *	142,480	102,480
Provisions for contingencies	42,661	34,563
Provisions for legal claims	4,523	4,523
Other	3,264	4,630
	192,928	146,196

(*) During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective provisions equivalent to 2% of consolidated risk weighted loans and advances to customers. As such, provisions for risks and charges as at 31 December 2016 include an amount of LL 102,480 million in excess of the provisioning requirements of IAS 39. During 2017, the Bank transferred an amount of LL 40,000 million (net of tax) from "Deferred revenues" to "Provisions for risks and charges" (note 35).

Movement in other provisions during the year was as follows:

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
At 1 January	146,196	26,087
Charge for the year	8,098	123,246
Write-back during the year (note 10)	(1,484)	(2,997)
Transfer from "Deferred revenues" (note 35)	40,000	-
Transfer to collective impairment allowances (note 22)	-	(1,532)
Acquisition of a subsidiary	-	1,410
Foreign exchange	118	(18)
	192,928	146,196

Byblos Bank SAL

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37 SUBORDINATED DEBT

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Nominal value	452,250	452,250
Unamortized discount	(18,712)	(21,690)
Accrued interest payable	163	163
	<u>433,701</u>	<u>430,723</u>

On 21 December 2012, the Bank signed a US\$ 300 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US\$ 300 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

Number of notes:	30,000
Note's issue price:	US\$ 10,000
Note's nominal value:	US\$ 10,000
Date of issue:	21 December 2012
Maturity:	21 December 2022, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US\$ 2.5 per share or US\$ 125 per GDR
Interest rate:	Contractual interest rate of 6.5% payable semi-annually.
Rights of holders:	The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's at a conversion price of US\$ 2.5 per share or US\$ 125 per GDR.

The convertible subordinated loan was recorded at issuance as follows:

	<i>LL million</i>
Nominal value of convertible bonds	452,250
Equity component	(31,618)
Liability component	<u>420,632</u>

The equity component of the convertible subordinated loan is recorded in equity under "non-distributable reserves" (note 39).

38 SHARE CAPITAL

	<i>2017</i>			<i>2016</i>		
	<i>No of shares</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>	<i>No of shares</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>
Common shares	<u>565,515,040</u>	<u>684,273</u>	<u>229,013</u>	565,515,040	684,273	229,013
<i>Preferred shares</i>						
- Series 2008	<u>2,000,000</u>	<u>2,420</u>	<u>295,154</u>	2,000,000	2,420	295,154
- Series 2009	<u>2,000,000</u>	<u>2,420</u>	<u>295,929</u>	2,000,000	2,420	295,929
	<u>4,000,000</u>	<u>4,840</u>	<u>591,083</u>	4,000,000	4,840	591,083

The capital of the Bank is divided into 569,515,040 shares of LL 1,210 each fully paid (2016: the same).

38 SHARE CAPITAL (continued)***Preferred shares****i) Series 2008 Preferred Shares*

On 15 August 2008, pursuant to the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 preferred shares, according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 100
Share's nominal value:	LL 1,200
Issue premium :	US\$ (000) 195,790 (equivalent to LL 295,154 million) calculated in US\$ as the difference between the total issue of US\$ (000) 200,000 and the total par value of the issue amounting to LL 2,400 million and after deducting issuance commission for the issue amounting to US\$ (000) 2,618.
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-separate distributable net profits.
Repurchase right:	Redeemable at the Bank's option (at a date subsequent to the approval of 2013 accounts by the general assembly) at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of series 2008 preferred shares was increased from LL 1,200 to LL 1,210.

ii) Series 2009 Preferred Shares

On 4 September 2009 pursuant to the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 preferred shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 96
Share's nominal value:	LL 1,210
Issue premium :	US\$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US\$ as the difference between the total issue of US\$ (000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US\$ (000) 2,082.
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-separate distributable net profits.
Repurchase right:	Redeemable at the Bank's option (at a date subsequent to the approval of 2016 accounts by the general assembly) at US\$ 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

Listing of shares

As of 31 December the Bank's shares were listed as follows:

	Stock exchange	2017 No of shares	2016 No of shares
Ordinary shares	Beirut	502,087,540	502,135,490
Global depository receipts (*)	London SEAQ and Beirut	1,268,550	1,267,591
Preferred shares	Beirut	4,000,000	4,000,000

(*) Global Depository Receipts (GDR's) can be issued at a ratio of 50 Common Shares per one GDR.

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39 NON-DISTRIBUTABLE RESERVES

	<i>Legal reserve</i> <i>LL million</i>	<i>Reserves for capital increase</i> <i>LL million</i>	<i>Equity component of subordinated debt</i> <i>LL million</i>	<i>Reserve for general banking risks</i> <i>LL million</i>	<i>Other reserves</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2017	263,452	68,420	31,618	294,977	36,240	694,707
Appropriation from retained earnings	23,628	49,564	-	-	3,129	76,321
Balance at 31 December 2017	287,080	117,984	31,618	294,977	39,369	771,028
Balance at 1 January 2016	241,951	65,105	31,618	267,965	33,772	640,411
Appropriation from retained earnings	21,501	3,433	-	27,982	2,468	55,384
Translation difference	-	-	-	(970)	-	(970)
Net loss on sale of treasury shares	-	(118)	-	-	-	(118)
Balance at 31 December 2016	263,452	68,420	31,618	294,977	36,240	694,707

Legal reserve

According to the Lebanese Code of Commerce and to the Code of Money and Credit, the Bank is required to transfer 10% of their annual net profit to a legal reserve. In addition, foreign branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2017, the Bank appropriated LL 23,628 million from 2016 profits to the legal reserve (2016: LL 21,501 million from 2015 profits).

Reserves for capital increase

This represents regulatory reserves constituted in accordance with circulars issued by the Central Bank of Lebanon and the Banking Control Commission. These reserves cannot be distributed as dividends and comprise the following:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Reserve equivalent to gain on sale of assets acquired in settlement of debt	36,439	32,339
Reserve against gains realized from deferred revenues	43,130	-
Reserve equivalent to provisions on loans and advances recovered	9,737	9,737
Reserve against assets obtained in settlement of debt	19,183	16,849
Reserve against realized gain from liquidation of fixed position	8,870	8,870
Others	625	625
	117,984	68,420

Reserve for general banking risks

According to the Central Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2% and a maximum of 0.3% of total risk weighted assets and off statement of financial position items based on rates specified by the Central Bank of Lebanon to cover general banking risks. The separate ratio should not be less than 1.25% of these risks at the end of year ten (2017). This reserve cannot be distributed as dividends.

The appropriation in 2016 from the profits of the year 2015 amounted to LL 27,982 million.

39 NON-DISTRIBUTABLE RESERVES (continued)*Other reserves*

Other reserves consist of the following:

- During 2013, the Bank transferred an amount of LL 31,077 million from retained earnings to other reserves related to the subordinated debt.
- According to BCC Circular no 280 dated 2 January 2017, banks are required to appropriate from their annual profit 0.5% of performing retail loans (with certain exemptions) up to 30 days past due as at 31 December 2014 with effect the year 2015. During 2017, the General Assembly Meeting of the Bank allocated an amount of LL 3,129 million as a reserve for retail loans (2016: LL 2,468 million).

40 DISTRIBUTABLE RESERVES

The movement in distributable reserves during the year was as follows:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
At 1 January	84,813	84,830
Translation difference	(15)	(17)
At 31 December	84,798	84,813

The Bank appropriates general reserves from its retained earnings to strengthen its equity. These reserves amounting to LL 84,798 million (2016: LL 84,813 million) are available for dividends distribution.

41 TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2017 and 2016 was as follows:

Year ended 31 December 2017

	<i>Common shares</i>		<i>Global Depository Receipts</i>	
	<i>No. of shares</i>	<i>Amount</i> <i>US\$(000)</i>	<i>No. of shares</i>	<i>Amount</i> <i>US\$(000)</i>
At 1 January 2017	1,532,182	2,686	8,941	738
Acquisitions of treasury shares	383,423	648	250	19
Sales of treasury shares	(62,500)	(109)	-	-
At 31 December 2017	1,853,105	3,225	9,191	757
Total treasury shares in LL million				6,002

Year ended 31 December 2016

	<i>Common shares</i>		<i>Global Depository Receipts</i>	
	<i>No. of shares</i>	<i>Amount</i> <i>US\$(000)</i>	<i>No. of shares</i>	<i>Amount</i> <i>US\$(000)</i>
At 1 January 2016	2,151,237	3,797	8,690	718
Acquisitions of treasury shares	296,757	494	251	20
Sales of treasury shares	(915,812)	(1,605)	-	-
At 31 December 2016	1,532,182	2,686	8,941	738
Total treasury shares in LL million				5,160

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42 REVALUATION RESERVE OF REAL ESTATE

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Revaluation reserve accepted in Tier II capital	1,978	1,978
Revaluation reserve not accepted in Tier II capital	3,711	3,711
	<u>5,689</u>	<u>5,689</u>

43 CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement of the change in fair value of financial assets at fair value through other comprehensive income for the years 2017 and 2016 was as follows:

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
At 1 January	(3,375)	(73)
Net changes in fair values during the year	3,039	(3,882)
Net changes in deferred taxes	(456)	580
Balance at 31 December	<u>(792)</u>	<u>(3,375)</u>

44 CASH AND CASH EQUIVALENTS

	<i>2017</i> <i>LL million</i>	<i>2016</i> <i>LL million</i>
Cash and balances with central banks	2,544,476	2,011,080
Due from banks and financial institutions	2,725,540	2,158,324
Due from subsidiaries	12,725	9,687
Loans to banks and financial institutions and reverse repurchase agreements	449,322	779,718
	<u>5,732,063</u>	<u>4,958,809</u>
<i>Less:</i>		
Due to central banks	(6,680)	(5,480)
Due to banks and financial institutions	(214,628)	(225,440)
Due to subsidiaries	(67,003)	(53,844)
Cash and cash equivalents at 31 December	<u>5,443,752</u>	<u>4,674,045</u>

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45 RELATED PARTY TRANSACTIONS

Loans to related parties, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others and (c) did not involve more than a normal risk of collectability or present other unfavorable features.

Related party balances included in the Bank's separate statement of financial position are as follows as of 31 December:

	31 December 2017				31 December 2016			
	<i>Key management</i>	<i>Subsidiaries</i>	<i>Other</i>	<i>Total</i>	<i>Key management</i>	<i>Subsidiaries</i>	<i>Other</i>	<i>Total</i>
	<i>personnel</i>				<i>personnel</i>			
	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Due from banks and financial institutions	-	-	13,342	13,342	-	-	29,265	29,265
Due from subsidiaries	-	6,099	-	6,099	-	24,776	-	24,776
Loans and advances	7,327	-	8,856	16,183	6,001	-	8,756	14,757
Due to banks and financial institutions	-	-	93,493	93,493	-	-	93,383	93,383
Due to subsidiaries	-	67,003	-	67,003	-	53,905	-	53,905
Deposits	106,943	170,772	267,926	545,641	103,235	156,760	259,926	519,921
Debt issued and other borrowed funds	973	8,743	973	10,689	977	8,585	976	10,538
Subordinated debt	360	10,222	8,710	19,292	368	10,462	17,756	28,586
Guarantees received	6,587	3,474	5,305	15,366	6,796	3,154	5,276	15,226
Guarantees given	77	3,263	729	4,069	80	3,248	423	3,751
Commitments (including acceptances)	2,812	-	1,603	4,415	1,835	-	2,199	4,034
Management fees receivable	-	1,853	-	1,853	-	1,314	-	1,314

Related party transactions included in the Bank's separate income statement are as follows for the year ended 31 December:

	31 December 2017				31 December 2016			
	<i>Key management</i>	<i>Subsidiaries</i>	<i>Other</i>	<i>Total</i>	<i>Key management</i>	<i>Subsidiaries</i>	<i>Other</i>	<i>Total</i>
	<i>personnel</i>				<i>personnel</i>			
	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Interest income on due from banks and financial institutions	-	-	32	32	-	-	429	429
Interest income on due from subsidiaries	-	1,032	-	1,032	-	635	-	635
Interest income on loans and advances	402	7	732	1,141	329	1	994	1,324
Interest expense on due to subsidiaries	-	1,236	-	1,236	-	1,165	-	1,165
Interest expense on deposits	6,122	9,709	12,475	28,306	6,768	8,535	11,260	26,563
Interest expense on due to banks and financial institutions	-	-	1,566	1,566	-	-	1,459	1,459
Interest expense on debt issued and other borrowed funds	68	612	68	748	68	602	68	738
Interest expense on subordinated debt	23	657	560	1,240	24	673	1,141	1,838
Management services to subsidiaries	-	1,986	-	1,986	-	1,509	-	1,509
Rent expense	-	-	600	600	-	-	544	544

In addition to the above, the Bank entered into an agreement with the International Finance Corporation (IFC) whereby the latter makes available a non-committed trade finance guarantee facility to the Bank up to US\$ 30 million. As at 31 December 2017, guarantees issued by IFC amounted to LL 10,071 million (2016: LL 27,677 million).

45 RELATED PARTY TRANSACTIONS (continued)**Compensation of the Key Management Personnel of the Bank**

	2017	2016
	LL million	LL million
Short-term benefits ¹	19,921	12,774

¹ Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other short-term benefits to key management personnel.

46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS**Credit-related commitments and contingent liabilities**

To meet the financial needs of customers, the Bank enters into various commitments, guarantees and other contingent liabilities, on which are mainly credit-related instruments including financial and other guarantees and commitments to extend credit. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

	2017		
	<i>Banks</i>	<i>Customers</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	191,303	191,303
Other guarantees	148,936	738,289	887,225
	<u>148,936</u>	<u>929,592</u>	<u>1,078,528</u>
Commitments			
Documentary credits	325,349	11,115	336,464
Loan commitments	-	1,931,591	1,931,591
	<u>325,349</u>	<u>1,942,706</u>	<u>2,268,055</u>
	2016		
	<i>Banks</i>	<i>Customers</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	203,139	203,139
Other guarantees	173,721	781,980	955,701
	<u>173,721</u>	<u>985,119</u>	<u>1,158,840</u>
Commitments			
Documentary credits	146,789	4,568	151,357
Loan commitments	-	2,838,085	2,838,085
	<u>146,789</u>	<u>2,842,653</u>	<u>2,989,442</u>

46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Guarantees

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees provided include mainly performance guarantees, advance payment guarantees and tender guarantees.

Documentary credits

Documentary credits commit the Bank to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Investment commitments

During 2017 and 2016, the Bank invested in funds pursuant to the provisions of Decision no. 6116 dated 7 March 1996. In accordance with this resolution, the Bank can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Bank of LL 2,747 million as of 31 December 2017 (2016: LL 3,952 million).

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had several unresolved legal claims. Based on advice from legal counsel, management believes that legal claims will not result in any financial loss to the Bank.

Lease arrangements

Operating leases – Bank as lessee

The Bank has entered into commercial leases on premises. These leases have an average life of between five and ten years. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
Within one year	4,346	3,546
After one year but not more than five years	12,371	9,333
More than five years	10,577	9,977
	27,294	22,856

Other contingencies

Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. Fiscal years from 2012 to 2014 are currently being reviewed by the Department of Income Tax, the outcome of which cannot be presently determined. Fiscal years from 2015 to 2017 remain open to review by the authorities. Management believes that the effect of any such review will not have a material effect on the separate financial statements.

47 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
Assets held in custody and under administration	3,099,494	3,019,216

Assets held in custody and under administration

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. Administration includes the provision of various support functions activities including the valuation of portfolios of securities and other financial assets on behalf of clients, which complements the custody business.

48 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Bank as a going concern.

Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose most significant inputs are observable in an active market. Such valuation techniques and models incorporate assumptions about factors observable in an active market that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults rates.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value measurement hierarchy of the Bank's financial assets and liabilities carried at fair value:

	2017			Total LL million
	Valuation techniques			
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	
Assets:				
<i>Derivative financial instruments:</i>				
Currency swaps	-	1,522	-	1,522
Forward foreign exchange contracts	-	622	-	622
<i>Financial assets at fair value through profit or loss:</i>				
Lebanese treasury bills	65,409	150,271	-	215,680
Equity securities	2,534	-	-	2,534
Financial assets at fair value through other comprehensive income	47,452	-	27,184	74,636
Liabilities:				
<i>Derivative financial instruments:</i>				
Currency swaps	-	1,937	-	1,937
Forward foreign exchange contracts	-	1,019	-	1,019

	2016			Total LL million
	Valuation techniques			
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	
Assets:				
<i>Derivative financial instruments:</i>				
Currency swaps	-	1,958	-	1,958
Forward foreign exchange contracts	-	1,984	-	1,984
<i>Financial assets at fair value through profit or loss:</i>				
Lebanese treasury bills	19,391	293,990	-	313,381
Certificates of deposit issued by the Central Bank of Lebanon	-	428,572	-	428,572
Equity securities	10,134	-	-	10,134
Financial assets at fair value through other comprehensive income	44,388	-	25,951	70,339
Liabilities:				
<i>Derivative financial instruments:</i>				
Currency swaps	-	938	-	938
Forward foreign exchange contracts	-	623	-	623

There were no transfers between levels during 2017 (2016: the same).

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Assets and liabilities carried at fair value using a valuation technique with significant observable inputs (Level 2)*****Derivatives***

Derivative products are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Governmental bonds, certificates of deposits and other debt securities

The Bank values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities, credit spreads and broker statements.

Assets and liabilities carried at fair value using a valuation technique with significant unobservable inputs (Level 3)***Equity shares of non-listed entities***

The Bank's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Bank determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value.

Reconciliation of fair value measurement of financial assets in unquoted equity shares:

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
Balance at 1 January	25,951	23,841
Additions	1,205	2,105
Re-measurement recognized in other comprehensive income	28	5
	27,184	25,951

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Comparison of carrying and fair values for financial assets and liabilities not held at fair value:**

The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Bank's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

	2017		2016	
	<i>Fair value</i> <i>LL million</i>	<i>Carrying value</i> <i>LL million</i>	<i>Fair value</i> <i>LL million</i>	<i>Carrying Value</i> <i>LL million</i>
FINANCIAL ASSETS				
Cash and balances with central banks	11,838,836	11,838,836	8,641,013	8,641,013
Due from banks and financial institutions	2,734,861	2,734,861	2,158,324	2,158,324
Due from subsidiaries	6,099	6,099	24,776	24,776
Loans to banks and financial institutions and reverse repurchase agreements	460,574	460,574	820,316	820,342
Net loans and advances to customers at amortized cost	7,836,745	7,836,518	7,413,622	7,413,500
Net loans and advances to related parties at amortized cost	16,183	16,183	14,757	14,757
<i>Financial assets at amortized cost:</i>				
Lebanese treasury bills	4,536,409	4,573,767	4,815,160	4,834,226
Certificates of deposit issued by the Central Bank of Lebanon	3,287,258	3,234,592	4,535,221	4,482,042
Foreign governmental debt securities	13,394	13,394	-	-
Certificates of deposit issued by banks and financial institutions	-	-	30,230	30,195
FINANCIAL LIABILITIES				
Due to central banks	863,059	863,059	265,075	265,075
Due to banks and financial institutions	586,905	586,905	470,888	470,888
Due to subsidiaries	67,003	67,003	53,905	53,905
Customers' deposits at amortized cost	25,674,372	25,619,873	24,646,646	24,573,938
Deposits from related parties at amortized cost	551,647	545,641	526,470	519,921
Debt issued and other borrowed funds	449,474	452,866	451,735	452,866
Subordinated debt	413,350	433,701	420,547	430,723

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3)***Deposits with banks and loans and advances to banks***

For the purpose of this disclosure there is minimal difference between fair value and carrying amount of these financial assets as they are short-term in nature or have interest rates that re-price frequently. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality.

Government bonds, certificates of deposits and other debt securities

The Bank values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities, credit spreads and broker statements.

Loans and advances to customers

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers with long-term maturities is estimated using discounted cash flows by applying current rates for new loans granted during 2017 with similar characteristics.

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3) (continued)

Deposits from banks and customers

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, are estimated using discounted cash flows, applying either market rates or current rates for deposits of similar characteristics.

Debt issued and other borrowed funds and subordinated debt

Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

	2017			<i>Total LL million</i>
	<i>Valuation techniques</i>			
	<i>Quoted market price Level 1 LL million</i>	<i>Observable inputs Level 2 LL million</i>	<i>Unobservable inputs Level 3 LL million</i>	
Assets for which fair values are disclosed:				
Cash and balances with central banks	245,663	11,593,173	-	11,838,836
Due from banks and financial institutions	-	2,734,861	-	2,734,861
Due from subsidiaries	-	6,099	-	6,099
Loans to banks and financial institutions and reverse repurchase agreements	-	460,574	-	460,574
Net loans and advances to customers at amortized cost	-	-	7,836,745	7,836,745
Net loans and advances to related parties at amortized cost	-	-	16,183	16,183
<i>Financial assets at amortized cost:</i>				
Lebanese treasury bills	1,977,637	2,558,772	-	4,536,409
Certificates of deposit issued by the Central Bank of Lebanon	-	3,287,258	-	3,287,258
Foreign governmental debt securities	13,394	-	-	13,394
Liabilities for which fair values are disclosed:				
Due to central banks	-	863,059	-	863,059
Due to banks and financial institutions	-	586,905	-	586,905
Due to subsidiaries	-	67,003	-	67,003
Customers' deposits at amortized cost	-	25,674,372	-	25,674,372
Deposits from related parties at amortized cost	-	551,647	-	551,647
Debt issued and other borrowed funds	-	449,474	-	449,474
Subordinated debt	-	413,350	-	413,350

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2016			Total LL million
	Valuation techniques			
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobserva ble inputs Level 3 LL million	
Assets for which fair values are disclosed:				
Cash and balances with central banks	245,798	8,395,215	-	8,641,013
Due from banks and financial institutions	-	2,158,324	-	2,158,324
Due from subsidiaries	-	24,776	-	24,776
Loans to banks and financial institutions and reverse repurchase agreements	-	820,316	-	820,316
Net loans and advances to customers at amortized cost	-	-	7,413,622	7,413,622
Net loans and advances to related parties at amortized cost	-	-	14,757	14,757
<i>Financial assets at amortized cost:</i>				
Lebanese treasury bills	1,906,403	2,908,757	-	4,815,160
Certificates of deposit issued by the Central Bank of Lebanon	-	4,535,221	-	4,535,221
Foreign governmental debt securities	-	30,230	-	30,230
Liabilities for which fair values are disclosed:				
Due to central banks	-	265,075	-	265,075
Due to banks and financial institutions	-	470,888	-	470,888
Due to subsidiaries	-	53,905	-	53,905
Customers' deposits at amortized cost	-	24,646,646	-	24,646,646
Deposits from related parties at amortized cost	-	526,470	-	526,470
Debt issued and other borrowed funds	-	451,735	-	451,735
Subordinated debt	-	420,547	-	420,547

49 RISK MANAGEMENT**49.1 INTRODUCTION**

Risk is inherent in the Bank's activities, yet it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, interest rate risk, liquidity risk and market risk. It is also subject to various operational risks.

The Bank's risk management process involves identification, measurement, monitoring and controlling risks to ensure that:

- Individuals who take or manage risks clearly understand it;
- The organization's risk exposure is within the limits established by the Board of Directors (Board);
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the bank's strategic planning process.

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Bank risk management structure

The Board of Directors is primarily responsible for establishing / approving the Bank's strategic direction and approving the nature and levels of risk the Bank is willing to take. The Board has established four committees to assist in carrying out its responsibilities:

Risk Committee: It is primarily responsible to formulate the risk appetite statement for the Bank through establishing a comprehensive set of internal risk limits and other qualitative risk statements that clearly define the amount of risks the Board is willing to take and those risks the Board wishes to avoid, and monitors compliance to the risk appetite statement. It provides oversight of Senior Management's activities in managing capital adequacy, credit, market, liquidity and operational risks of the Bank. It also oversees the process and outcome of the ICAAP (Internal Capital Adequacy Assessment Process), IFRS 9 and Recovery Plan. It discusses and approves risk policies.

Anti-Money Laundering and Compliance Committee: It has been established according to BDL basic circular number 83 dated 18/05/2001. The mission of the committee is to ensure the Bank's compliance with anti-money laundering laws (namely Law Number 318 dated April 20, 2001 and BDL circular number 83 dated 18 May 2001) and all amendments thereto. The committee has an oversight responsibility over the Bank's compliance program (set of policies, procedures, resources and systems) for detecting and preventing all forms of money laundering as well as preventing any of the Bank's entities from being misused by individuals or organizations to circumvent or violate local and international sanctions laws and regulations.

Audit Committee: monitors the Bank's accounting practices and external reporting, and reviews the audit reports covering the Bank's operations and takes appropriate actions / decisions.

Remuneration, Nomination and Corporate Governance Committee: ensures that the Bank has coherent remuneration policies and practices, and that proper succession plans for board members and senior managers are in place. It is also responsible to make sure that corporate governance principles and the code of conduct are well established at the Bank to warrant the confidence of shareholders, investors and stakeholders.

The above Board Committees are composed of mostly independent / non-executive members satisfying the applicable best practice requirements. In addition, the Board delegates its day-to-day risk management activities to the Senior Management, through the following diverse committees that have been established:

Executive Committee: acts under the supervision of the Chairman to ensure execution of all strategic directives stipulated by the Board and to propose new strategic projects and plans to the Board. Membership is assigned to the Chairman/General Manager, the Head of the Group Consumer Banking Division, the Head of Group Financial Markets and Financial Institutions Division, the Head of Group Commercial Banking Division, the Head of Group Risk Management Division and the Head of Foreign Banking Unit.

Central Credit Committee (CCC): is the highest credit authority in the Bank after the Board. Its mission is to review and approve high-value amount credit proposals. The internal lending limit is set at 10% of capital, which requires the joint approval of the Chairman and the CCC. Credit proposals exceeding the internal lending limit are referred to the Board (or any delegated committee) for approval. The CCC delegates approval authority for lower amount credit proposals to various sub-committees.

Assets and Liabilities Committee (ALCO): whose mission is to manage the statement of financial position in compliance with the main objectives of the Bank, in terms of growth, liquidity and interest income. Its role encompasses the review, approval and implementation of the Bank's strategies regarding liquidity and interest rate, FX and trading activities through decisions on size and duration of mismatched positions and on pricing.

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Bank risk management structure (continued)

Risk Committee: whose task is to formulate and enforce guidelines and standards with regard to capital adequacy and risk measurement and management. It also reviews reports and findings identified by the Bank Risk Management and issues related to the implementation of Basel II/ Basel III projects. The committee discusses and approves the risk policies, the risk measurement tools such as rating and scoring, and risk-based processes including stress testing, economic capital, and risk-based profitability. It oversees the risk reports prepared and the framework and results relating to processes (such as ICAAP, IFRS 9 Impairment, Recovery Planning) before submission to the Board.

The Bank also established two other committees concerned with the risk management and compliance, being: *The Operational Risk Management Committee* and the *Compliance and Anti-Money Laundering Committee*. The Operational Risk Committee's mission is to provide oversight for the Bank's operational risk function, the processes and the systems developed to assess, monitor and mitigate operational risks. The mission of the Compliance and Anti-Money Laundering Committee is to ensure that the Bank is in compliance with anti-money laundering laws and internationally administered sanction laws; and to oversee implementation of the Bank's KYC and sanction policies.

Group Internal Audit Division

The Bank Internal Audit Division (GIA) is responsible for providing an independent, objective assurance and consulting activity designed to add value and improve the Bank's operations. It helps the Bank accomplish its objectives by bringing a systematic disciplined and risk-based approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Its role within the Bank is to ensure that adequate internal controls are maintained and where weaknesses are identified, they are reported to Senior Management and the Audit Committee along with recommendations for improvement. The GIA assesses all new products and procedures and changes in systems and reports its recommendations accordingly.

The GIA also ensures that the Bank is in compliance with the rules and regulations in different jurisdictions where the Bank is operating, the Central Banks and Banking Control Commission requirements, Board of Directors and management directives and implemented policies and procedures.

Risk Management - Basel Perspective

The Bank's risk management function follows the prudential rules and regulations set forth by the Basel Committee in the Core Principles for Effective Banking Supervision document (September 2012) and Basel Capital Accord texts (Basel III) to measure and assess the risks identified under the pillars I and II, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Bank adopts a phased approach to take more sophisticated steps towards credit risk and make use of internal ratings-based methodology - or 'IRB Approach'- to calculate expected credit loss and ultimately capital requirements for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for.

As for addressing the capital management issue in the context of Basel III, the Bank develops annually a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) document, disclosing the risk appetite statement and covering all risks to which the Bank is or may be exposed, as well as risk factors emanating from the environment in which it operates. Mild and severe stress scenarios and sensitivity analysis are undertaken within ICAAP to assess the sufficiency of capital and liquidity in sustaining the Bank's operations and business plans on the medium term.

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Risk Management - Basel Perspective (continued)

Moreover, risk management is engaged in preparing the Recovery Plan process, basing the analysis on plausible and extreme idiosyncratic and systemic stress scenarios, assessing their impact on key performance/risk indicators, and considering the menu of available recovery options. Risk management has been cooperating with Finance in managing the IFRS 9 expected credit loss process and the calculation of the expected credit loss provision. The Bank went through an extensive consultancy to get an evaluation of its readiness in meeting the ECL requirements, including a review of the Probability of Default (PD) and Loss Given Default (LGD) to reach point-in-time forward-looking parameters. The Bank is also employing internal capabilities to develop predictive PD and LGD models for the Retail and Housing portfolios.

The overall responsibility for the monitoring and the analytical management of the risk is effectively assigned to the Group Risk Management division (GRM). The GRM reports to the Chairman and General Manager through the Head of the GRM division. Risk issues and reports are submitted to the Board regularly through the Board Risk Committee.

The GRM has a dedicated team, *Financial and Operational Risk Management Department* that fulfils the analytical part of risk management and is thereby in direct charge of identifying, measuring, monitoring and controlling Pillar 1 and 2 risks faced by the Bank. The department is split into three main functions:

Credit Risk Policies and Analytics that is responsible in drafting necessary credit risk policies and implementing risk measurement tools, such as retail scoring and commercial rating. The team is responsible for the preparation and reporting of Basel III regulatory CAR report, the development of stress testing scenarios, the write-up of risk reports and ICAAP documents. These units are in charge of the Recovery Plan and IFRS 9 ECL processes. They handle as well the measurement of PD (probability of default), LGD (loss given default) and EAD (expected at default).

Asset-Liability and Market Risk Management sets the firm-wide framework necessary for identification, measurement and management of market risk across the Bank, including developing policies, procedures, and risk measurement methodologies. Market Risk is also in charge of monitoring the Bank's limits regarding liquidity, interest rate risk, foreign exchange and securities investment positions, stress test and report on breaches to Senior Management and the Board of Directors.

Operational Risk Management is responsible for establishing the necessary framework for identifying, measuring and managing operational risk across the Bank. ORM Unit has established the necessary tools enabling to derive the risk profile of the Bank, starting with spreading the risk culture through regular training, supporting operational risk events reporting and loss database, conducting operational risk scenarios with the business owners to focus on the high risk areas and the exposure to capital in a way to supplement the assessment of the regulatory capital charge, and developing a KRI program to establish KRIs that monitor the Bank's exposure to key risks. ORM Unit facilitates the risk and control assessment (RCA) for the main Bank processes and new products/activities.

Risk Management Framework

The Risk Management Framework is based on a set of principles adopted by the Board through the Risk Charter. These principles are being reviewed annually or upon need in order to be aligned with the changes related to the internal and external environment of the Bank. The set of basic principles that governs the risk management framework of the Bank are developed based on the following:

Business Line Accountability: Business lines are accountable for managing the risks associated with their activities and establish tolerances for risk taking. The accountability exists notwithstanding the presence of any support functions dedicated to risk management activities.

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Risk Management Framework (continued)

Strategic Level Risk Management, encompasses the risk management functions performed by Senior Management and the Board. It includes defining the Bank's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that the Bank's aggregate risk profile is within acceptable tolerance levels.

Analytical Level Risk Management, encompasses the risk management, within the authority delegated by the Strategic Level to identify, measure, monitor and report the risks taken by the Bank in a consistent manner across all business lines and operational units.

Tactical Level Risk Management, encompasses risk management activities performed by individuals who take risk on the Bank's behalf such as the front office and loan origination functions.

The Risk Charter is complemented by risk specific policies and procedures enabling the unification of the risk culture and practice. Risk management is applied through the implementation of these risk policies / limits approved by the Board and that are put in place by the risk management function in cooperation with the business lines. Monitoring of individual risks is handled upon the initiation and renewal of the risk through a clear decision-making process documented in a written procedure.

49.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit initiation

Target markets and customers and products' strategy are identified in the yearly business plan deriving from the medium term plan. They are submitted to and discussed with management and the Board by different business lines. The process of initiating and approving credit proposals is governed by the Bank's Credit Policies and Procedures Manual (CPPM). CPPM consolidates the principles for the credit origination and follow-up process based on early warning signals, and includes the credit committee approval authorities, the roles and responsibilities of credit personnel, the credit administration function, and the structuring of credit packages.

Commercial lending is handled by the Commercial Division which oversees the business origination related to corporate customers, middle market and international lending. The assessment of a credit request requires an evaluation of the borrower's creditworthiness through an in-depth analysis of series of financial, management, business and market criteria translated into an overall credit risk rating. This assessment process is applicable to both new and existing client.

The *Financial Institution* department (FI) is a separate business line that sets the strategy for banks limits and manages the relationship with banks. The function is determined by liquidity targets and by profit generation through a dynamic yet diversified trade finance business.

The *Consumer Banking* division is responsible to design and implement the strategy and document the program for consumer loans, housing loans, revolving credit cards, small business loans and Kafalat-guaranteed loans.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Credit approval

The review of credit proposals is assigned to the credit risk analysis team within the GRM division, acting independently from the origination units. Every non-retail lending transaction is subject to a thorough risk assessment by the credit risk analysis team prior to being submitted to the appropriate approving authority.

The credit risk analysis team is organized into five departments, servicing each a different business segment (corporate, international, middle market, financial institutions and retail). In the case of retail lending, risk assessment occurs first at the level of the product design and is followed-on with a post-approval review on a sampling basis. The primary function of the risk analysis team is to ensure that the extension of credit is consistent with the Bank's risk acceptance criteria and CPPM.

Loan follow up and monitoring

Each business line manager who originated the loan remains vested with the responsibility of monitoring the exposure and reviewing the file on an annual basis or more frequently if needed. Annual reviews consist of a full update of the credit package and follow the same process as the initiation of the loan.

Outstanding loans are subject as well to a constant monitoring by the GRM division based on a series of reports. The aim of such monitoring is to ensure problem recognition, and to follow-up on the prompt and remedial management of spotted deteriorations in borrowers' financial positions, value of collateral and related sector / industry. Early warning signals are derived from a set of system generated reports.

Impairment assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- Where the Bank grants the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggests that there is a decrease in the estimated future cash flows related to the loans.

In measuring credit risk at a counterparty level, the Bank reflects three components – the “probability of default” (PD) by the client or counterparty on its contractual obligations; the Bank's current exposure to the counterparty and its likely future development, from which the Bank derives the “exposure at default” (EAD); and the likely recovery ratio on the defaulted obligations to give the “loss given default” (LGD).

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis, include any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and for debt instruments at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances and debt instruments at amortized cost that have been assessed individually and found not to be impaired.

The Bank generally bases its analysis on historical experience. However, when there are significant market developments, regional and/or global, the Bank would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date for each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank overall policy.

Credit related commitments and financial guarantees are assessed and provisions are made in a similar manner as for loans.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position.

With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honors its obligation but the counterparty fails to deliver the counter-value.

Credit-related commitments and financial guarantee risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

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49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****Analysis of maximum exposure to credit risk and collateral and other credit enhancements**

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

	2017					
	<i>Maximum exposure LL million</i>	<i>Cash LL million</i>	<i>Securities LL million</i>	<i>Letters of credit / guarantees LL million</i>	<i>Real estate LL million</i>	<i>Net credit exposure LL million</i>
Balances with central banks	11,593,173	-	-	-	-	11,593,173
Due from banks and financial institutions	2,734,861	(638)	-	-	-	2,734,223
Due from subsidiaries	6,099	-	-	-	-	6,099
Loans to banks and financial institutions and reverse repurchase agreements	460,574	-	(375,731)	-	-	84,843
Derivative financial instruments	2,144	-	-	-	-	2,144
Financial assets at fair value through profit or loss	215,680	-	-	-	-	215,680
<i>Net loans and advances to customers at amortized cost:</i>						
Commercial loans	4,949,494	(657,551)	(92,405)	(3,421)	(983,318)	3,212,799
Consumer loans	2,887,024	(365,631)	(20)	(192)	(1,545,363)	975,818
Net loans and advances to related parties at amortized cost	16,183	(5,258)	-	-	(3,103)	7,822
Financial assets at amortized cost	7,821,753	-	-	-	-	7,821,753
	<u>30,686,985</u>	<u>(1,029,078)</u>	<u>(468,156)</u>	<u>(3,613)</u>	<u>(2,531,784)</u>	<u>26,654,354</u>
Financial guarantees	191,303	(13,013)	-	-	-	178,290
Documentary credits (including acceptances)	646,108	(15,766)	-	-	-	630,342
	<u>31,524,396</u>	<u>(1,057,857)</u>	<u>(468,156)</u>	<u>(3,613)</u>	<u>(2,531,784)</u>	<u>27,462,986</u>
Utilized collateral		(1,057,857)	(468,156)	(3,613)	(2,531,784)	
Surplus of collateral before undrawn credit lines		(190,154)	(326,444)	(52,557)	(2,055,808)	
Guarantees received from banks, financial institutions and customers		<u>(1,248,011)</u>	<u>(794,600)</u>	<u>(56,170)</u>	<u>(4,587,592)</u>	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 1,931,591 million as at 31 December 2017.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

31 December 2017

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)**

	2016					
	<i>Maximum Exposure LL million</i>	<i>Cash LL million</i>	<i>Securities LL million</i>	<i>Letters of credit / guarantees LL million</i>	<i>Real estate LL million</i>	<i>Net credit exposure LL million</i>
Balances with central banks	8,395,215	-	-	-	-	8,395,215
Due from banks and financial institutions	2,158,324	(585)	-	-	-	2,157,739
Due from subsidiaries	24,776	-	-	-	-	24,776
Loans to banks and financial institutions and reverse repurchase agreements	820,342	-	(737,250)	-	-	83,092
Derivative financial instruments	3,942	-	-	-	-	3,942
Financial assets at fair value through profit or loss	741,953	-	-	-	-	741,953
<i>Net loans and advances to customers at amortized cost:</i>						
Commercial loans	4,736,053	(558,156)	(171,283)	(21,708)	(938,601)	3,046,305
Consumer loans	2,677,447	(316,900)	-	(326)	(1,432,933)	927,288
Net loans and advances to related parties at amortized cost	14,757	(5,286)	-	-	(3,356)	6,115
Financial assets at amortized cost	9,346,463	-	-	-	-	9,346,463
	<u>28,919,272</u>	<u>(880,927)</u>	<u>(908,533)</u>	<u>(22,034)</u>	<u>(2,374,890)</u>	<u>24,732,888</u>
Financial guarantees	203,139	(28,698)	-	-	-	174,441
Documentary credits (including acceptances)	353,351	(9,371)	-	-	-	343,980
	<u>29,475,762</u>	<u>(918,996)</u>	<u>(908,533)</u>	<u>(22,034)</u>	<u>(2,374,890)</u>	<u>25,251,309</u>
Utilized collateral		(918,996)	(908,533)	(22,034)	(2,374,890)	
Surplus of collateral before undrawn credit lines		(257,095)	(553,438)	(48,361)	(1,818,007)	
Guarantees received from banks, financial institutions and customers		<u>(1,176,091)</u>	<u>(1,461,971)</u>	<u>(70,395)</u>	<u>(4,192,897)</u>	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,838,085 million as at 31 December 2016.

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Management requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The main types of collateral obtained are as follows:

Securities:

The balances shown above represent the fair value of the securities.

Letters of credit / guarantees:

The Bank holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Bank.

Real estate (commercial and residential):

The Bank holds in some cases a first degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown above reflects the fair value of the property limited to the related mortgaged amount.

Other:

In addition to the above, the Bank also obtains from its clients proxy to mortgage on a residential or commercial property, guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of proceeds and revenues, which are not reflected in the above table.

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances.

	2017				
	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>	
	<i>High grade</i>	<i>Standard grade</i>	<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balances with central banks	11,466,330	132,801	-	25,575	11,624,706
Due from banks and financial institutions	2,290,627	444,234	-	1,919	2,736,780
Due from subsidiaries	6,099	-	-	-	6,099
Loans to banks and financial institutions and reverse repurchase agreements	418,972	41,602	-	-	460,574
Derivative financial instruments	2,144	-	-	-	2,144
<i>Financial assets at fair value through profit or loss:</i>					
Lebanese treasury bills	215,680	-	-	-	215,680
<i>Net loans and advances to customers at amortized cost:</i>					
Commercial loans	4,673,973	156,124	45,894	208,073	5,084,064
Consumer loans	2,612,263	29,218	199,793	155,725	2,996,999
Net loans and advances to related parties at amortized cost	16,183	-	-	-	16,183
Debtors by acceptances	274,769	34,875	-	-	309,644
<i>Financial assets at amortized cost:</i>					
Lebanese treasury bills	4,573,767	-	-	-	4,573,767
Certificates of deposit issued by the Central Bank of Lebanon	3,234,592	-	-	-	3,234,592
Foreign governmental debt securities	-	13,394	-	-	13,394
	<u>29,785,399</u>	<u>852,248</u>	<u>245,687</u>	<u>391,292</u>	<u>31,274,626</u>

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****Credit quality per class of financial assets (continued)**

	2016				
	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>			
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balances with central banks	8,234,216	161,519	-	31,041	8,426,776
Due from banks and financial institutions	1,784,767	373,557	-	4,024	2,162,348
Due from subsidiaries	24,776	-	-	-	24,776
Loans to banks and financial institutions and reverse repurchase agreements	759,484	60,858	-	-	820,342
Derivative financial instruments	3,942	-	-	-	3,942
<i>Financial assets at fair value through profit or loss:</i>					
Lebanese treasury bills	313,381	-	-	-	313,381
Certificates of deposit issued by the Central Bank of Lebanon	428,572	-	-	-	428,572
<i>Net loans and advances to customers at amortized cost:</i>					
Commercial loans	4,487,478	129,872	67,372	191,244	4,875,966
Consumer loans	2,426,264	18,815	199,903	141,308	2,786,290
Net loans and advances to related parties at amortized cost	14,757	-	-	-	14,757
Debtors by acceptances	171,912	30,082	-	-	201,994
<i>Financial assets at amortized cost:</i>					
Lebanese treasury bills	4,834,226	-	-	-	4,834,226
Certificates of deposit issued by the Central Bank of Lebanon	4,482,042	-	-	-	4,482,042
Certificates of deposit issued by banks and financial institutions	-	30,195	-	-	30,195
	<u>27,965,817</u>	<u>804,898</u>	<u>267,275</u>	<u>367,617</u>	<u>29,405,607</u>

Aging analysis of past due but not impaired loans per class of financial assets:

	2017			
	<i>Less than 90 days</i>	<i>91 to 180 days</i>	<i>More than 181 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
<i>Loans and advances to customers at amortized cost:</i>				
- Commercial loans	14,769	3,833	27,292	45,894
- Consumer loans	192,997	2,423	4,373	199,793
	<u>207,766</u>	<u>6,256</u>	<u>31,665</u>	<u>245,687</u>
	<u><u>207,766</u></u>	<u><u>6,256</u></u>	<u><u>31,665</u></u>	<u><u>245,687</u></u>
	2016			
	<i>Less than 90 days</i>	<i>91 to 180 days</i>	<i>More than 181 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
<i>Loans and advances to customers at amortized cost:</i>				
- Commercial loans	27,474	22,486	17,412	67,372
- Consumer loans	194,922	1,897	3,084	199,903
	<u>222,396</u>	<u>24,383</u>	<u>20,496</u>	<u>267,275</u>
	<u><u>222,396</u></u>	<u><u>24,383</u></u>	<u><u>20,496</u></u>	<u><u>267,275</u></u>

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****Mapping to external credit rating**

	<i>Financial assets</i>		<i>Loans and advances to customers</i>	
	<i>External credit rating</i>		<i>Supervisory rating</i>	<i>Characteristics</i>
<i>High grade</i>	Lebanese Sovereign AAA to A-		Regular	Regular and timely payment of dues. Adequacy of cash flows. Timely financial statements. Sufficient collateral / guarantee (if required).
			Follow up	Lack of documentation related to borrower's activity.
<i>Standard grade</i>	BBB+ and below unrated		Follow up and regularization	Credit worthy borrower showing weaknesses; insufficient / inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; conflict between partners or other lawsuits; loan rescheduling since initiation; excess utilization above limit.
<i>Individually impaired</i>	Impaired		Substandard	Signals of incapacity to repay from identified cash flows; full repayments supposes the liquidation of assets / collateral; recurrent late payments; late interests; losses incurred for over 3 years.
			Doubtful	Full repayment is questioned even after asset liquidation; account stagnation and inability to repay restructured loans.
			Bad	No or little expected inflows from business or assets; borrower is unreachable; insolvency status.

The classification of loans and advances to customers and related parties at amortized cost in accordance with the ratings of Central Bank of Lebanon Circular 58 are as follows:

	2017			
	<i>Gross balance</i> <i>LL million</i>	<i>Unrealised interest</i> <i>LL million</i>	<i>Impairment allowances</i> <i>LL million</i>	<i>Net balance</i> <i>LL million</i>
Regular	6,920,709	-	-	6,920,709
Follow up	537,698	-	-	537,698
Follow up and regularization	258,858	-	-	258,858
Substandard	56,967	(7,512)	-	49,455
Doubtful	254,921	(36,716)	(87,309)	130,896
Bad	51,910	(4,253)	(47,657)	-
	8,081,063	(48,481)	(134,966)	7,897,616
Collective impairment	(61,098)	-	-	(61,098)
	8,019,965	(48,481)	(134,966)	7,836,518
	2016			
	<i>Gross balance</i> <i>LL million</i>	<i>Unrealised interest</i> <i>LL million</i>	<i>Impairment allowances</i> <i>LL million</i>	<i>Net balance</i> <i>LL million</i>
Regular	6,592,961	-	-	6,592,961
Follow up	539,426	-	-	539,426
Follow up and regularization	197,317	-	-	197,317
Substandard	69,986	(5,757)	-	64,229
Doubtful	180,501	(24,801)	(68,208)	87,492
Bad	82,065	(19,880)	(62,185)	-
	7,662,256	(50,438)	(130,393)	7,481,425
Collective impairment	(67,925)	-	-	(67,925)
	7,594,331	(50,438)	(130,393)	7,413,500

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49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****Renegotiated loans**

Restructuring activity aims to manage customer relationships, maximize collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility.

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
Commercial loans	44,785	31,517

Analysis of risk concentration

The maximum credit exposure to any client or counterparty as of 31 December 2017 was LL 95,605 million (2016: LL 121,630 million) before taking account of collateral or other credit enhancements and LL 95,605 million (2016: LL nil) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty before the effect of mitigation through the use of netting and collateral agreements.

Geographic analysis

	<i>2017</i>			
	<i>Lebanon</i>	<i>Europe</i>	<i>Others</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balances with central banks	11,428,643	3,311	161,219	11,593,173
Due from banks and financial institutions	54,581	1,359,360	1,320,920	2,734,861
Due from subsidiaries	-	6,099	-	6,099
Loans to banks and financial institutions and reverse repurchase agreements	397,173	52,149	11,252	460,574
Derivative financial instruments	531	738	875	2,144
<i>Financial assets at fair value through profit or loss:</i>				
Lebanese treasury bills	215,680	-	-	215,680
<i>Net loans and advances to customers at amortized cost:</i>				
Commercial loans	4,496,328	45,189	407,977	4,949,494
Consumer loans	2,769,650	6,423	110,951	2,887,024
Net loans and advances to related parties at amortized cost	16,071	2	110	16,183
Debtors by acceptances	281,984	2,666	24,994	309,644
<i>Financial assets at amortized cost:</i>				
Lebanese treasury bills	4,573,767	-	-	4,573,767
Certificates of deposit issued by the Central Bank of Lebanon	3,234,592	-	-	3,234,592
Foreign governmental debt securities	-	-	13,394	13,394
	27,469,000	1,475,937	2,051,692	30,996,629

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****Analysis of risk concentration (continued)***Geographic analysis (continued)*

	2016			
	<i>Lebanon</i> <i>LL million</i>	<i>Europe</i> <i>LL million</i>	<i>Others</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balances with central banks	8,234,215	2,644	158,356	8,395,215
Due from banks and financial institutions	37,655	534,928	1,585,741	2,158,324
Due from subsidiaries	-	9,664	15,112	24,776
Loans to banks and financial institutions and reverse repurchase agreements	768,919	18,951	32,472	820,342
Derivative financial instruments	1,935	443	1,564	3,942
<i>Financial assets at fair value through profit or loss:</i>				
Lebanese treasury bills	313,381	-	-	313,381
Certificates of deposit issued by the Central Bank of Lebanon	428,572	-	-	428,572
<i>Net loans and advances to customers at amortized cost:</i>				
Commercial loans	4,287,008	72,106	376,939	4,736,053
Consumer loans	2,576,988	7,218	93,241	2,677,447
Net loans and advances to related parties at amortized cost	14,679	-	78	14,757
Debtors by acceptances	191,554	-	10,440	201,994
<i>Financial assets at amortized cost:</i>				
Lebanese treasury bills	4,834,226	-	-	4,834,226
Certificates of deposit issued by the Central Bank of Lebanon	4,482,042	-	-	4,482,042
Certificates of deposit issued by banks and financial institutions	30,195	-	-	30,195
	<u>26,201,369</u>	<u>645,954</u>	<u>2,273,943</u>	<u>29,121,266</u>

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. As per applicable regulations, the Bank must retain obligatory reserves with the central banks where the Bank entities operate.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The Bank maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

49 RISK MANAGEMENT (continued)**49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)***Analysis of financial assets and liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Bank's financial assets and liabilities at 31 December 2017 and 2016 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. The table does not reflect the expected cash flows that are in line with the Bank's deposit retention history.

	2017					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with central banks	1,543,559	1,021,605	810,141	5,423,911	8,364,242	17,163,458
Due from banks and financial institutions	2,431,506	301,975	-	-	2,695	2,736,176
Due from subsidiaries	6,104	-	-	-	-	6,104
Loans to banks and financial institutions and reverse repurchase agreements	443,977	5,609	11,648	-	-	461,234
Derivative financial instruments	1,911	210	23	-	-	2,144
Financial assets at fair value through profit or loss	426	10,117	157,573	20,383	88,272	276,771
Net loans and advances to customers at amortized cost	3,099,549	544,679	1,164,100	2,394,122	1,633,870	8,836,320
Net loans and advances to related parties at amortized cost	7,308	2,343	595	2,992	3,246	16,484
Debtors by acceptances	84,819	95,348	111,362	18,115	-	309,644
Financial assets at fair value through other comprehensive income	-	-	-	-	74,636	74,636
Financial Assets at amortized cost	74,879	278,004	856,827	4,900,738	4,396,702	10,507,150
Total undiscounted financial assets	7,694,038	2,259,890	3,112,269	12,760,261	14,563,663	40,390,121
Financial liabilities						
Due to central banks	3,065	4,016	27,655	534,020	400,704	969,460
Due to banks and financial institutions	168,215	48,087	89,322	211,259	131,401	648,284
Due to subsidiaries	66,970	-	-	-	-	66,970
Derivative financial instruments	2,617	283	56	-	-	2,956
Customers' deposits at amortized cost	13,155,733	3,387,528	6,542,143	2,890,749	415,186	26,391,339
Deposits from related parties at amortized cost	92,086	15,756	316,544	127,563	32,759	584,708
Debt issued and other borrowed funds	-	-	31,657	531,394	-	563,051
Engagements by acceptances	84,819	95,348	111,363	18,114	-	309,644
Subordinated debt	-	7,349	21,966	550,551	-	579,866
Total undiscounted financial liabilities	13,573,505	3,558,367	7,140,706	4,863,650	980,050	30,116,278
Net undiscounted financial assets / (liabilities)	(5,879,467)	(1,298,477)	(4,028,437)	7,896,611	13,583,613	10,273,843

49 RISK MANAGEMENT (continued)**49.4 MARKET RISK**

Market risk is defined as the potential loss in both on balance sheet and off-balance sheet positions resulting from movements in market variables such as interest rates, foreign exchange rates and equity prices.

The market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the ALCO committee, the business lines and risk functions.

It is the responsibility of the ALCO to manage the Bank's investment portfolio under the terms of the Security Investment Policy. While striving to maximize portfolio performance, the ALCO shall keep the management of the portfolio within the bounds of good banking practices, satisfy the Bank's liquidity needs, and ensure compliance with both regulatory and internally set limits and requirements.

The Bank Risk Management division sets the framework necessary for identification, measurement and management of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Bank manages the risk by matching the re-pricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits. The Bank measures interest rate risk through applying varying scenarios of increase and decrease of market interest rates and assessing their impact on net interest income (Earnings' perspective) and capital (Economic Value perspective). In 2017, the Bank has revised the interest rate risk policy to set new internal gap limits for local currency and foreign currencies. The Bank has prudentially set an internal Pillar 2 capital charge against interest rate risk.

Interest rate sensitivity

The following table shows the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate financial assets and financial liabilities and to the reinvestment or refunding of fixed rate financial assets and liabilities at the assumed rates. The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

<i>Currency</i>	<i>Increase in basis points</i>	<i>2017</i>	<i>2016</i>
		<i>Effect on net interest income LL million</i>	<i>Effect on net interest income LL million</i>
LBP	50 basis point	(19,366)	(20,534)
US Dollar	50 basis point	786	1,255
Euro	50 basis point	(648)	(1,168)

49 RISK MANAGEMENT (continued)**49.4 MARKET RISK****Interest rate risk (continued)***Interest rate sensitivity (continued)*

The Bank's interest sensitivity position based on the contractual re-pricing date at 31 December was as follows:

	2017						Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Non interest bearing items LL million	
ASSETS							
Cash and balances with central banks	798,975	957,263	250,000	3,101,434	5,924,515	806,649	11,838,836
Due from banks and financial institutions	1,343,065	301,500	-	-	-	1,090,296	2,734,861
Due from subsidiaries	6,032	-	-	-	-	67	6,099
Loans to banks and financial institutions and reverse repurchase agreements	443,148	5,609	11,293	-	-	524	460,574
Derivative financial instruments	-	-	-	-	-	2,144	2,144
Financial assets at fair value through profit or loss	-	-	-	-	-	218,214	218,214
Net loans and advances to customers at amortized cost	3,144,209	741,892	2,345,789	1,149,504	230,742	224,382	7,836,518
Net loans and advances to related parties at amortized cost	13,446	813	-	-	1,910	14	16,183
Debtors by acceptances	-	-	-	-	-	309,644	309,644
Financial assets at amortized cost	21,455	165,165	443,028	3,328,548	3,752,094	111,463	7,821,753
Financial assets at fair value through other comprehensive income	-	-	-	-	-	74,636	74,636
Investments in subsidiaries	-	-	-	-	-	260,541	260,541
Total	5,770,330	2,172,242	3,050,110	7,579,486	9,909,261	3,098,574	31,580,003
LIABILITIES							
Due to central banks	953	3,013	13,979	466,808	373,449	4,857	863,059
Due to banks and financial institutions	84,197	45,202	71,941	173,512	120,983	91,070	586,905
Due to subsidiaries	46,843	-	-	-	-	20,160	67,003
Derivative financial instruments	-	-	-	-	-	2,956	2,956
Customers' deposits at amortized cost	10,617,404	3,260,851	6,250,464	2,631,283	348,110	2,511,761	25,619,873
Deposits from related parties at amortized cost	87,469	13,540	281,953	108,462	27,334	26,883	545,641
Debt issued and other borrowed funds	-	-	-	452,250	-	616	452,866
Engagements by acceptances	-	-	-	-	-	309,644	309,644
Subordinated debt	-	-	-	433,537	-	164	433,701
Total	10,836,866	3,322,606	6,618,337	4,265,852	869,876	2,968,111	28,881,648
Total interest sensitivity gap	(5,066,536)	(1,150,364)	(3,568,227)	3,313,634	9,039,385	130,463	2,698,355

49 RISK MANAGEMENT (continued)**49.4 MARKET RISK****Interest rate risk (continued)***Interest rate sensitivity (continued)*

	2016						Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Non-interest bearing items LL million	
ASSETS							
Cash and balances with central banks	538,665	527,625	829,125	2,304,412	3,546,278	894,908	8,641,013
Due from banks and financial institutions	1,001,227	452,250	-	-	-	704,847	2,158,324
Due from subsidiaries	6,086	-	15,075	-	-	3,615	24,776
Loans to banks and financial institutions and reverse repurchase agreements	769,840	9,324	35,975	4,634	-	569	820,342
Derivative financial instruments	-	-	-	-	-	3,942	3,942
Financial assets at fair value through profit or loss	-	-	-	-	-	752,087	752,087
Net loans and advances to customers at amortized cost	3,028,953	642,908	2,215,652	1,111,088	229,416	185,483	7,413,500
Net loans and advances to related parties at amortized cost	10,725	1,277	2,378	361	16	-	14,757
Debtors by acceptances	-	-	-	-	-	201,994	201,994
Financial assets at amortized cost	79,631	377,339	663,032	3,460,891	4,632,629	132,941	9,346,463
Financial assets at fair value through other comprehensive income	-	-	-	-	-	70,339	70,339
Investments in subsidiaries	-	-	-	-	-	250,597	250,597
Total	5,435,127	2,010,723	3,761,237	6,881,386	8,408,339	3,201,322	29,698,134
LIABILITIES							
Due to central banks	430	1,780	7,979	53,103	197,984	3,799	265,075
Due to banks and financial institutions	126,675	26,174	63,407	115,572	65,633	73,427	470,888
Due to subsidiaries	41,685	-	-	-	-	12,220	53,905
Derivative financial instruments	-	-	-	-	-	1,561	1,561
Customers' deposits at amortized cost	11,153,577	3,038,534	4,618,359	2,952,056	376,972	2,434,440	24,573,938
Deposits from related parties at amortized cost	111,758	19,829	233,317	101,120	29,670	24,227	519,921
Debt issued and other borrowed funds	-	-	-	452,250	-	616	452,866
Engagements by acceptances	-	-	-	-	-	201,994	201,994
Subordinated debt	-	-	-	-	430,559	164	430,723
Total	11,434,125	3,086,317	4,923,062	3,674,101	1,100,818	2,752,448	26,970,871
Total interest sensitivity gap	(5,998,998)	(1,075,594)	(1,161,825)	3,207,285	7,307,521	448,874	2,727,263

Currency risk

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

In addition to regulatory limits, the Board has set limits on positions by currency. These positions are monitored constantly to ensure they are maintained within established limits.

49 RISK MANAGEMENT (continued)**49.4 MARKET RISK****Currency risk (continued)**

Following is the separate statement of financial position as of 31 December 2017 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2017		
	<i>LL million</i>	<i>Foreign currencies in LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with central banks	4,202,671	7,636,165	11,838,836
Due from banks and financial institutions	39,050	2,695,811	2,734,861
Due from subsidiaries	-	6,099	6,099
Loans to banks and financial institutions and reverse repurchase agreements	240,594	219,980	460,574
Derivative financial instruments	2,144	-	2,144
Financial assets at fair value through profit or loss	150,271	67,943	218,214
Net loans and advances to customers at amortized cost	2,290,455	5,546,063	7,836,518
Net loans and advances to related parties at amortized cost	3,816	12,367	16,183
Debtors by acceptances	-	309,644	309,644
Financial assets at amortized cost	4,277,207	3,544,546	7,821,753
Financial assets at fair value through other comprehensive income	(10,009)	84,645	74,636
Investments in subsidiaries	30,027	230,514	260,541
Property and equipment	237,749	25,602	263,351
Intangible assets	267	-	267
Assets obtained in settlement of debt	(8,222)	50,911	42,689
Other assets	32,157	13,355	45,512
TOTAL ASSETS	11,488,177	20,443,645	31,931,822
LIABILITIES AND EQUITY			
Due to central banks	863,059	-	863,059
Due to banks and financial institutions	8,575	578,330	586,905
Due to subsidiaries	41,101	25,902	67,003
Derivative financial instruments	2,956	-	2,956
Customers' deposits at amortized cost	9,031,051	16,588,822	25,619,873
Deposits from related parties at amortized cost	42,862	502,779	545,641
Debt issued and other borrowed funds	-	452,866	452,866
Engagements by acceptances	-	309,644	309,644
Other liabilities	186,363	42,541	228,904
Provisions for risks and charges	228,656	6,750	235,406
Subordinated debt	-	433,701	433,701
TOTAL LIABILITIES	10,404,623	18,941,335	29,345,958
EQUITY			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,013	229,013
Share premium – preferred shares	-	591,083	591,083
Non distributable reserves	478,530	292,498	771,028
Distributable reserves	64,907	19,891	84,798
Treasury shares	-	(6,002)	(6,002)
Retained earnings	9,475	-	9,475
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	302	(1,094)	(792)
Net results of the financial period - profit	205,155	7,505	212,660
Foreign currency translation reserves	(201)	-	(201)
TOTAL EQUITY	1,452,970	1,132,894	2,585,864
TOTAL LIABILITIES AND EQUITY	11,857,593	20,074,229	31,931,822

49 RISK MANAGEMENT (continued)**49.4 MARKET RISK****Currency risk (continued)**

Following is the separate statement of financial position as of 31 December 2016 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2016		
	<i>LL million</i>	<i>Foreign currencies in LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with central banks	2,555,915	6,085,098	8,641,013
Due from banks and financial institutions	30,089	2,128,235	2,158,324
Due from subsidiaries	-	24,776	24,776
Loans to banks and financial institutions and reverse repurchase agreements	301,530	518,812	820,342
Derivative financial instruments	3,942	-	3,942
Financial assets at fair value through profit or loss	722,562	29,525	752,087
Net loans and advances to customers at amortized cost	2,071,913	5,341,587	7,413,500
Net loans and advances to related parties at amortized cost	2,174	12,583	14,757
Debtors by acceptances	-	201,994	201,994
Financial assets at amortized cost	5,403,658	3,942,805	9,346,463
Financial assets at fair value through other comprehensive income	544	69,795	70,339
Investments in subsidiaries	(113,757)	364,354	250,597
Property and equipment	219,528	16,556	236,084
Intangible assets	380	-	380
Assets obtained in settlement of debt	(8,393)	47,640	39,247
Other assets	34,910	26,937	61,847
TOTAL ASSETS	11,224,995	18,810,697	30,035,692
LIABILITIES AND EQUITY			
Due to central banks	265,075	-	265,075
Due to banks and financial institutions	29,368	441,520	470,888
Due from subsidiaries	35,870	18,035	53,905
Derivative financial instruments	1,561	-	1,561
Customers' deposits at amortized cost	9,491,880	15,082,058	24,573,938
Deposits from related parties at amortized cost	97,529	422,392	519,921
Debt issued and other borrowed funds	-	452,866	452,866
Engagements by acceptances	-	201,994	201,994
Other liabilities	220,054	124,476	344,530
Provisions for risks and charges	182,781	6,692	189,473
Subordinated debt	-	430,723	430,723
TOTAL LIABILITIES	10,324,118	17,180,756	27,504,874
EQUITY			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,013	229,013
Share premium – preferred shares	-	591,083	591,083
Non distributable reserves	402,481	292,226	694,707
Distributable reserves	64,907	19,906	84,813
Treasury shares	-	(5,160)	(5,160)
Retained earnings	10,930	-	10,930
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	302	(3,677)	(3,375)
Net results of the financial period - profit	227,309	6,602	233,911
Foreign currency translation reserves	-	94	94
TOTAL EQUITY	1,400,731	1,130,087	2,530,818
TOTAL LIABILITIES AND EQUITY	11,724,849	18,310,843	30,035,692

49 RISK MANAGEMENT (continued)**49.4 MARKET RISK****Currency risk (continued)***Bank's sensitivity to currency exchange rates*

The table below shows the currencies to which the Bank had significant exposure at 31 December on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, on the income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities) and equity. A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

Currency	Change in currency rate %	2017		2016	
		Effect on profit before tax LL million	Effect on equity LL million	Effect on profit before tax LL million	Effect on equity LL million
US Dollar	+1%	204	-	235	-
Euro	+1%	12	-	(2)	-
GBP	+1%	(3)	-	(6)	-

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 per cent increase in the value of the Bank's equities at 31 December 2017 would have increased other comprehensive income by LL 2,373 million and net income by LL 127 million (2016: LL 2,219 million and LL 507 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Bank operates. Accordingly, the Bank considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

49.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems, or from external events (including legal risks). When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses.

To reduce operational risk, the Bank has developed an Operational Risk Management framework with the objective of ensuring that operational risks within the component of the framework is a set of core operational risk policies designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines were placed on the Bank's intranet site for quick access and referrals. The critical operational risk issues were handled by a separate Operational Risk Committee which meetings are attended by business lines Senior Managers including the Chief Risk Officer and the General Manager.

49 RISK MANAGEMENT (continued)**49.5 OPERATIONAL RISK (continued)**

The framework for managing and controlling operational risks encompass various tools including Risk and Control Assessment (RCA), operational risk event and key risk indicators (KRIs). The RCA is used by each business and support unit to identify key operational risks and assess the degree of effectiveness of internal controls. Inadequate controls are subject to action plans that will help track and timely resolve deficiencies. This tool is subject to a proactive approach to minimize operational risk loss. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Bank's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are employed to facilitate the operational risk monitoring in a forward looking manner with pre-defined escalation triggers. The Bank gives particular attention to prevention measures when it comes to operational risk management and has established continuing training and awareness programs to fulfill them.

The Bank's operational risk mitigation program involves both business continuity management and insurance management program, whereby the former is set to oversee the business continuity of essential business service during unforeseen events mainly business disruption and system failures events - with enterprise wide impact - along with natural disasters and terrorism/ vandalism events. As to the latter the Bank purchases group wide insurance policies to mitigate significant losses. These policies cover fraud, property damage and general liability, and Director's and officers' liability.

50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

(Amounts in LL million)	2017							
	Less than 12 months				Over 12 months			
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	Total
ASSETS								
Cash and balances with central banks	1,539,189	1,005,287	293,503	2,837,979	3,102,319	5,898,538	9,000,857	11,838,836
Due from banks and financial institutions	2,430,498	301,667	-	2,732,165	-	2,696	2,696	2,734,861
Due from subsidiaries	6,099	-	-	6,099	-	-	-	6,099
Loans to banks and financial institutions and reverse repurchase agreements	443,749	5,573	11,252	460,574	-	-	-	460,574
Derivative financial instruments	1,911	210	23	2,144	-	-	-	2,144
Financial assets at fair value through profit or loss	196	3,892	152,122	156,210	3,941	58,063	62,004	218,214
Net loans and advances to customers at amortized cost	3,073,892	496,899	991,312	4,562,103	1,924,107	1,350,308	3,274,415	7,836,518
Net loans and advances to related parties at amortized cost	8,771	2,257	383	11,411	2,193	2,579	4,772	16,183
Debtors by acceptances	84,819	95,348	111,363	291,530	18,114	-	18,114	309,644
Financial assets at amortized cost	42,908	209,739	483,596	736,243	3,333,412	3,752,098	7,085,510	7,821,753
Financial assets at fair value through other comprehensive income	-	-	-	-	-	74,636	74,636	74,636
Investments in subsidiaries	-	-	-	-	-	260,541	260,541	260,541
Property and equipment	-	-	-	-	-	263,351	263,351	263,351
Intangible assets	-	-	-	-	-	267	267	267
Assets obtained in settlement of debt	-	-	-	-	-	42,689	42,689	42,689
Other assets	2,719	-	24,828	27,547	-	17,965	17,965	45,512
TOTAL ASSETS	7,634,751	2,120,872	2,068,382	11,824,005	8,384,086	11,723,731	20,107,817	31,931,822
LIABILITIES								
Due to central banks	3,065	3,616	16,121	22,802	466,808	373,449	840,257	863,059
Due to banks and financial institutions	167,689	46,939	79,166	293,794	173,002	120,109	293,111	586,905
Due to subsidiaries	67,003	-	-	67,003	-	-	-	67,003
Derivative financial instruments	2,617	283	56	2,956	-	-	-	2,956
Customers' deposits at amortized cost	13,086,039	3,297,260	6,255,648	22,638,947	2,632,778	348,148	2,980,926	25,619,873
Deposits from related parties at amortized cost	90,884	13,710	305,250	409,844	108,463	27,334	135,797	545,641
Debt issued and other borrowed funds	-	-	616	616	452,250	-	452,250	452,866
Engagements by acceptances	84,819	95,348	111,363	291,530	18,114	-	18,114	309,644
Other liabilities	13,454	1,516	76,442	91,412	103,384	34,108	137,492	228,904
Provisions for risks and charges	-	-	-	-	-	235,406	235,406	235,406
Subordinated debt	-	163	-	163	433,538	-	433,538	433,701
TOTAL LIABILITIES	13,515,570	3,458,835	6,844,662	23,819,067	4,388,337	1,138,554	5,526,891	29,345,958
Net liquidity gap	(5,880,819)	(1,337,963)	(4,776,280)	(11,995,062)	3,995,749	10,585,177	14,580,926	2,585,864

50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

(Amounts in LL million)	2016							
	Less than 12 months				Over 12 months			
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	Total
ASSETS								
Cash and balances with central banks	1,406,301	539,302	876,280	2,821,883	2,304,412	3,514,718	5,819,130	8,641,013
Due from banks and financial institutions	1,705,511	452,813	-	2,158,324	-	-	-	2,158,324
Due from subsidiaries	9,687	-	15,089	24,776	-	-	-	24,776
Loans to banks and financial institutions and reverse repurchase agreements	770,381	9,338	35,990	815,709	4,633	-	4,633	820,342
Derivative financial instruments	2,382	369	1,191	3,942	-	-	-	3,942
Financial assets at fair value through profit or loss	73,403	165,524	197,582	436,509	296,439	19,139	315,578	752,087
Net loans and advances to customers at amortized cost	3,016,455	359,903	932,095	4,308,453	1,650,955	1,454,092	3,105,047	7,413,500
Net loans and advances to related parties at amortized cost	10,447	602	811	11,860	1,055	1,842	2,897	14,757
Debtors by acceptances	58,720	78,438	52,319	189,477	12,517	-	12,517	201,994
Financial assets at amortized cost	95,105	449,906	707,927	1,252,938	3,460,891	4,632,634	8,093,525	9,346,463
Financial assets at fair value through other comprehensive income	-	-	-	-	-	70,339	70,339	70,339
Investments in subsidiaries	-	-	-	-	-	250,597	250,597	250,597
Property and equipment	-	-	-	-	-	236,084	236,084	236,084
Intangible assets	-	-	-	-	-	380	380	380
Assets obtained in settlement of debt	-	-	-	-	-	39,247	39,247	39,247
Other assets	5,089	-	37,947	43,036	-	18,811	18,811	61,847
TOTAL ASSETS	7,153,481	2,056,195	2,857,231	12,066,907	7,730,902	10,237,883	17,968,785	30,035,692
LIABILITIES								
Due to central banks	2,410	1,784	8,473	12,667	54,425	197,983	252,408	265,075
Due to banks and financial institutions	198,921	26,520	64,243	289,684	115,572	65,632	181,204	470,888
Due to subsidiaries	53,844	-	61	53,905	-	-	-	53,905
Derivative financial instruments	1,061	69	431	1,561	-	-	-	1,561
Customers' deposits at amortized cost	13,552,945	3,072,119	4,618,472	21,243,536	2,953,429	376,973	3,330,402	24,573,938
Deposits from related parties at amortized cost	145,973	16,609	226,548	389,130	101,120	29,671	130,791	519,921
Debt issued and other borrowed funds	-	-	616	616	452,250	-	452,250	452,866
Engagements by acceptances	58,720	78,438	52,319	189,477	12,517	-	12,517	201,994
Other liabilities	24,793	18,579	139,534	182,906	128,477	33,147	161,624	344,530
Provisions for risks and charges	-	-	-	-	-	189,473	189,473	189,473
Subordinated debt	-	163	-	163	-	430,560	430,560	430,723
TOTAL LIABILITIES	14,038,667	3,214,281	5,110,697	22,363,645	3,817,790	1,323,439	5,141,229	27,504,874
Net liquidity gap	(6,885,186)	(1,158,086)	(2,253,466)	(10,296,738)	3,913,112	8,914,444	12,827,556	2,530,818

51 CAPITAL

By maintaining an actively managed capital base, the Bank's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to meet national and international regulatory capital requirements at all times. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon according to the provisions of Basic Circular No 44. These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets and off-balance sheet commitments at a weighted amount to reflect their relative risk.

To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the following ratios of total regulatory capital to risk-weighted assets to be achieved gradually by year-end 2017 as follows:

	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2015 (*)	8.0%	10.0%	12.0%
Year ended 31 December 2016 (*)	8.5%	11.0%	14.0%
Year ended 31 December 2017 (*)	9.0%	12.0%	14.5%
Year ended 31 December 2018 (*)	10.0%	13.0%	15.0%

(*) Include Capital Conservation Buffer (CCB). This CCB, which will reach 4.5% of risk-weighted assets by end of 2018, must be met through Common Equity

51 CAPITAL (continued)

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years, however, they are under constant scrutiny of the Board.

52 DIVIDENDS PAID AND PROPOSED

	<i>2017</i>	<i>2016</i>
	<i>LL million</i>	<i>LL million</i>
<i>Dividends paid during the year</i>		
Equity dividends on ordinary shares LL 200 per share	113,103	113,103
Distributions to preferred shares – 2008 series US\$ 8.00 per share	24,224	24,224
Distributions to preferred shares – 2009 series: US\$ 8.00 per share	24,224	24,224
	161,551	161,551
Less: dividends on treasury shares	(414)	(491)
	161,137	161,060
<i>Proposed for approval at Annual General Assembly</i>		
<i>(not recognized as a liability as at 31 December)</i>		
Equity dividends on ordinary shares LL 212 per share	119,889	113,103
Distributions to preferred shares – 2008 series US\$ 8.00 per share	24,224	24,224
Distributions to preferred shares – 2009 series: US\$ 8.00 per share	24,224	24,224
	168,337	161,551

53 COMPARATIVE INFORMATION

- Balances due from banks and financial institutions have been reclassified from “Due from subsidiaries” to “Due from banks and financial institutions” in the separate statement of financial position. Comparative amounts of LL 24,879 million have been reclassified accordingly.
- Balances due to banks and financial institutions have been reclassified from “Due to subsidiaries” to “Due to banks and financial institutions” in the separate statement of financial position. Comparative amounts of LL 60,586 million have been reclassified accordingly.
- Provisions for contingencies have been reclassified from “Income tax expense” to “Other operating expenses” in the separate statement of income. Comparative amounts of LL 14,000 million have been reclassified accordingly.
- Provisions for contingencies have been reclassified from “Other liabilities” to “Provisions for risks and charges” in the separate statement of financial position. Comparative amounts of LL 24,902 million have been reclassified accordingly.
- Balances with the Central Bank of Lebanon have been reclassified from “Due to central banks” to “Cash and balances with central banks” in the separate statement of financial position. Comparative amounts of LL 65,477 million have been reclassified accordingly.
- Lebanese treasury bills have been reclassified from “Financial assets given as collateral” to “Financial assets at amortized cost” in the separate statement of financial position. Comparative amounts of LL 224,044 million have been reclassified accordingly.