



BSL BANK

ANNUAL
REPORT
2017



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We rely on our continued investment in skilled human capital and technological capabilities, and on our management vision.

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CHAIRMAN'S LETTER

Despite tough domestic and regional conditions, BSL BANK pursued its growth strategy and has subsequently undergone a remarkable evolution over the past two years. The Bank's customer base, loan book size and customers' deposits have all shown an above-average upward trend. Even the short-lived political crisis of November 2017 had no repercussions on our customers' relations thanks to our strong liquidity position.

BSL BANK's balance sheet grew by 12% between 31 December 2016 and 31 December 2017, with assets reaching USD 1.3 billion at year-end. Customers' deposits, which represent 81% of the Bank's total assets, grew by 7.8% in 2017 compared to 3.3% for the entire Lebanese banking sector. In parallel, loans to the private sector jumped by 20.8%, after a decline of 6.7% in the previous year.

In 2017, BSL BANK maintained a sound risk profile, ensuring good activity performance, high liquidity status and healthy risk metrics. Net primary liquidity in US Dollar as a percentage of deposits registered 15.24% at end-December 2017. The low loan to deposits ratio of 22.7% continues to reflect the strong financial flexibility of BSL BANK.

Asset quality remained high, despite the prevailing climate in Lebanon; and the ratio of net non-performing loans to net loans stood at 2.37% in 2017. A prudent provisioning policy prompted us to take all necessary measures to maintain high asset quality. The coverage of doubtful loans by loan loss provisions remained adequate at the very healthy level of 86%.

In terms of capital adequacy, BSL BANK reinforced its strong capitalization status in 2017. Shareholders' equity grew by 7.8% over the year to reach USD 116 million as at end-December 2017, allowing the Bank to maintain an equity-to-assets ratio of 9.0% and an adequate capital cushion within the context of a challenging operating environment.

BSL BANK has not distributed dividends during the past 15 years, as shareholders believe that a solid capital base is essential to succeed in a future strategy that captures growth opportunities. This has enabled the Bank to reach the Tier 1 capital of 14.4% and a total capital of 17.5%, well above the regulatory requirements and reflecting a more than adequate coverage of the aggregation of credit, market and operational risks.

Net profits rose in 2017 to reach USD 8.4 million. The Return on Average Assets recorded 0.7% in 2017, exceeding the ratio of the previous year by 0.2%, while the Return on Average Equity jumped to 7.5% compared to 5.7% in 2016.

In 2018, we will continue to execute our strategy of delivering ever-greater levels of service to our customer base, in addition to further diversification of income sources and improvement of banking activities. These objectives greatly rely on our continued investment in skilled human capital and technological capabilities, and on our management vision.

A special thanks to our Board of Directors and its numerous Committees, for overlooking every aspect of our activities, and which have been essential to the Bank's progress during 2017.

I very much look forward to 2018, a year that offers new opportunities and continued growth.

Sincerely,

Ramsay A. EL-KHOURY
Chairman



ABOUT THE BANK

With over 155 years of banking history and expertise, BSL BANK has lent, protected and invested money for its clients and customers over generations.

BSL BANK'S success has been built upon three core activities: Consumer Banking, Commercial Banking and Treasury and Capital Markets. Our strategy focuses on the needs of our customers, which are central to the development of products and financial solutions. Our long-term strategy however, rests on our responsibility as bankers to assist our clients in their financial decisions and help them to avoid over-indebtedness, and drive productive investments. This strategy has helped the Bank to build a strong reputation as a highly trusted Bank with a conservative risk appetite and disciplined policy.

As a mid-sized Bank, our skilled human capital gives us the advantage of flexibility, the dynamics of innovation, and a high responsiveness capacity.

Driven by our values built around the importance of ethics, professionalism, care and transparency, we serve all of our parties and clients in the most honest, professional way, building strong, meaningful and sustainable relationships.

CONSUMER BANKING

BSL BANK provides individual clients with customer-focused, needs-based financial services through its 18 branches across all the major cities in the country. Experienced Banking Officers provide trusted financial advice to customers, caring for their long-term finances.

In addition to standard banking products, the Bank has proven its ability over the past period to design competitive retail products with a truly innovative edge that are tailored to customers' needs.

COMMERCIAL BANKING

The Bank serves a diverse range of commercial customers ranging from domestic middle market businesses, to large corporates that have greater volumes and often operate across borders. The Bank offers a wide array of credit extension, commercial loans, incentive loans, energy loans and project financing, as well as trade facility services. Dedicated Relationship Managers enable the Bank to create ever-greater levels of trust and provide commercial customers with a personal touch point, ensuring that their short, medium and long-term financial arrangements are expertly managed.

Through the adoption of a nuanced approach to commercial relationship management, the provision of professional advisory services, and the delivery of adapted financial solutions to each and every company within its core activity, BSL BANK has strengthened its ability to focus on its commitment to developing long-term customer relationships, placing their businesses objectives at the heart of its operations.

TREASURY AND CAPITAL MARKETS

BSL BANK'S Treasury Division is dedicated to the sustainable generation and retention of wealth for its clients. The Bank helps its customers make sound investment decisions based on a deep understanding of risk and asset classes nationally, regionally and globally.

Capital Market activities include brokerage and trading services on the Beirut Stock Exchange, Bonds issued by the Lebanese Government and trading on international stock markets.

BSL BANK is incorporated as a private joint stock company with limited liabilities (Société Anonyme Libanaise), registered in the Commercial Register under number 12510 and listed under number 68 at the Central Bank of Lebanon.

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CORPORATE GOVERNANCE FRAMEWORK



BSL BANK | Zgharta Branch

BSL BANK sees good corporate governance, robust risk management and internal control policies as key elements in a successful business and a prerequisite to maintaining trust among customers, shareholders, authorities and other stakeholders. The Bank defines corporate governance as the relationship between shareholders, executive management, employees and other internal and external stakeholders.

The Board of Directors is collectively responsible for the Corporate Governance of the Bank. Its primary responsibilities are to supervise management and to exercise its business judgment to act in good faith. This good faith is based upon what each Director responsibly believes to be in the best interests of the various stakeholders and in optimizing long-term value by providing guidance and strategic oversight on their behalf.

To discharge its stewardship and fiduciary responsibilities effectively, the Board delegates authority to the Board Risk Committee and the Board Audit Committee to oversee specific responsibilities based on clearly defined terms stated in the charter of each committee.

BOARD OF DIRECTORS

The members of the Board of Directors serving throughout the year of 2017 were elected by a resolution of the Ordinary General Assembly of shareholders held on June 30, 2015 for a three-year term expiring on the date of the annual Ordinary General Assembly meeting, which will examine the accounts and activity of the year 2017.

The Board of BSL BANK currently comprises seven independent and non-executive directors. In 2017, the Board of Directors held six meetings, the Board Audit Committee held eight meetings, the Board Risk Committee held four meetings and the Board Compliance Committee held three meetings.

In 2017
**the Board
of Directors**
held six meetings



In 2017
**the Board
Audit Committee**
held eight meetings



In 2017
**the Board
Risk Committee**
held four meetings



In 2017
**the Board
Compliance Committee**
held three meetings



CORPORATE GOVERNANCE FRAMEWORK

DIRECTORS

The names of Directors serving at the date of this report are the following:

Mr. Ramsay EL KHOURY

Chairman and Managing Director
Director since: 1995

Mrs. Mia EL KHOURY AYOUB

Director since: 1987

S.E Joseph CHAOUL

Director since: 2012

Mr. Riad MANSOUR

Director since: 2009

Me. Michel TUEINI

Director since: 2000

Mr. Youssef GHOSN

Director since: 2012

Mr. Elie CHARTOUNI

Director since: 2015

LEGAL COUNSEL

Me. Sami SADER

MANAGEMENT

Mr. Elias ALOUF General Manager

Mr. Nicolas SALIBI Deputy General Manager

Mr. Najib KASSIS Chief Administration Officer

Mr. Kamal ABI FADEL Head of Commercial Banking Division

Mr. Fadi ABOU DIWAN Head of Risk Management

Mrs. Maya AZZI Head of Treasury and Capital Markets

Mr. Ibrahim BASSIL Head of Operations Division

Mr. Nabil CHOUEIRY Head of Consumer Banking Division

Mr. Ziad BEJJANI Head of Internal Audit

Mr. Charbel WATFA Head of Finance

Mr. Antoine DAOUD Head of Accounting Department

Mrs. Huguette RAYESS Head of Credit Division

Mr. Alain MAALOUF Head of Compliance

CORPORATE GOVERNANCE FRAMEWORK

BOARD COMMITTEES

The Board has formed the following Board Committees to assist in discharging its required duties:

- The Board Audit Committee
- The Board Risk Committee
- The Board Compliance Committee
- The Board Remuneration Committee

The Board has also approved respective Charters for each committee.

THE BOARD AUDIT COMMITTEE

The role, responsibility, composition and membership requirements of the Audit Committee are documented in the "Audit Committee Charter". The Audit Committee of the Bank comprises at least three non-executive Directors.

The Audit Committee assists the Board in fulfilling its corporate governance and oversight responsibilities in relation to compliance with financial reporting and regulatory requirements, integrity of financial statements and reports, and external and internal audit functions.

The Audit Committee must meet at least four times per year in scheduled meetings.

THE BOARD RISK COMMITTEE

The role, responsibility, composition and membership requirements of the Risk Committee are documented in the "Risk Committee Charter". The Risk Committee of the Bank comprises at least three non-executive Directors.

The committee assists the Board in fulfilling its corporate governance and oversight responsibilities in relation to compliance with Basel requirements and Internal Capital Adequacy Assessment Process (ICAAP) document; it evaluates and manages all key business risks by administering policies and procedures. The Risk Committee must meet four times per year in scheduled meetings.

BOARD COMPLIANCE COMMITTEE

The role, responsibility, composition and membership requirements of the Compliance Committee are documented in the "Compliance Committee Charter". The Compliance Committee of the Bank comprises at least three non-executive Directors.

The committee assists the Board in fulfilling its corporate governance and oversight responsibilities in relation to Anti-Money Laundering, Counter Financing of Terrorism and Legal Compliance that are carried out throughout the Bank for the purpose to identifying all potential risks. It assists the Board to meet its obligations in assuring that the Bank operates in a safe and sound manner and in accordance with international banking practices as well as with the regulations and policies of the Central Bank and the Banking Control Commission in Lebanon.

The Compliance Committee must meet four times per year in scheduled meetings.

MANAGEMENT COMMITTEES

Management Committees have been established to follow the day-to-day operations of the Bank.

Each committee's responsibilities are stated in its charter and they are listed as follows:

Management Committee	Assets and Liabilities Management Committee
Human Resources Committee	Information Technology Committee
Credit Committee	Anti-Money Laundering and Compliance Committee
Operational Risk Management Committee	Information Security Committee
Loan Recovery Committee	Retail Credit Committee

STRATEGIC OVERVIEW



BSL BANK | Downtown Beirut - Head Office

RISK MANAGEMENT

Effective risk management is fundamental to the success of the Bank and is recognized as a key strategic priority. It is crucial for the Bank to ensure that all activities are consistent with the Bank's risk appetite. The enforcement of a disciplined risk management culture is also part of BSL BANK's approach, which is built upon active training across the organization.

During its operations, the Bank is faced with different types of risk. Risk management procedures include risk identification, measurement and assessment, underpinned by a conservative risk philosophy that encourages entering profitable investments while minimizing the risk. This approach is designed to ensure that the Bank can continue to operate in the face of global headwinds and maintain the wealth of shareholders.

The Bank's day-to-day operations are exposed to several types of financial risk, including credit risk, market risk and liquidity risk, as well as a number of non-financial risks such as operational risk, legal risk and reputational risk.

CREDIT RISK

The Bank manages credit risk at both transactional and portfolio level. At the transactional level, a series of practices, processes and tools have been put in place to identify and measure the risks before and after accepting individual credit exposures. Managing the credit risk at portfolio level includes periodic measuring and analyzing of risk embedded within consolidated loan and investment portfolios, and reporting on it, monitoring limits and conducting stress tests under a variety of scenarios.

MARKET RISK

The principal market risks that the Bank faces are foreign currency and interest rate volatility. The Bank's foreign currency exposure to its net investments are precisely controlled through the regulatory limits set by the Central Bank. Interest rate risk is managed in accordance with Board-approved policies and limits, which are designed to control the risk related to the effect of a specified change in interest rates, which may affect the Bank's net interest income and economic value of equity. Gap analysis and sensitivity analyses are also used to assess exposure.

LIQUIDITY RISK

BSL BANK's liquidity risk is managed in accordance with the policies and limits that are approved by the Board of Directors. The liquidity risk framework consists of the daily monitoring of immediate liquidity ratios in local and foreign currencies, stress tests under multiple scenarios that cover the effect of both industry and Bank-specific disruptions on its liquidity position and a liquidity contingency plan for actual and potential liquidity events. The Bank holds a pool of highly liquid unencumbered assets, consisting mainly of governmental bonds that can be readily sold or pledged to secure borrowing under stressed market conditions or company specific events.

OPERATIONAL RISK

The Bank's centralized operational loss-event database, which is managed and maintained by the Risk Management Department, captures key information on operational losses. This data is analyzed, and then reported to the management and the Board of Directors to provide insight into operational risk exposures, appetites and trends.

REPUTATIONAL RISK

Reputational risk is the risk that negative publicity regarding the Bank's conduct and business practices (whether true or not), will adversely affect its revenues, operations or customer base, or require costly litigation and/or other defensive measures. Reputational risk is managed and controlled throughout the Bank by codes of conduct, governance practices and recently through the change of its name to BSL BANK SAL.

LEGAL RISK

The Bank abides by all Lebanese rules and laws and is compliant with local regulations; and honors its contractual obligations fully under the rule of law.

STRATEGIC OVERVIEW

COMPLIANCE

BSL BANK's Compliance Department operates as an independent function with the authority and autonomy to carry out its mission, which is to ensure that the Bank complies with all relevant laws, rules and regulations. This includes adherence to specific areas such as the prevention of money laundering and terrorism financing.

For this reason, BSL BANK has established and adheres to its own Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) & Compliance Program, designed to ensure that the Bank and all its branches are in full compliance with applicable laws, rules and regulations.

COMPLIANCE FRAMEWORK: CUSTOMER ACCEPTANCE POLICY

The Bank does not deal with:

- Individuals and entities blocked by the BDL/SIC
- UN/OFAC/EU Specially Designated Nationals, UN/OFAC/EU Sanctioned Countries, USA Patriot Act – Section 311 (Jurisdictions of Primary Money Laundering Concern) and State Sponsors of Terrorism
- Non face-to-face customers
- Shell banks
- Companies with Bearer shares

The Bank categorizes the following as High Risk:

- FATF – Non-cooperative jurisdictions
- Used-car dealers
- PEPs
- Non profit organizations
- Jewelers
- Shipping Co's
- Cash generating businesses: restaurants, supermarkets, petrol stations and casinos, in addition to others

COMPLIANCE FRAMEWORK: TRANSACTION MONITORING

Transaction monitoring is a central foundation of a strong AML/CFT Program. The Bank's obligations are to apply strict, accountable and transparent adherence to regulations pertaining to money laundering through the monitoring of all its operations.

The AML unit monitors account activity to identify any transaction that does not conform with normal / expected transaction patterns for that specific customer or account, using an automated scenario-based profiling and monitoring software, which is linked to the client's declaration in KYC and to the account statements (transactions). An RBA matrix is embedded within the software to determine the level of risk and enhanced due diligence (EDD) required for each detection.

COMPLIANCE FRAMEWORK: ENHANCED DUE DILIGENCE MEASURES

The Bank's EDD measures are applied over high and medium risk clients. Measures include:

- Increased levels of KYC and enhanced due diligence at account opening and throughout the customer relationship
- Escalation of approvals for the establishment of an account or relationship to the Compliance Committee
- Transactions are strictly monitored, a process that requires the provision of adequate supporting documentation for each transaction
- Field visit for the client's premises, followed by report preparation and submission to the AML department
- Focused and strict account monitoring on a daily basis

COMPLIANCE FRAMEWORK: INCOMING / OUTGOING TRANSFERS

The Compliance Department monitors and scrutinizes suspicious activities including incoming / outgoing fund transfers that do not contain complete originator information and sufficient details of payment purpose, in addition to other determining factors. Information should include name, address and account number or IBAN.

Where appropriate, the Bank examines what are considered to be suspect transactions, in considerably greater detail to determine whether they warrant reporting to the SIC.

BSL BANK uses an automated filtering workstation for scanning incoming and outgoing wire transfers against watch lists (black lists) from the OFAC, EU, UN, BOE and SIC (Lebanon's FIU).

COMPLIANCE AWARENESS AND TRAINING

Training has long been recognized as a key element of an effective AML/CFT Program. There is a clear commitment within BSL BANK to train all Personnel on combating money laundering and the financing of terrorism. Well-trained, vigilant employees are the Bank's first line of defense in monitoring transactions and identifying suspicious activities.

The AML training program aims to educate staff on the latest developments in AML/CFT including practical methods and trends used by criminals.

The AML Compliance Unit trains personnel on:

- The legal aspects of money laundering
- Internal policies and procedures that must be followed
- The risks that they and the Bank may face
- How they can identify money laundering risks and handle suspicion of risk, while on the job

Initial and ongoing training is tailored to each employee's function. Refresher training courses are provided regularly to make sure that all Personnel are aware of their responsibilities and kept informed of new regulatory and practical developments. Newly hired Personnel are trained on all aspects of AML/CFT procedures during their orientation.

In addition, compliance staff attend external AML/CFT training programs that are organized by the SIC, the Association of Banks in Lebanon and others.

REPORTING OF SUSPICIOUS ACTIVITY / TRANSACTIONS

Under Law 44, it is an offense for any person who acquires knowledge or reasonable suspicion that another person is engaged in money laundering or terrorist financing to not report it to the SIC, as soon it comes to their attention.

BSL BANK adheres to this legal obligation by ensuring that any suspicious transaction immediately prompts further investigation. The Bank operates under a policy that suspicion itself is a valid reason for requests for additional information and/or explanations as to the source and origin of funds; the nature and business / commercial purpose of the underlying transaction; and the circumstances surrounding the stated activity.

When cases are referred to the Committee, it discusses the case based on a report that has been produced by the AML department investigation and branch. If serious suspicions persist, then the case is immediately reported by the Head of Compliance to the Special Investigating Commission via E-STR.

STRATEGIC OVERVIEW

INDEPENDENT TESTING

BSL BANK reviews the effectiveness of its AML policies, procedures, systems and controls at least annually.

The review is undertaken either internally, via a self-assessment by the Bank's Internal Audit, by the Compliance Department; or externally by a competent team of independent auditors or compliance professionals.

Internal Audit keeps the Compliance Department informed of any findings relating to compliance. They also ensure that the Bank is properly implementing the provisions of the AML policies and procedures.

External auditors submit to the relevant authorities an annual report that includes their recommendations on enhancing the control process (if required) and their evaluation of internal control procedures that have been adopted for the fighting of money laundering and the financing of terrorism.

COMPLIANCE DEPARTMENT'S CONTRIBUTION FOR YEAR 2017

During 2017, the AML & Compliance Department has promoted the Compliance Culture across every aspect of the Bank's operations by providing dedicated training sessions and courses for employees and quarterly field visits to all BSL BANK's branches to keep all personnel up to date and engaged in all matters pertaining to the AML/CFT field.

By ensuring continuous updating of the AML/CFT manual's, this process has served to strengthen the Bank's Compliance controls, by requesting the AML Department's clearance for any Documentary Credit (L/C Import/Export) and for any Documentary Collections before being processed.

Additionally, the Compliance Department has prepared the grounds for a new, advanced KYC project to be launched in 2018.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

BSL BANK has a proud history of actively supporting important causes in Lebanon and further afield in a positive and meaningful way, transforming the causes it lends its support to.

The Bank makes a significant annual financial contribution to the cultural and creative scene in Lebanon in recognition of the transformative potential of culture and creativity in society. The Bank supports events including Lebanon's major Al Bustan International Festival of Music and the Performing Arts, in addition to helping young talents achieve their goals through the active support of numerous cultural and professional fields.

BSL BANK is also a proud annual partner to the voluntary non-governmental blood donor organization, Donner Sang Compter (DSC) Lebanon. Through this partnership, which began in 2017, DSC was able to reinforce its core capabilities, including the transformation of its contact center, enabling it to continue in its ongoing search for new blood donors.

BSL BANK's commitment to working as an active member of the cultural, artistic and healthcare fields is embedded in its corporate culture and business practices. The Bank aims to transform the prospects open to independent artists across the country by adopting a policy of work commissioning to local and young talents. The Bank is also positively committed to supporting SMEs in Lebanon by always engaging local suppliers and start-ups wherever possible when goods and services are required.

The Bank also actively encourages its employees to make their own contributions to society by participating in good causes and charitable events, whilst also providing the requisite support to accommodate employees' volunteering activities.

HUMAN RESOURCES

Throughout 2017, the Human Resources Department reaffirmed its commitment to providing transformational human resources leadership and guidance to all employees. The Department actively promoted the importance of excellence in BSL BANK's services, built on the Bank's values of competence, integrity and equity.

In 2017, the Department aimed to engender positive change across the workforce through the clear communication of the Bank's Vision, Mission and new Business Objectives.

The recruitment of new Human Capital played an important part in the Bank's transformation in 2017, with the Department actively deploying a number of new highly skilled and talented professionals, increasing the overall workforce by 19% over the year.

Throughout the year, the Department actively pushed ahead with the Bank's performance management activities by aligning the performance of every employee with his/her performance evaluation. This process enabled the Bank to review the compensation and benefit plans offered to employees in a meaningful way.

In 2017, employees attended more than 50 external training sessions and 12 internal training sessions, specifically aimed at enhancing performance capabilities, encouraging talent and providing space for all attendees to make a valuable, active and transformational contribution the Bank's growth.



INFORMATION TECHNOLOGY

In 2017, BSL BANK's Department of Information Technology worked towards creating a positive, active advantage for the Bank by pursuing a highly innovative use of technology. The Department has promoted the actionable use of information assets and provided employees with a secure, highly reliable technology infrastructure supported by intelligent, customer-oriented services and assistance.

In addition to running a high number of transformational new IT projects, the Department answered 2,000+ supports calls during the year. The Department's activities ranged from training employees to use specific tasks in Microsoft Word to the successful rollout of a six-month long project creating a new database application for a number of the Bank's Departments.

A key factor challenge for the IT Department throughout 2017 was in its capacity of actioning a large number of parallel projects within a limited time frame, by leveraging the team's skills in technology solutions, broad business awareness and expertise in developing IT solutions.

STRATEGIC OVERVIEW

INFORMATION TECHNOLOGY (CONTINUED)

Below is a list of major IT projects completed in 2017:

- **Core Banking Enhancements.** The Bank acquired and installed a set of new modules for its core system to answer the business and regulatory requirements that have become a standard for the banking sector.
- **Revamped Infrastructure.** The Bank migrated its infrastructure from LAN to WAN to the latest IP Telephony. This enables the Bank to significantly enhance its customer engagement activities, mobile services and collaborations.
- **New Website.** The Bank contracted the services of a specialized firm to design and deliver a modern website built on the latest technologies to reflect the Bank's commitment to clear communications with all of its stakeholders and the services offered to customers.
- **Internet Banking.** The Bank acquired and installed an internet banking solution integrated in real-time to its banking platform.
- **Business Continuity Plan.** The Bank revisited its Disaster Recovery Services and implemented new technologies to ensure that all Bank services and systems are replicated and available under disaster mode.
- **Regulatory Compliance.** The IT Department successfully concluded a number of IT audit activities from external parties, including the Bank's Control Commission, External Auditors or the Internal IT Audit Unit.
- **New Solutions.** In 2017, the Bank acquired and is in the process of installing a number of solutions that will bring value to its services. These include IFRS9, credit rating and scoring and compliance tools.

As we move into another year, the Department of Information Technology is committed to providing the necessary support that customers expect by adding value and lowering long-term costs, whilst also providing employees with the necessary tools to do their jobs efficiently.

CONSUMER BANKING

In 2017, the Bank's retail segment put into action its strategy of product diversification with the addition of several highly competitive housing loans, credit cards and a new e-banking service. The introduction of the new 'Home Initiative' loan, which is available with an interest rate of 0% gained significant success among customers, as did the Cherry Blossom personal loan that boasts an interest rate of only 9.99%.

CREDIT CARDS

A new collection of credit cards was launched in 2017, each providing customers with a wide range of benefits tailored to satisfy different types of lifestyle. All cards are equipped with the latest technologies and features, including 3D Secure and contactless technologies.

The Visa Infinite Card offers free unlimited VIP airport lounge access, concierge services, worldwide offers and digital security and payment solutions. Other credit cards launched in 2017 include the MasterCard Standard, MasterCard Titanium and Visa Platinum.

The introduction of these cards reflects the Bank's strategy of increasing its lending portfolio through the development of conveniently tailored credit facilities and advanced new products, all complemented by the most up-to-date payment and security technologies available.

BOOSTER PACKAGES

BSL BANK participated in the Beirut International Dentists Meeting and the 25th Annual Pharmacists Congress for the first time in 2017. Attendance at these sessions provided the Bank with an opportunity to meet pharmacy and dentistry professionals and launch two ground-breaking, highly bespoke banking packages designed to support both sectors.

The Pharmacy Booster Package provides preferential rates on financing to help pharmacy owners to stock the widest range of products demanded by customers, helping to manage cash flows and reduce overall costs through bulk-buying. The Bank's Dentist Booster Package offers support for growing practices through tailored financing solutions for patients and highly competitive day-to-day banking services.

BRANCHES OPERATIONS

Operationally, the Bank restructured its branches, a process that included the addition of a Branch Operations Manager (BOM) to take charge of all operations at a local level, including compliance in line with Banque du Liban (BDL) regulations. The role of retail officer was also created with the primary purpose of servicing retail clients and selling products to new customers.

COMMERCIAL BANKING

In 2017, the Commercial Division, with its four commercial Business Centers strengthened their relationships with their clients by providing a comprehensive suite of tailor-made commercial banking solutions.

To mitigate uncertainties in the Lebanese economy and pressure on the new unexpected SME and large institutions market conditions, Commercial Division skilled personnel managed to adapt, maintaining a close monitoring on their customer's portfolios and advising them to be able to achieve their expansion goals.

The primary focus for the Division is to develop long-term relationships and core clients, in addition to acquiring new customers, across specific, targeted markets.

TREASURY AND CAPITAL MARKETS

BSL BANK's Treasury Division is dedicated to the sustainable generation and retention of wealth for its clients. The Bank helps its customers make sound investment decisions based on a deep understanding of risk and asset classes nationally, regionally and globally.

Capital Market activities include brokerage and trading services on the Beirut Stock Exchange, Bonds issued by the Lebanese Government and trading on international stock markets.

Whilst Lebanon faced a series of geopolitical challenges in 2017, the Treasury and Capital Markets team preserved the interests of its stakeholders through the application of a conservative risk appetite, holding around 60% of its deposits.

Assets of the Treasury reached USD 616 million as of the end of December 2017, compared to USD 613.5 million at the end of December 2016. In parallel, those activities generated net revenues of USD 51.9 million in 2017, compared to USD 48.7 million in 2016.

MANAGEMENT DISCUSSION & ANALYSIS



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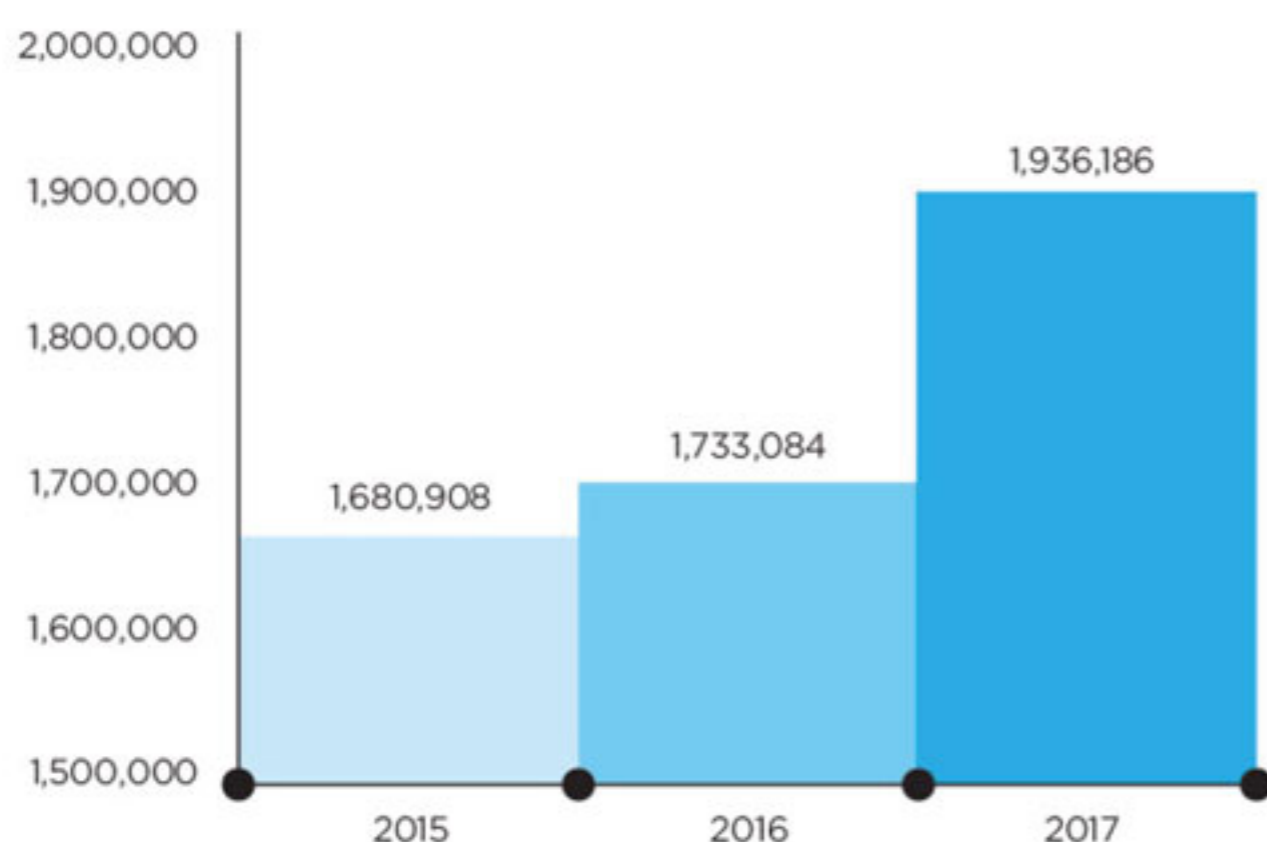
MANAGEMENT DISCUSSION & ANALYSIS

ASSETS

a. ASSETS GROWTH

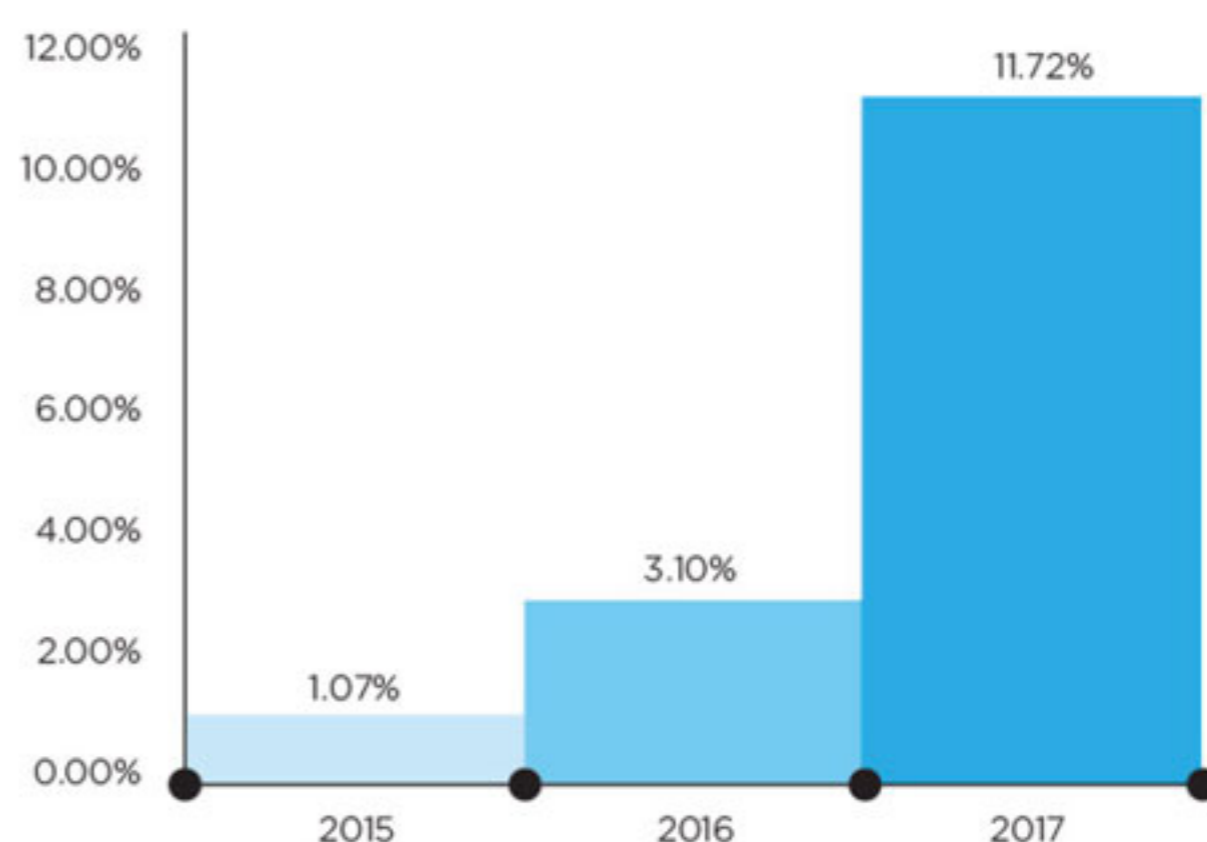
The Bank's total assets increased by 11.72% during 2017 to reach LL 1,936,186 million at 31st December 2017. This compares to YOY growth of 3.10% in 2016 and 1.07% in 2015. Graph 1 shows the evolution of total assets during the last three years.

EVOLUTION OF TOTAL ASSETS OVER THE LAST 3 YEARS:



Graph 1: Total assets 2015-2017 (LL million)

PERCENTAGE EVOLUTION OF TOTAL ASSETS OVER THE LAST 3 YEARS:



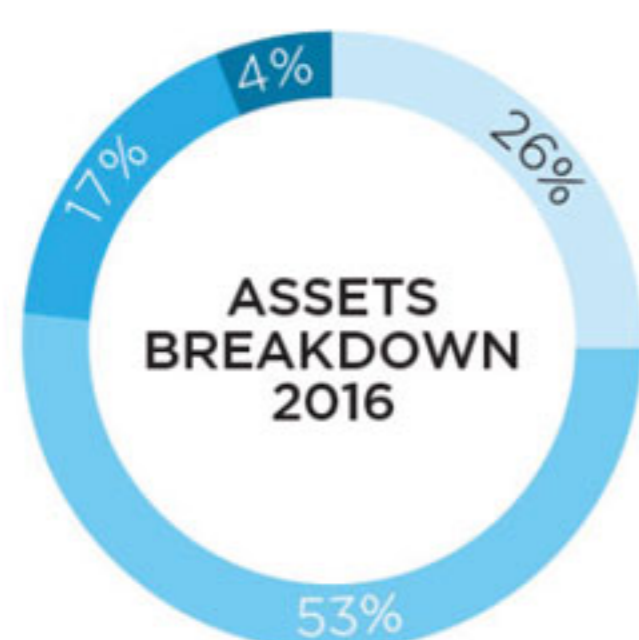
Graph 2: Assets evolution 2015-2017 (%)

b. ASSETS BREAKDOWN

The table and graphs below show the composition of the Bank's total assets at the end of December 2016 and 2017 respectively.

CATEGORIES	2016	2016 Breakdown (%)	2017	2017 Breakdown (%)	Growth (%)
Placements with banks	444,454	25.65%	578,587	29.88%	30.18%
Debt securities	922,974	53.26%	926,704	47.86%	0.40%
Net loans	293,885	16.96%	355,099	18.34%	20.83%
Other assets	71,771	4.14%	75,796	3.91%	5.61%
TOTAL	1,733,084	100.00%	1,936,186	100.00%	11.72%

Table 1: Total assets 2016-2017 (LL million)



Graph 3: Assets breakdown 2016



Graph 4: Assets breakdown 2017



As depicted in the above graphs, the Bank invested newly acquired funds in three main assets: liquid placements with banks, medium term placements with BDL and newly introduced retail and commercial loans. These are in line with the Bank's strategy to boost commercial activity and enhance the resilience of the Bank through diverse asset classes with higher liquidity levels.

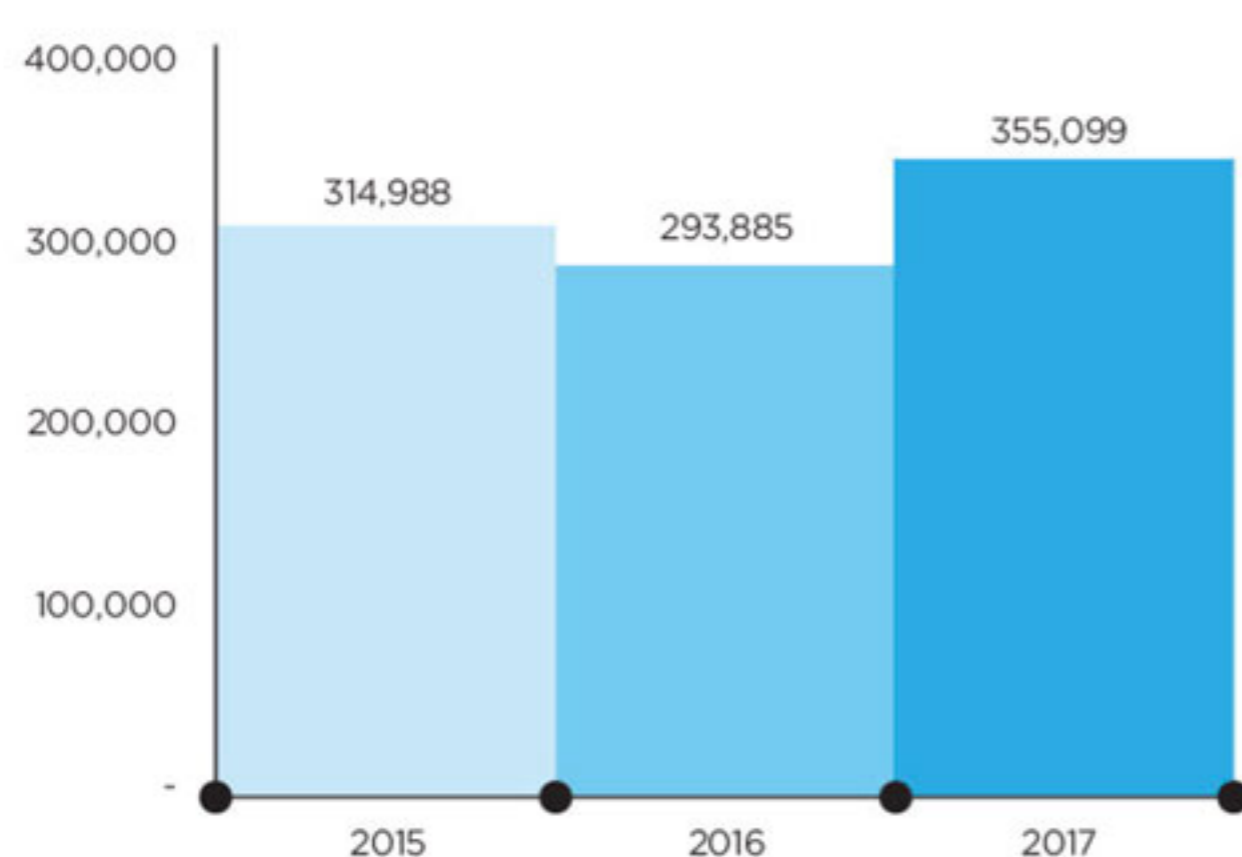
c. CUSTOMERS' LOANS GROWTH

The net loans and advances to customers and related parties increased by 20.8% to reach LL 355,099 million during 2017. This increased the loans to deposits ratio from 20% in 2016 to 23% in 2017.

The 3% growth in the loans to deposits ratio is due to two main factors:

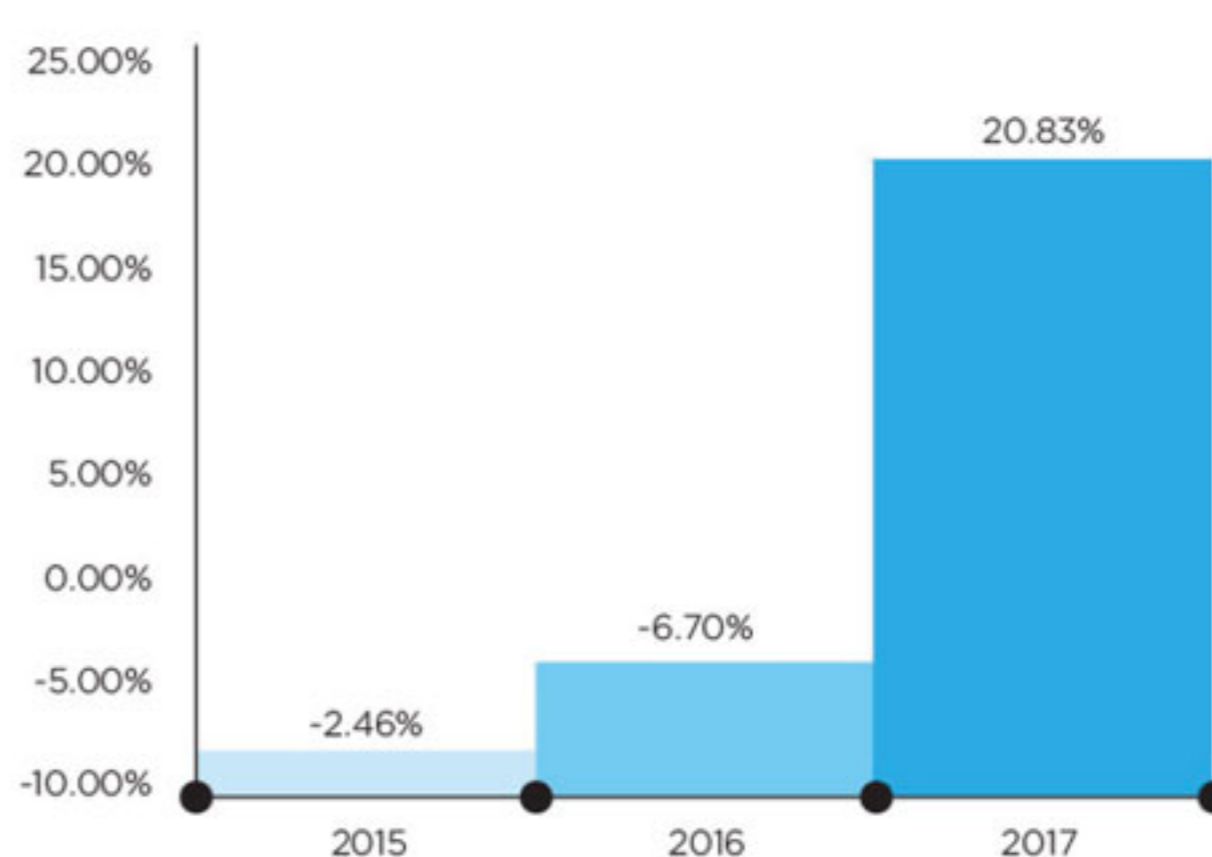
1. The introduction of the new subsidized housing loan and other retail and commercial loans
2. The enhancement of the lending process by shortening the approval interval.

EVOLUTION OF CUSTOMERS' LOANS OVER THE LAST 3 YEARS:



Graph 5: Customers' Loans 2015-2017 (LL million)

PERCENTAGE EVOLUTION OF CUSTOMERS' LOANS OVER THE LAST 3 YEARS:



Graph 6: Evolution of Customers' Loans 2015-2017 (%)

d. CUSTOMERS' LOANS BREAKDOWN

i. LOANS BREAKDOWN BY ECONOMIC SECTOR

ECONOMIC SECTOR	2016	2016 Breakdown (%)	2017	2017 Breakdown (%)	Growth (%)
Trading	73,553	25.03%	99,610	28.05%	35.43%
Construction	18,606	6.33%	18,526	5.22%	-0.43%
Industrial	10,878	3.70%	14,823	4.17%	36.27%
Agriculture	3,107	1.06%	2,555	0.72%	-17.77%
Consumer loans	117,305	39.92%	153,335	43.18%	30.71%
Other	70,436	23.97%	66,250	18.66%	-5.94%
TOTAL	293,885	100.00%	355,099	100.00%	20.83%

Table 2: Loans breakdown by economic sector 2016-2017 (LL million)

In line with its risk appetite, the Bank has pursued multiple sectors to achieve a diverse penetration of markets and reduce its vulnerability to global shocks.

As shown in the table above, the consumer loans segment grew by 31%, which represents 43% of total loans. In addition, loans in the trading sector increased by 35%, representing 28% of total loans.

MANAGEMENT DISCUSSION & ANALYSIS

d. CUSTOMERS' LOANS BREAKDOWN (CONTINUED)

ii. LOANS BREAKDOWN BY CURRENCY

CURRENCY	2016	2016 Breakdown (%)	2017	2017 Breakdown (%)	Growth (%)
LL	93,999	31.98%	148,354	41.78%	57.83%
USD	182,916	62.64%	189,861	53.47%	3.80%
EUR	14,335	4.88%	16,869	4.75%	17.68%
GBP	-	0%	15	-	0%
Other	2,635	0.90%	-	-	-100%
TOTAL	293,885	100.00%	355,099	100.00%	20.83%

Table 3: Loans breakdown by currency 2016-2017 (LL million)

In 2017, the loan portfolio was largely concentrated between two currencies, LL and USD, which combined represent around 95% of the Bank's total loans.

Loans granted in LL grew by 58% due to the launch of the new subsidized housing loan (Home Initiative) in the local currency, along with the new personal loan (Cherry Blossom).

iii. LOANS QUALITY

During 2017, BSL BANK pursued a healthy, risk-appropriate increase in its loan portfolio as part of its strategy to grow sustainably during a time of uncertain global economics and regional events. Throughout the year, this strategy was guided by a commitment to maintain the quality of the Bank's portfolio.

The tables below show the evolution of the Non-Performing loans.

GROSS LOANS	2016	% of loans	2017	% of loans
TOTAL GROSS LOANS	344,446	100.00%	406,429	100.00%
of which substandard	5,755	1.67%	8,850	2.18%
of which doubtful	15,933	4.63%	18,615	4.58%
of which bad debt	33,999	9.87%	32,285	7.94%

Table 4: Evolution of Non-Performing Loans (Gross) 2016-2017 (LL million)

NET LOANS	2016	% of loans	2017	% of loans
TOTAL NET LOANS	293,885	100.00%	355,099	100.00%
of which substandard	5,141	1.75%	7,590	2.14%
of which doubtful	2,926	1.00%	3,739	1.05%
of which bad debt	-	0.00%	41	0.01%

Table 5: Evolution of Non-Performing Loans (Net) 2016-2017 (LL million)

As shown, the quality of loans slightly increased from 2016 to 2017, the substandard loans out of total gross loans increased from 1.67% to 2.18% and the portion of doubtful debt out of total gross loans remained stable at approximately 5%. Bad debts represented 7.94% out of gross loans during 2017 compared to 9.87% during 2016.

The realized progress in reducing around 1.93% of the bad debt helped the Bank to improve its loan quality.

On average, the Net Doubtful loans over the Gross loans stands at 2.3% for the Beta group and 1.4% for the Alpha group, compared to 1% for BSL BANK.

e. SECURITIES PORTFOLIO

The Bank's investment portfolio includes Lebanese Treasury Bills/Bonds, Eurobonds and certificate of deposits issued by the Central Bank of Lebanon, in addition to other debt securities.

The securities portfolio constitutes a major part of the Bank's total profit in term of gains on trading and receipt of fixed contractual Cash Flows.

The below table summarizes the evolution of BSL BANK's financial portfolio between December 2016 and December 2017.

INVESTMENT SECURITIES	Amortized Cost		Fair Value through P/L	
	2016	2017	2016	2017
Lebanese government treasury bills/bonds	559,454	618,294	8,190	8,190
Certificate of deposits	318,172	278,930	15,177	15,177
Other debt securities	6,301	5,082	-	-
Interest receivables	15,320	12,499	360	206
TOTAL	899,247	914,805	23,727	11,899

Table 6: Evolution of portfolio securities 2016-2017 (LL million)

As is illustrated in Table 6, the portion of Lebanese Treasury Bills/Bonds held at amortized cost from the total debt securities portfolio was 62% in 2016 and 67% in 2017. However, the share of Treasury Bills/Bonds held at Fair Value decreased from 0.89% in 2016 to 0.14% in 2017. CDs held at amortized cost represented 30% of the portfolio as at 31 December 2017, compared to 34% at the end of 2016. CDs held at Fair Value represented 1.12% of total debt securities at the end of December 2017 compared to 1.64% at the end of December 2016.

In addition, the investment securities rose by 0.40% compared to 11.72% in total assets between 2016 and 2017. This minimal increase shows that BSL BANK is shifting its focus from investment in treasury activities to boost commercial activities.

The declines in the securities held at Fair Value serves to reduce volatility caused by interest rate movements and the unstable economic environment.

LIABILITIES

a. LIABILITIES BREAKDOWN

Customer deposits represent the major source of funds available to the Bank for the conduct of its commercial and financial activities. The comparative table below reflects the respective shares of the different sources of funds available.

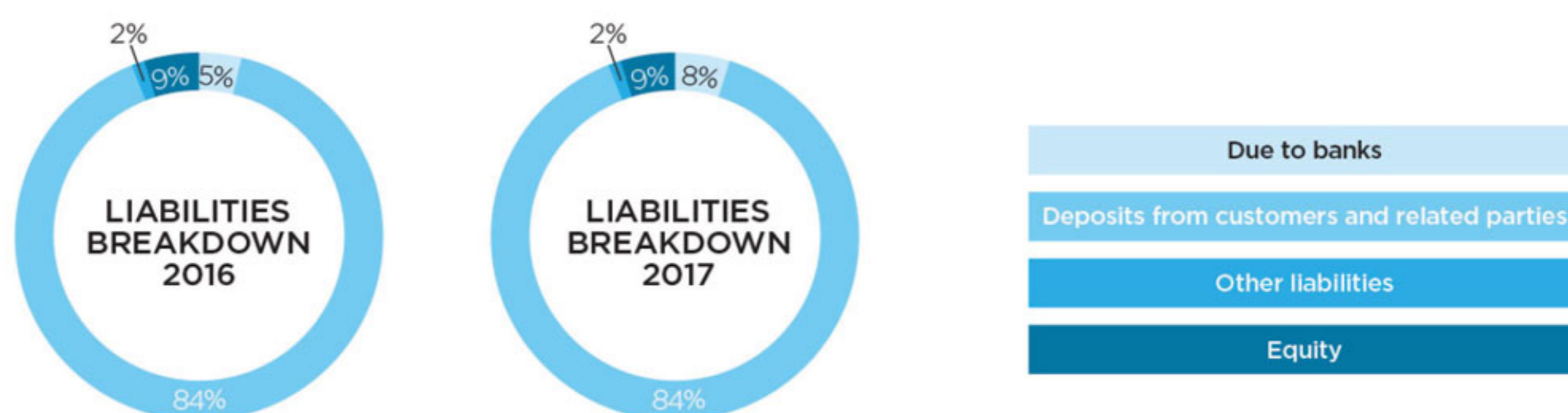
CATEGORIES	2015	2016	2017
Due to banks	41,445	88,433	159,192
Deposits from customers and related parties	1,474,969	1,448,854	1,562,294
Other liabilities	10,948	33,396	39,841
Equity	153,546	162,401	174,859
TOTAL	1,680,908	1,733,084	1,936,186

Table 7: Share of fund sources 2015- 2017 (LL million)

MANAGEMENT DISCUSSION & ANALYSIS

LIABILITIES (CONTINUED)

a. LIABILITIES BREAKDOWN (CONTINUED)



Graph 7: Liabilities breakdown 2016

Graph 8: Liabilities breakdown 2017

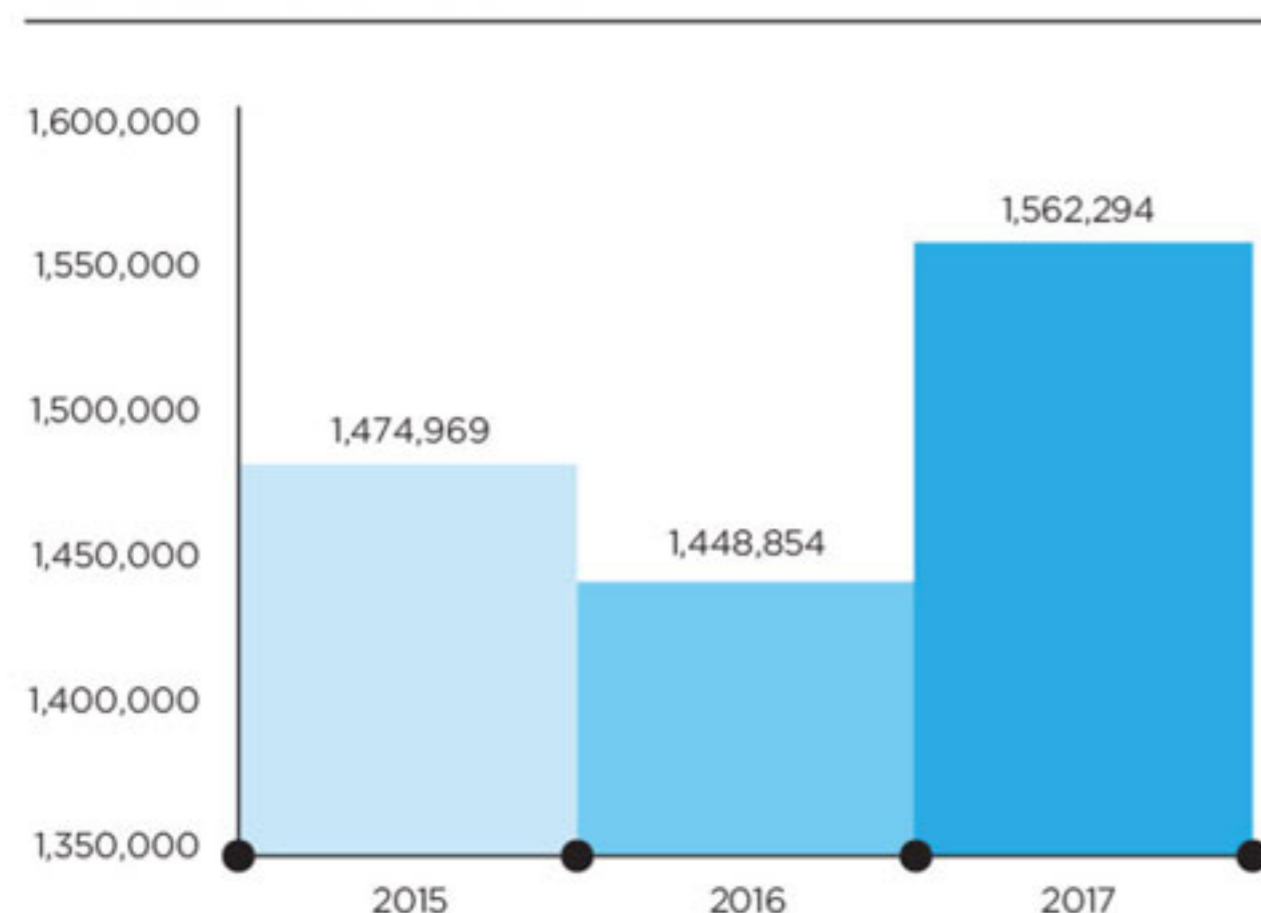
b. CUSTOMERS' DEPOSITS EVOLUTION

Customers' deposits increased from LL 1,448,854 million at end of December 2016, to LL 1,562,294 million as of end of December 2017. However, customer concentration has declined, with large client withdrawals being replaced by several medium sized deposits.

The top ten depositors represent around 7.5% of the total deposits in the year 2017 as compared to 9.6% in the year 2016.

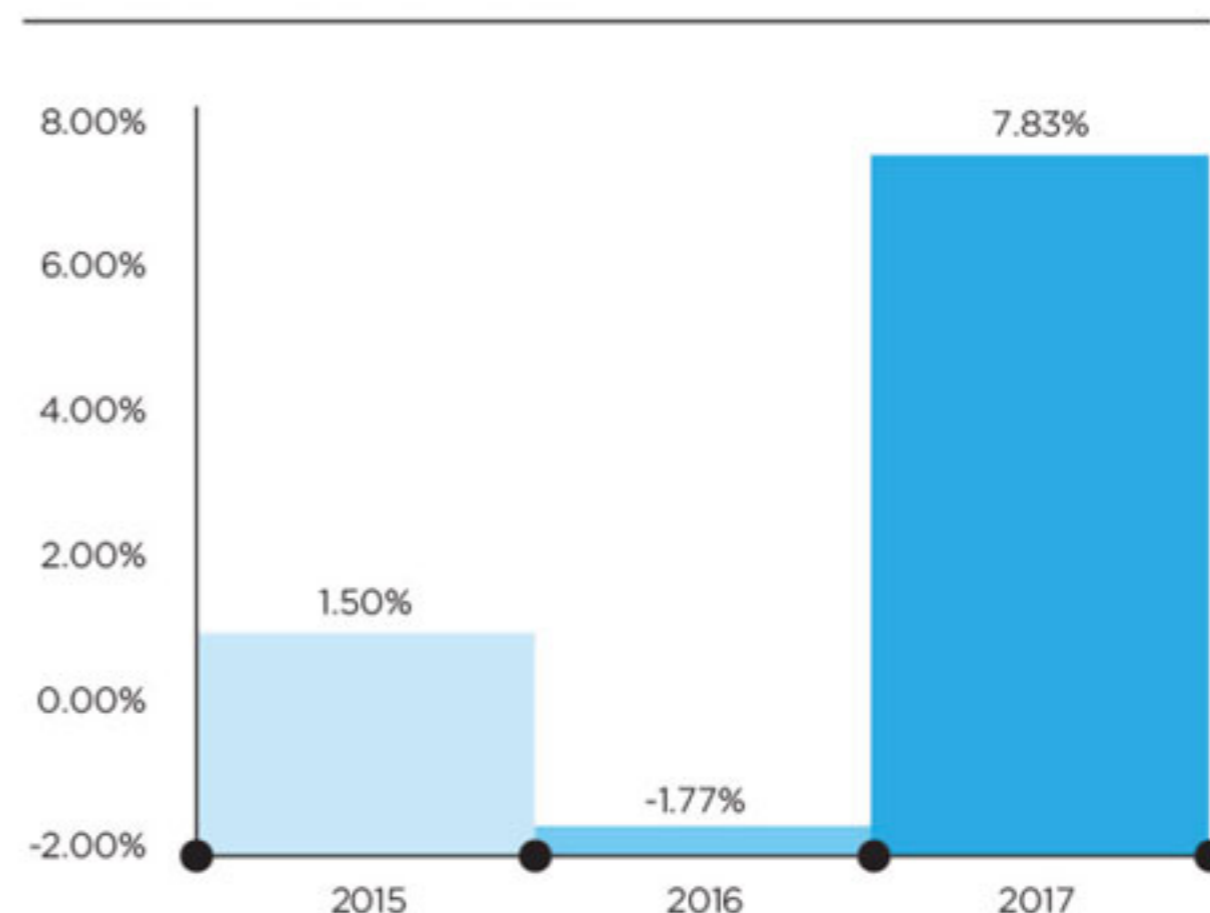
Graphs 9 and 10 illustrate the customers' deposits evolution over the last three years.

EVOLUTION OF CUSTOMERS' DEPOSITS OVER THE LAST 3 YEARS:



Graph 9: Customers' deposits 2015-2017 (LL million)

PERCENTAGE EVOLUTION OF CUSTOMERS' DEPOSITS OVER THE LAST 3 YEARS:



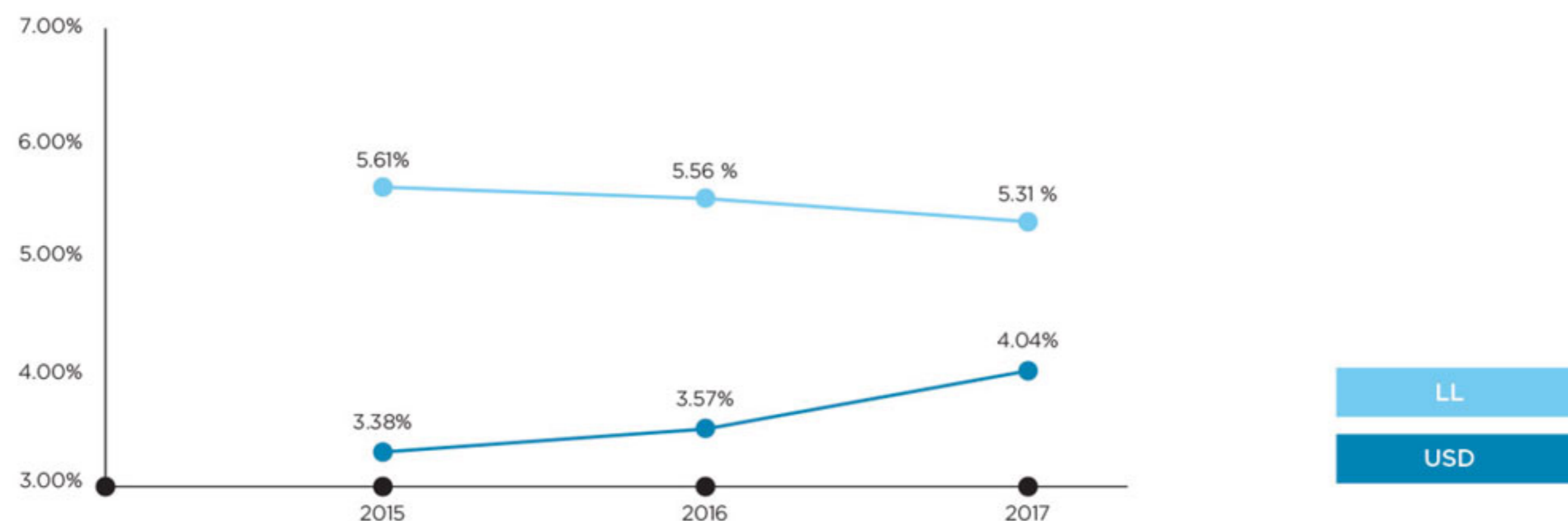
Graph 10: Evolution of customers' deposits 2015-2017 (%)

c. COST OF FUNDS EVOLUTION

During the last three months of 2017, interest rates increased significantly due to the economic and political situation in the country.

The cost of funds in both currencies increased by 75 Basis point in LL and 47 Basis point in USD between 2016 and 2017.

**EVOLUTION OF COST OF FUNDS
OVER THE LAST 3 YEARS:**



Graph 11: Evolution cost of funds 2015-2017

PROFITABILITY

CATEGORIES	2016	2017	Growth (%)
Interest and similar income	90,300	98,669	9.27%
Interest and similar expense	(62,008)	(68,455)	10.40%
Net interest income	28,292	30,214	6.79%
Fee & commission income	4,334	4,682	8.03%
Fee & commission expense	(360)	(409)	13.61%
Net fee & commission income	3,974	4,273	7.52%
Operating income	44,436	50,745	14.20%
Operating expenses	(33,101)	(35,217)	6.39%
Income tax expense	(2,371)	(2,817)	18.81%
Net income	8,964	12,711	41.80%

Table 8: Recurring income and expenses 2016-2017 (LL million)

During 2017, BSL BANK launched new products and services which boosted banking activity. The success of this strategy is borne out in a significant growth in the Net interest income from LL 28,292 million in 2016 to LL 30,214 million in 2017, despite the interest rates increase during the last months of year 2017.

The commission income witnessed a normal increase from LL 3,974 million to LL 4,273 million as of December 2016-2017.

In line with the Bank's overall strategy to expand and diversify its services, there was a need to increase human capital to provide greater reliability and efficiency, a process that is reflected in the increase of operating expenses of around 6.39% between 2016 and 2017.

BSL BANK achieved significant progress in the market, which translated to net income growth of 41.80%, up from LL 8,964 million in 2016 to LL 12,711 million in 2017.

MANAGEMENT DISCUSSION & ANALYSIS

LIQUIDITY

The Bank's objective in liquidity risk management is to maintain liquidity at a safe, conservative level according to the Bank's corporate strategy; and to ensure that adequate funds are available to meet business development needs and short-term obligations, whether under normal business conditions or under stress.

The liquidity profile of the Bank is monitored on a static and on a dynamic basis by using key liquidity ratios and conducting liquidity stress testing. The Bank has prepared a liquidity risk policy in line with regulations and the asset-liability management strategy. Periodic liquidity positions and liquidity stress results are reviewed by the Bank's ALCO.

The Bank's liquidity positions as at 31 December 2017 are shown in the tables below:

a. LIQUID ASSETS TO TOTAL ASSETS

LIQUID ASSETS TO TOTAL ASSETS	2016	% of assets	2017	% of assets
Cash and central banks	331,747	14.49%	479,389	19.14%
Net due from banks	24,274	5.71%	890	1.40%
Financial instruments	922,974	52.30%	926,704	53.26%
TOTAL LIQUIDITY	1,278,995	72.50%	1,406,983	73.80%

Table 9: Liquid assets to total assets 2016-2017 (LL million)

b. LIQUID ASSETS TO TOTAL DEPOSITS

LIQUID ASSETS TO TOTAL DEPOSITS	2016	% of deposits	2017	% of deposits
Cash and central banks	331,747	16.52%	479,389	22.90%
Net due from banks	24,274	6.50%	890	1.66%
Financial instruments	922,974	59.60%	926,704	63.70%
TOTAL LIQUIDITY	1,278,995	82.62%	1,406,983	88.27%

Table 10: Liquid assets to total deposits 2016-2017 (LL million)

CAPITAL MANAGEMENT

Aiming to maximize shareholder value, the Bank endeavors to develop an asset structure that will be sensitive to the importance of increasing the proportion of low-risk-weighted assets. This can be achieved through an appropriate composition of capital and an optimal mix of assets.

The Bank has implemented the Basel III capital regulations and the Banking Control Commission of Lebanon (BCCL) requirements on the minimum capital that reaches 15% at the end of 2018.

Accordingly, the Bank has computed the Capital Adequacy Ratio (CAR) as of 31 December 2017 in terms of Basel and BCCL regulatory guidelines, wherein the capital charge for operational risk is computed under the Basic Indicator Approach. The capital charge for credit and market risk is computed under the Standardized Approach.

As of 31 December 2017, the Bank's CAR was 16.18% (excluding profit for the year) against the minimum regulatory requirement of 14.5%. Of this, the Common Equity Tier I (CET I) ratio and Tier I ratio were both 13.10% against the minimum regulatory requirement of 9% and 12% respectively.

BSL BANK adheres to all laws and regulations related to the Capital Adequacy Ratio either issued by the Basel committee or amended by the Central Bank of Lebanon and BCCL. Basel has set a reference timetable for the Capital Adequacy Ratio that was modified by the BCCL to hedge, in terms of capital, for the insecurity and instability of the Lebanese markets.

CAR TIMETABLE SET BY THE BCCL

BASEL III MINIMUM CAR RATIO	2013	2014	2015	2016	2017	2018
Common Tier 1 (CET 1) ratio	6.00%	7.00%	8.00%	8.50%	9.00%	10.00%
Tier 1 ratio	8.50%	9.50%	10.00%	11.00%	12.00%	13.00%
Total Capital Ratio	10.50%	11.50%	12.00%	14.00%	14.50%	15.00%

Table 11: Capital Adequacy Ratio timetable set by BCCL (including capital conservation buffer)

CAPITAL ADEQUACY RATIO

BASEL III BSL BANK CAR RATIO	2013	2014	2015	2016	2017
Tier 1 Capital	96,948	101,837	110,695	119,329	128,220
Tier 2 capital	15,435	15,463	15,435	30,247	30,148
TOTAL CAPITAL	112,383	117,300	126,130	149,576	158,368
RWA	871,186	864,820	903,039	868,327	978,588
Common Equity Tier 1 ratio	11.58%	11.78%	12.26%	13.74%	13.10%
Tier 1 ratio	11.58%	11.78%	12.26%	13.74%	13.10%
BSL BANK TOTAL CAPITAL RATIO	13.53%	13.56%	13.97%	17.23%	16.18%

Table 12: Total Capital Adequacy Ratio 2013 - 2017

INDEPENDENT AUDITORS' REPORT



BSL BANK | Tripoli Branch

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BSL BANK SAL

Qualified opinion

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

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

Basis for qualified opinion

As disclosed in note 23 to the consolidated financial statements, during 2016, the Group did not recognize in the consolidated statement of profit or loss an amount of LBP 19,341 million in gains realized from certain transactions on financial instruments with Central Bank of Lebanon. The Group recognized an amount of LBP 16,706 million under "Other Liabilities" within "Deferred Surplus" in compliance with Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016. Furthermore, as disclosed in note 23 to the consolidated financial statements, the Group recorded excess provisions amounting to LBP 2,635 million under "Other Liabilities" within "Provisions for risk and charges" in order to comply with requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016.

During 2017, the Group released an amount of LBP 1,914 million from the "Deferred surplus" against "Revenue from investment securities at FVTOCI and net gain from investment at amortized cost" for an amount of LBP 687 million and against "Net gain from investment at fair value through profit and loss" for an amount of LBP 1,227 and recorded a provision for an amount of LBP 1,914 million to comply with the provisioning requirements of the Central Bank of Lebanon's Intermediate Circulars numbers 439 dated 8 November 2016 and 446 dated 30 December 2016.

The Group's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards (IFRSs).

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

- Net income for the year ended 31 December 2017 would have increased by LBP 287 million;
- Other liabilities as at 31 December 2017 would have decreased by LBP 19,341 million;
- Other assets as at 31 December 2017 would have decreased by LBP 2,219 million respectively; and
- Equity as at 31 December 2017 would have increased by LBP 17,122 million respectively.



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 consolidated financial statements” section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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 financial statements of the year ended 31 December 2017. We have determined the matter described below to be the key audit matter to be communicated in our report. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the “Auditors’ responsibilities for the audit of the consolidated 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 financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Key audit matter	How our audit addresses the key audit matter
<p data-bbox="359 655 1058 694"><i>Impairment of Loans and Advances</i></p> <p data-bbox="359 694 1058 1032">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 data-bbox="359 1062 1058 1442">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 data-bbox="359 1472 1058 1774">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 data-bbox="359 1804 1058 1923">Note 12 to the consolidated financial statements provides details relating to the impairment of loans and advances.</p>	<p data-bbox="1058 694 1732 733">These risks were addressed by us as follows:</p> <p data-bbox="1058 747 1732 1068">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 data-bbox="1058 1092 1732 1495">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 Group'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 data-bbox="1058 1519 1732 1961">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>

Other information included in the Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the audit committee for the consolidated financial statements

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

The partners in charge of the audit resulting in this independent auditors' report are Nadim Dimashkieh for Ernst & Young and Wissam Safwan for KPMG.



Ernst & Young

16 May 2018
Beirut, Lebanon



KPMG

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

	Notes	2017 LL million	2016 LL million
ASSETS			
Cash and balances with the Central Bank	9	464,089	331,747
Loans under reverse repurchase agreements	10	15,300	-
Due from banks and financial institutions	11	99,198	112,707
Loans and advances to customers at amortized cost	12	353,766	292,488
Loans and advances to related parties at amortized cost	12, 36	1,333	1,397
Investment securities at fair value through profit or loss	13	11,899	23,727
Investment securities at amortized cost	14	914,805	899,247
Investment securities at fair value through other comprehensive income	15	1,836	2,089
Debtors by acceptances		6,881	403
Investment properties	16	19,356	19,776
Property and equipment	17	37,971	38,363
Intangible assets		4	20
Non-current assets classified as held for sale	18	2,120	2,128
Other assets	19	7,628	8,992
TOTAL ASSETS		1,936,186	1,733,084
LIABILITIES AND EQUITY			
Liabilities			
Due to Central Bank	20	60,884	-
Due to banks and financial institutions	21	98,308	88,433
Deposits from customers at amortized cost	22	1,504,087	1,393,719
Deposits from related parties at amortized cost	37	58,207	55,135
Engagement by acceptances		6,881	403
Current tax liabilities	34	3,864	1,659
Other liabilities	23	24,307	27,210
Employee benefit obligations	24	4,789	4,124
Total liabilities		1,761,327	1,570,683
Equity			
Share capital	25	54,165	54,165
Non distributable reserves	26	72,948	65,560
Distributable reserves	26	29,287	26,009
Cumulative change in fair value of securities at fair value through other comprehensive income		315	568
Retained earnings		1,496	3,235
Profit for the year		12,677	8,927
Total equity attributable to equity holders of the Parent		170,888	158,464
Non-controlling interests		3,971	3,937
Total equity		174,859	162,401
TOTAL LIABILITIES AND EQUITY		1,936,186	1,733,084

These consolidated financial statements were authorized for issuance by the Chairman of the Board of Directors on 10 May 2018.

The attached notes 1 to 38 form part of these consolidated financial statements

Ramsay El Khoury
Chairman

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 LL million	2016 LL million
Interest and similar income	27	98,669	89,617
Interest and similar expense	27	(68,455)	(62,008)
Net interest and similar income		30,214	27,609
Fee and commission income	28	4,682	4,334
Fee and commission expense		(409)	(360)
Net fee and commission income		4,273	3,974
Net gain from investment securities at fair value through profit or loss	29	5,125	7,418
Revenues from investment securities at fair value through other comprehensive income and net gain from investment securities at amortized cost	14, 15, 23	9,118	2,144
Net release of impairment on loans and advances to customers		604	334
Other operating income	30	1,411	2,957
Net operating income		50,745	44,436
Personnel expenses	31	(18,566)	(16,410)
Depreciation and amortization charges	32	(3,117)	(2,893)
Other operating expenses	33	(11,620)	(11,163)
Provisions for risks and charges	23	(1,914)	(2,635)
Total operating expenses		(35,217)	(33,101)
Profit before tax		15,528	11,335
Income tax expense	34	(2,817)	(2,371)
PROFIT FOR THE YEAR		12,711	8,964
Other comprehensive income			
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Net unrealized gain (loss) on investment securities at fair value through other comprehensive income	15	(253)	131
Total other comprehensive income (loss) for the year		(253)	131
Total comprehensive income for the year		12,458	9,095
Profit attributable to:			
Equity holders of the Bank		12,677	8,927
Non-controlling interests		34	37
		12,711	8,964
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Bank		12,424	9,058
Non-controlling interests		34	37
		12,458	9,095

The attached notes 1 to 38 form part of these consolidated financial statements

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Share capital	Non distributable reserves	Distributable reserves
		LL million	LL million	LL million
Balance at 1 January 2017		54,165	65,560	26,009
Profit for the year		-	-	-
Net unrealized gain on investment securities at fair value through other comprehensive income		-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-
Transfer to retained earnings		-	-	-
Transfer from retained earnings		-	7,397	3,278
Release of reserve for non-current assets classified as held for sale	18	-	(9)	-
		-	7,388	3,278
BALANCE AT 31 DECEMBER 2017		54,165	72,948	29,287

	Notes	Share capital	Non distributable reserves	Distributable reserves
		LL million	LL million	LL million
Balance at 1 January 2016		54,165	60,702	24,066
Profit for the year		-	-	-
Net unrealized gain on investment securities at fair value through other comprehensive income		-	-	-
TOTAL COMPREHENSIVE INCOME		-	-	-
Transfer to retained earnings		-	-	-
Liquidation of a subsidiary	39	-	-	-
Transfer from retained earnings		-	6,605	1,943
Release of reserve for non-current assets classified as held for sale	18	-	(1,747)	-
		-	4,858	1,943
BALANCE AT 31 DECEMBER 2016		54,165	65,560	26,009

The attached notes 1 to 38 form part of these consolidated financial statements

Cumulative change in fair value of securities at fair value through other comprehensive income	Retained earnings	Profit for the year	Total equity	Non-controlling interests	TOTAL
LL million	LL million	LL million	LL million	LL million	LL million
568	3,235	8,927	158,464	3,937	162,401
-	-	12,677	12,677	34	12,711
(253)	-	-	(253)	-	(253)
(253)	-	12,677	12,424	34	12,458
-	8,927	(8,927)	-	-	-
-	(10,675)	-	-	-	-
-	9	-	-	-	-
-	(1,739)	(8,927)	-	-	-
315	1,496	12,677	170,888	3,971	174,859

Cumulative change in fair value of securities at fair value through other comprehensive income	Retained earnings	Profit for the year	Total equity	Non-controlling interests	TOTAL
LL million	LL million	LL million	LL million	LL million	LL million
437	1,570	8,706	149,646	3,900	153,546
-	-	8,927	8,927	37	8,964
131	-	-	131	-	131
131	-	8,927	9,058	37	9,095
-	8,706	(8,706)	-	-	-
-	(240)	-	(240)	-	(240)
-	(8,548)	-	-	-	-
-	1,747	-	-	-	-
-	1,665	(8,706)	(240)	-	(240)
568	3,235	8,927	158,464	3,937	162,401

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 LL million	2016 LL million
OPERATING ACTIVITIES			
Profit for the year		12,711	8,964
Adjustment for:			
Depreciation and amortization charges	31	3,117	2,893
Net credit gain		(604)	(334)
Net gain on sale / exchange of investment securities at amortized cost	14	(8,833)	(1,066)
Net gain on sale of investment securities at fair value through profit or loss	29	(846)	(2,421)
Net gain on sale investment securities at FVTOCI	15	(285)	(485)
Net gain on sale of property and equipment		2	(7)
Net gain on sale of non-current assets classified as held for sale	30	(53)	(1,716)
Provision for risks and charges	23	(1,914)	2,635
Provision for employees benefit obligations, net	24	762	325
Net interest and similar income	27, 29	(30,214)	(30,621)
Impairment provision on receivables from NSSF	33	44	106
Income tax expense	34	2,817	2,371
		(19,468)	(19,356)
Change in:			
Balances with the Central Bank	9	(104,133)	(56,857)
Due from banks and financial institutions	11	28,915	(25,215)
Loans and advances to customers and related parties	12, 37	(60,616)	20,959
Investment securities	13, 14, 15	3,259	(41,112)
Other assets	19	1,320	(3,907)
Due to Central Bank	20	60,884	-
Due to banks and financial institutions	21	19,450	(13,886)
Deposits from customers and related parties	22, 37	112,645	(26,610)
Other liabilities	23	(4,817)	23,444
		37,439	(142,540)
Interest received		100,965	91,417
Interest paid		(67,660)	(61,735)
Employee benefits obligations paid	24	(97)	(149)
Income tax paid	34	(612)	(2,203)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		70,035	(115,210)
INVESTING ACTIVITIES			
Acquisition of property and equipment	17	(2,292)	(3,792)
Proceeds from sale of property and equipment		-	8
Proceeds from sale of non-current assets classified as held for sale		62	3,720
NET USED IN FROM INVESTING ACTIVITIES		(2,230)	(64)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		67,805	(115,274)
Cash and cash equivalents at 1 January		47,828	163,102
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	35	115,633	47,828

The attached notes 1 to 38 form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

1. CORPORATE INFORMATION

BSL Bank SAL (“the Bank”) is established in 1962 and domiciled in Lebanon. It is registered under No. 12510 in the Lebanese Commercial Register and listed under No. 68 at the Central Bank. The Bank is involved in corporate and retail Banking services through its head office located in the Bank’s street in Downtown Beirut and its network of 18 branches across Lebanon. The consolidated financial statements of the Bank comprise of the Bank and its subsidiaries (together referred to as “the Group”). The Group is involved in corporate and retail Banking services and real estate investment.

2. ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for the following:

- Land and buildings acquired prior to 1993 are measured at their revalued amounts based on market prices prevailing during 1996, to compensate for the effect of the hyper-inflationary economy prevailing in the earlier years;
- Financial assets and liabilities at fair value through profit or loss are measured at fair value;
- Equity securities at fair value through other comprehensive income are measured at fair value.

The consolidated financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest million unless otherwise indicated. Besides, the consolidated financial statements provide comparative information in respect of the previous period.

Statement of compliance

The consolidated 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 Banking Control Commission (BCC).

Presentation of consolidated financial statements

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

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only 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 realize the assets and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

The consolidated financial statements comprise the financial statements of BSL Bank SAL and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

INDEPENDENT AUDITORS' REPORT

2. ACCOUNTING POLICIES (CONTINUED)

Presentation of consolidated financial statements (Continued)

Specifically, the Group controls an investee if and only if the Group has:

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

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

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

2.2. BASIS OF CONSOLIDATION

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Where the Group loses control of a subsidiary, such that the former subsidiary becomes an associate accounted for under the equity method, the effect is that the Group's interest in the former subsidiary (associate) is reported:

- using the equity method from the date on which control is lost in the current reporting period; and
- using full consolidation for any earlier part of the current reporting period, and of any earlier reporting period, during which the associate was controlled.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of 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). The amendment has no impact on the Group's financial statements as all of these changes are cash flow changes.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized 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 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 Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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.

As at 31 December 2017, the Group had no interest in a subsidiary, joint venture or associate classified as held for sale, and as such, these amendments did not affect the Group's financial statements.

4. 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 Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 15 Revenue from Contracts with Customers;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IAS 7 Disclosure Initiative - Amendments to IAS 7;
- IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses - Amendments to IAS 12
- IFRS 2 Classification and Measurement of Share-Based Payment Transactions - Amendments to IFRS 2;
- IFRS 16 Leases;
- Transfers of Investment Property - Amendments to IAS 40.

These amendments will not have a significant impact on the Group's financial statements

INDEPENDENT AUDITORS' REPORT

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date 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 Group will apply this standard retrospectively. The changes in measures arising on initial application will be incorporated through an adjustment to opening retained earnings or reserves (as applicable) as at 1 January 2018.

Estimated impact of the adoption of IFRS 9 on the opening equity as 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(000) 10,183,821, which is already covered by the Group's excess collective provisions disclosed in note 11. Accordingly, there will be no impact on the Group's equity from the adoption of the IFRS 9 impairment requirements.
- Total estimated adjustments related to classification and measurements other than impairment (see I below) will reduce opening equity by approximately LL(000) nil.

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

- IFRS 9 will require the Group 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 Group has not finalized the testing and assessment of control over its new IT systems and changes to its governance framework;
- The Group 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 Group finalizes its first financial statements that include the date of initial application.

I. Classification and measurement

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

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

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

The Group does not expect a material impact on the classification of the Group's financial assets nor their carrying values.

II. Impairment

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

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

Stage 1

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

Stage 2

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

Stage 3

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

Key Considerations

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

Assessment of Significant Increase in Credit Risk

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

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

- (1) 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.

INDEPENDENT AUDITORS' REPORT

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

IFRS 9 Financial Instruments (continued)

II. Impairment (Continued)

Assessment of Significant Increase in Credit Risk (Continued)

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

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

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

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

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.

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.

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

Definition of default

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

Expected Life

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

Governance

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

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

III. Hedge accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

The Group does not have hedging relationships.

IV. Financial instruments: disclosures (IFRS 7)

The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

5. SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognized in profit or loss.

However, non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising from the translation of financial assets at fair value through other comprehensive income are recognized in other comprehensive income (except on impairment) in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

b) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

INDEPENDENT AUDITORS' REPORT

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Interest (Continued)

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated statement of comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

c) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees, are recognized as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

d) Net gain (loss) from investment securities 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.

e) Dividends

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income on investment securities at fair value through profit or loss or other revenue, based on the underlying classification of the equity investment.

f) 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 fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Leases which do not transfer to the Group 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 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.

Group as a lessor

Leases where the Group 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.

g) Income tax

Income tax comprises current tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable on the taxable income for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

The Bank's taxable profit is subject to income tax at the rate of 15% for the period ending 26 October 2017 inclusive and 17% applicable starting 27 October 2017.

Interest earned is subject to a withholding tax at the rate of 5% according to article 51 of law number 497 dated 30 January 2003. This rate has been increased to 7% up from 27 October 2017 in conformity with article 17 of law number 64 dated 20 October 2017.

Subsequent to this amendment, the tax on interest earned for the year 2017 has been calculated at the following rates:

- For the period from 1st January until 26 October 2017: 5%
- For the period from 27 October until 31 December 2017: 7%

The tax withheld on interest earned after 26 October 2017 is no longer accepted as advance payment for the tax on profits.

(ii) Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made. The Group's books and records were reviewed by the Department of Income Tax for the years 2009 to 2012. The Group is subject to tax authority examination for the years 2013, 2014, 2015, 2016 and 2017.

h) Financial assets and financial liabilities

(i) Recognition

The Group initially recognizes loans and advances and deposits on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

INDEPENDENT AUDITORS' REPORT

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial assets and financial liabilities (Continued)

(ii) Classification

Financial assets

The Group classifies its financial assets as measured at amortised cost or fair value. See notes 5 (i), (j), (k) and (l). A financial asset qualifies for amortized cost measurement only if it meets both of the following 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 financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at a portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group 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 assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Financial liabilities

The Group classifies its financial liabilities other than financial guarantees and loan commitments, as measured at amortized cost. See accounting policies 5(t).

(iii) De-recognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that has been recognized in other comprehensive income is recognized in profit or loss. Any interest in such transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognized as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such case, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the de-recognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(v) Amortized cost measurement

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and a liabilities and short positions at an ask price.

INDEPENDENT AUDITORS' REPORT

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Fair value measurement (Continued)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vii) Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise, indications that a borrower or issuer will enter Bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortized costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortized cost are assessed for specific impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortized cost that are not individually significant are collectively assessed for impairment by grouping loans and advances and investment securities measured at amortized cost with similar risk characteristics.

In assessing collective impairment, the Group uses statistical analysis of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, and makes judgment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount of the financial amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances or investment securities at amortized cost. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Group writes off certain loans and advances and investment securities either partially or in full, and any related allowance for impairment losses when Bank Non-Performing Loans Committee and ALCO determine that there is no realistic prospect of recovery after obtaining the necessary legal advice.

(viii) Designation at fair value through profit of loss

The Group has designated financial assets at fair value through profit or loss in either of the following circumstances:

- The assets are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has made an election to present in other comprehensive income changes in the fair value of certain investments in equity instruments that are not held for trading – see accounting policies 5(l).

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

Note 8 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset class.

i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with Central Bank and highly liquid financial assets and liabilities with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss in “net gain from investment securities at fair value through profit or loss”.

k) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and the Group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method.

l) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as amortized cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortized cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity instruments held for strategic purposes in other comprehensive income. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

INDEPENDENT AUDITORS' REPORT

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Investment securities (Continued)

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Other investment securities are measured at fair value through profit or loss.

m) Investment properties

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are initially measured at cost, including transaction costs. Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits in excess of the originally assessed standard of performance will flow to the Group. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the statement of comprehensive income in the period in which it is incurred.

Subsequently, investment properties are measured at cost less any accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives. All subsequent additions are depreciated over the remaining useful lives of investment properties. Land is not depreciated.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of comprehensive income in the year of retirement or disposal.

n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other operating income / other operating expenses in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognized in profit or loss. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

• Buildings	50 years
• Leasehold improvements	12.5 - 16.5 years
• Computer equipment	5 years
• Office equipment	12.5 years
• Furniture and fixtures	12.5 years; and
• Vehicles	10 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

o) Intangible assets

Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods is five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

p) Assets classified as held for sale

Properties acquired through the enforcement of security over loans and advances to customers are accounted for in accordance with the directives issued by the Banking Regulators.

These assets are initially measured at fair value at the date of enforcement of the security. A reserve is constituted for assets not disposed of within two years of the date of enforcement at a rate of 20% or 5%, depending on the date the related loan was granted. Reserves ratio for assets acquired in connection with loans granted before 30 June 2003 and in accordance with the Central Bank intermediary circular No. 41 and its amendments is 20%, whereas reserves ratio for assets acquired in connection with loans after 30 June 2003 is 5%.

The accumulated reserve is classified under "Non-distributable reserves" in equity.

q) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, based on the management's best estimate.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the income statement.

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

r) Deposits

Deposits are the Group's sources of debt funding.

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

INDEPENDENT AUDITORS' REPORT

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Provision

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provision is determined using management's best estimates to the risk specific to the liability.

t) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or commitment. The liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

u) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are declared by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

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

v) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ("repos") are derecognized from the consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognized on the consolidated statement of financial position reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

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

6. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following risks:

- credit risk
- liquidity risk
- market risk and
- Operational risks

This note presents information about the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Board Risk Committee and the Asset and Liability committee (ALCO) and the Credit committee which are directly responsible for developing and monitoring Group risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit and Risk Committees oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Committees are assisted in their oversight role by Internal Audit and risk management. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, the Central Bank, other Banks, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

(i) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(ii) Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Board Risk Committee as well as to the Bank Credit Committee. The Bank Credit Committee is responsible for managing the Bank's credit risk, including the following:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and sectors. The Bank's approach to controlling this concentration of exposure is by the diversification of its commitments and by setting limits at level of aggregate of products, economic sectors, region and segments.
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Credit Committee and is subject to regular reviews.
- Reviewing compliance with agreed exposure limits, including those for selected industries, country risks and product types. Regular reports are provided to Bank Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialised skills to promote best practice throughout the Bank in the management of credit risk.

Each Branch Manager and Credit Officer are required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank Credit Committee. Each Branch Manager and Credit Officer report on all credit related matters to management and the Credit department.

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Each Branch Manager and Credit Officer are responsible for the quality and performance of his/her credit portfolio and for monitoring and controlling all credit risks in his/her portfolios, including those subject to central approval. Regular audits of Bank credit processes are undertaken by the Internal Audit Department.

To measure the credit risk of loans and advances to customers and to banks at a counterparty level, the Group rates its counterparties according to the six rating classes defined by the Central Bank of Lebanon ("BDL") and the Banking Control Commission of Lebanon ("BCC") requirements as follows:

- Normal - type of loan is expected to be repaid on a timely and consistent basis;
- Special mention - type of loan is expected to be repaid but with lack of current financial information about the client;
- Special mention and regularisation - type of loan where the client is 60 to 90 days late in paying his/her financial obligations;
- Substandard - type of loan where the client is 90 to 180 days late in paying his/her financial obligations;
- Doubtful - type of loan where there is no movement in the clients' balance for more than 6 months;
- Bad - type of loan where the probability of repayment is low and almost nil.

(iii) Analysis of credit quality

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Group against those assets.

	Notes	Loans and advances to customers and related parties		Due from Central Bank, banks and financial institutions and loans under reserve repurchase agreements		Investment securities (debt securities)		Lending commitments and financial guarantees	
		2017	2016	2017	2016	2017	2016	2017	2016
		LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
MAXIMUM EXPOSURE TO CREDIT RISK									
Carrying amount	9, 10, 11, 12,13,14	355,099	293,885	569,963	435,059	926,704	922,974	-	-
Amount committed guaranteed	38	-	-	-	-	-	-	115,772	104,336
AT AMORTIZED COST									
Sovereign debt		-	-	455,465	322,352	909,648	892,863	-	-
Grade 1: Low-fair risk Normal		264,160	255,150	114,498	112,707	5,157	6,384	-	-
Grade 2: Low-fair risk Special mention		60,319	23,058	-	-	-	-	-	-
Grade 3: Special mention & regularization		22,200	10,551	-	-	-	-	-	-
Grade 4: Substandard		8,850	5,755	-	-	-	-	-	-
Grade 5: Impaired Doubtful		18,615	15,933	-	-	-	-	-	-
Grade 6: Impaired Bad debts		32,285	33,999	-	-	-	-	-	-
Total gross amount		406,429	344,446	569,963	435,059	914,805	899,247	-	-
Allowance for impairment (individual and collective)		(51,330)	(50,561)	-	-	-	-	-	-
NET CARRYING AMOUNT		355,099	293,885	569,963	435,059	914,805	899,247	-	-
AT FAIR VALUE THROUGH PROFIT OR LOSS									
Grade 1: Low-fair risk - Normal		-	-	-	-	11,899	23,727	-	-
TOTAL CARRYING AMOUNT	13	-	-	-	-	11,899	23,727	-	-
OFF BALANCE SHEET MAXIMUM EXPOSURE									
Lending commitments and other credit related obligations									
Grade 3-1: Low- fair risk financial guarantees	38	-	-	-	-	-	-	103,750	93,720
Grade 3-1: Low -fair risk	38	-	-	-	-	-	-	12,022	10,616
TOTAL EXPOSURE		-	-	-	-	-	-	115,772	104,336

Note	Loans and advances to customers and related parties		Due from Central Bank, Banks and financial institutions and loans under repurchase agreements		Investment securities	
	2017	2016	2017	2016	2017	2016
	LL million	LL million	LL million	LL million	LL million	LL million
NEITHER PAST DUE NOR IMPAIRED						
Grade 1: Low-fair risk – Normal	264,160	255,150	569,963	112,707	926,704	922,974
Grade 2: Special mention	60,319	23,058	-	-	-	-
Grade 3: Special mention & regularization	22,200	9,444	-	-	-	-
	346,679	287,652	569,963	112,707	926,704	922,974
PAST DUE						
30-60 days	341	182	-	-	-	-
60-90 days	30	75	-	-	-	-
90-180 days	123	106	-	-	-	-
>180 days	457	744	-	-	-	-
	951	1,107	-	-	-	-
INDIVIDUALLY IMPAIRED						
Grade 4: Impaired – Substandard	8,850	5,755	-	-	-	-
Grade 5: Impaired – Doubtful	18,615	15,933	-	-	-	-
Grade 6: Impaired – Bad Debts	32,285	33,999	-	-	-	-
	59,750	55,687	-	-	-	-
ALLOWANCE FOR IMPAIRMENT						
Individual	48,378	47,620	-	-	-	-
Collective	2,952	2,941	-	-	-	-
Total allowance for impairment	12	51,330	50,561	-	-	-

Impaired loans and investment debt securities

The Group regards a loan and advance or a debt security as impaired where there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset. Loans that are subject to a collective provision for losses incurred but not yet identified are not considered impaired. Impaired loans and advances are graded 4, 5 and 6 in the Group's credit risk grading system. The Group does not have any renegotiated loans.

The impairment provision shown in the consolidated statement of financial position at year end is derived from each of the six internal rating grades. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Group's credit classification.

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

GROUP'S RATING	Loans and advances	Impairment provision	Loans and advances	Impairment provision
	2017		2016	
Group's rating				
Grades 1-2-3 (Normal and special mention and special mention regularization)	85.30%	0.00%	83.83%	1.02%
Grade 4 (Substandard)	2.18%	14.25%	1.67%	10.68%
Grades 5-6 (Doubtful and bad debts)	12.52%	92.57%	14.50%	94.14%
	100.00%		100.00%	

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the date of the consolidated statement of financial position on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgement, statistical analysis and impairment test.

Loans and advances to customers individually impaired classified by product

The breakdown of the gross amount of individually impaired loans and advances to customers by product, along with the fair value of related collateral held by the Group as a security, are as follows:

	Individual (retail customers)				Corporate Entities		TOTAL
	2017						
	Overdrafts LL million	Credit card LL million	Mortgages LL million	Other LL million	SMEs LL million	Kafalat LL million	LL million
Gross amount	2,665	125	3,325	3,250	50,294	91	59,750
Carrying amount of individually impaired loans	22	-	3,020	-	8,287	41	11,370
Fair value of collateral	68	-	2,421	331	14,745	90	17,655

	Individual (retail customers)				Corporate Entities		TOTAL
	2016						
	Overdrafts LL million	Credit card LL million	Mortgages LL million	Other LL million	SMEs LL million	Kafalat LL million	LL million
Gross amount	2,248	107	3,716	3,434	46,082	100	55,687
Carrying amount of individually impaired loans	-	8	344	-	7,685	30	8,067
Fair value of collateral	-	-	1,407	3,272	8,953	81	13,713

Write-off policy

The Group writes-off a loan balance and any related allowances for impairment losses and suspended interest when Group's Non-Performing Loans Committee determines that the loans are uncollectible and this decision requires the final approval of the Chairman of the Board of Directors. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade:

	Net loans and advances to customers and related parties	
	Gross	Net
	LL million	LL million
31 DECEMBER 2017		
Grade 4: Individually impaired - Substandard	8,850	7,590
Grade 5: Individually impaired - Doubtful	18,615	3,739
Grade 6: Individually impaired - Bad Debt	32,285	41
TOTAL	59,750	11,370

	Net loans and advances to customers and related parties	
	Gross	Net
	LL million	LL million
31 DECEMBER 2016		
Grade 4: Individually impaired - Substandard	5,755	5,141
Grade 5: Individually impaired - Doubtful	15,933	2,926
Grade 6: Individually impaired - Bad Debt	33,999	-
TOTAL	55,687	8,067

Loans and advances to customers and related parties neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

	Normal	Special mention	Special mention & Regularization	Total	Normal	Special mention	Special mention & Regularization	TOTAL
	2017				2016			
	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Individual (retail customers)								
Overdraft	24,280	5,909	25	30,214	32,053	-	664	32,717
Credit cards	683	-	-	683	690	-	-	690
Mortgages	105,990	890	-	106,880	78,672	-	282	78,954
Other	27,775	-	58	27,833	12,706	13,152	1,087	26,945
TOTAL	158,728	6,799	83	165,610	124,121	13,152	2,033	139,306
Corporate entities								
Large corporate customers	40,827	26,178	4,977	71,982	44,920	9,906	3,274	58,100
SMEs	59,573	26,522	14,539	100,634	81,099	-	4,098	85,197
Kafalat	4,667	820	2,015	7,502	5,010	-	39	5,049
TOTAL	105,067	53,520	21,531	180,118	131,029	9,906	7,411	148,346
GRAND TOTAL	263,795	60,319	21,614	345,728	255,150	23,058	9,444	287,652

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Loans and advances to customers and related parties that are past due - not impaired:

	Individual (retail customers)			Individual (retail customers)		
	2017			2016		
	Overdrafts LL million	Other LL million	TOTAL LL million	Overdrafts LL million	Other LL million	TOTAL LL million
Past due 30-60 days	-	45	45	-	105	105
Past due 60-90 days	-	21	21	-	51	51
Past due > 90 days	-	299	299	-	236	236
TOTAL	-	365	365	-	392	392

	Corporate entities			Corporate entities		
	2017			2016		
	Large Customers LL million	Other LL million	Total LL million	Large Customers LL million	Other LL million	TOTAL LL million
Past due 30-60 days	-	296	296	-	77	77
Past due 60-90 days	-	9	9	-	24	24
Past due > 90 days	-	281	281	-	614	614
TOTAL	-	586	586	-	715	715
GRAND TOTAL	-	951	951	-	1107	1107

Debt securities

Debt securities held by the Group consist of Lebanese treasury bills denominated in Lebanese Pounds and foreign currencies. These securities are rated B-based on Standard & Poor's rating.

(iv) Collateral held and other credit enhancements, and their financial effect

The Group hold collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
	2017	2016	
Loans and advances to Banks	0.00%	0.00%	
Loans and advances to customers:			
Loan and advances to individuals:			
Overdrafts	100.00%	100.00%	Cash / marketable securities
Credit Cards	0.00%	0.00%	None
Mortgages	100.00%	100.00%	Residential and commercial property
Other	24.39%	19.66%	Cash
Loans and advances to corporate entities:			
Large corporate customers	15.54%	10.77%	Cash / marketable securities / property
SMEs	34.67%	55.08%	Cash / marketable securities / property
Kafalat	100.00%	91.55%	Bank guarantees

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated on a regular basis and when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below:

	2017	2016
	LL million	LL million
Against impaired		
Mortgaged property	6,235	4,706
Equities	-	-
Other	-	3,067
Against substandard		
Mortgaged property	504	5,940
Against regular loans and advances		
Mortgaged property	165,863	146,163
Debt securities	1,599	1,166
Equities	-	399
Other	24,956	28,926
TOTAL	199,157	190,367

Residential mortgage lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan - to - value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in market value.

	2017	2016
	LL million	LL million
Less than 50%	306	600
51% to 70%	359	3,794
71% to 90%	2,268	10,401
91% to 100%	3,175	16,195
More than 100%	96,976	29,855
	103,084	60,845

Loans and advance to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Besides the Group's focus on corporate customer's creditworthiness, the Group does also routinely update the valuation of the collateral held against all loans to corporate customers. Valuation of collateral is also updated when the credit risk of a loan deteriorates significantly, as the loan is monitored more closely. For impaired loans, the Group obtains appraisals of collateral because current value of the collateral is an input to the impairment measurement.

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

(v) Concentration with credit risk – Industry sector

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk loans and advances, lending commitments, financial guarantees and investment securities is shown below:

	Notes	Banks and financial institutions	Trading	Construction	Industrial	Agriculture	Consumer Loans	Other	TOTAL
31 DECEMBER 2017									
		LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
FINANCIAL ASSETS									
Balances with the Central Bank	9	455,465	-	-	-	-	-	-	455,465
Loans under reverse repurchase agreements	10	15,300	-	-	-	-	-	-	15,300
Due from banks and financial institutions	11	99,198	-	-	-	-	-	-	99,198
Loans and advances to customers and related parties	12, 37	-	99,610	18,526	14,823	2,555	153,335	66,250	355,099
Loans and advance to individuals:									
Overdrafts		-	2,780	14	82	19	6,834	20,487	30,216
Credit cards		-	-	-	-	-	682	1	683
Mortgages		-	171	-	65	-	109,685	-	109,921
Other		-	1,185	126	379	771	22,581	1,700	26,742
TOTAL INDIVIDUAL LOANS		-	4,136	140	526	790	139,782	22,188	167,562
Loans and advances to corporate entities:									
Large corporate customers		-	39,224	-	1,774	-	240	31,331	72,569
SMEs		-	55,473	18,223	7,690	424	13,097	12,517	107,424
Kafalat		-	777	163	4,833	1,341	216	214	7,544
TOTAL CORPORATE LOANS		-	95,474	18,386	14,297	1,765	13,553	44,062	187,537
Investment securities – at FVTPL and amortized cost	13, 14	926,704	-	-	-	-	-	-	926,704
		1,496,667	99,610	18,526	14,823	2,555	153,335	66,250	1,851,766
Financial guarantees	38	-	3,952	1,690	849	-	909	4,622	12,022
Loan commitments and other credit related obligations	38	-	53,956	6,630	8,167	831	18,220	15,946	103,750

(v) Concentration with credit risk – Industry sector (Continued)

	Notes	Banks and financial institutions	Trading	Construction	Industrial	Agriculture	Consumer Loans	Other	TOTAL
31 DECEMBER 2016									
		LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
FINANCIAL ASSETS									
Balances with the Central Bank	9	322,352	-	-	-	-	-	-	322,352
Due from banks and financial institutions	11	112,707	-	-	-	-	-	-	112,707
Loans and advances to customers and related parties	12, 37	-	73,553	18,606	10,878	3,107	117,305	70,436	293,885
Loans and advance to individuals:									
Overdrafts		-	3,179	1,280	85	22	7,845	20,306	32,717
Credit cards		-	-	-	10	-	1,243	10	1,263
Mortgages		-	469	12,372	81	-	66,418	175	79,515
Other		-	1,693	557	297	727	24,736	-	28,010
TOTAL INDIVIDUAL LOANS		-	5,341	14,209	473	749	100,242	20,491	141,505
Loans and advances to corporate entities:									
Large corporate customers		-	31,498	-	72	-	201	26,329	58,100
SMEs		-	36,349	4,397	7,765	637	16,697	23,287	89,132
Kafalat		-	365	-	2,568	1,721	165	329	5,148
TOTAL CORPORATE LOANS		-	68,212	4,397	10,405	2,358	17,063	49,945	152,380
Investment securities – at FVTPL and amortized cost	13, 14	922,974	-	-	-	-	-	-	922,974
		1,358,033	73,553	18,606	10,878	3,107	117,305	70,436	1,651,918
Financial guarantees	38	-	3,466	854	847	-	901	4,548	10,616
Loan commitments and other credit related obligations	38	-	37,107	6,494	8,863	863	19,491	20,902	93,720

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

(vi) Concentration with credit risk – Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region as of 31 December 2017 based on the country of domicile of its counterparties.

	Notes	Lebanon	Arab Countries	United Kingdom	Other European Countries	Other Countries	TOTAL
		LL million	LL million	LL million	LL million	LL million	LL million
31 DECEMBER 2017							
Balances with the Central Bank	9	455,465	-	-	-	-	455,465
Loans under reverse repurchase agreements	10	15,300	-	-	-	-	15,300
Due from banks and financial institutions	11	27,860	144	15,502	38,916	16,776	99,198
Loans and advances to customers and related parties	12, 37	355,099	-	-	-	-	355,099
Loans and advance to individuals:							
Overdrafts		30,216	-	-	-	-	30,216
Credit cards		683	-	-	-	-	683
Mortgages		109,921	-	-	-	-	109,921
Other		26,742	-	-	-	-	26,742
TOTAL INDIVIDUAL LOANS		167,562	-	-	-	-	167,562
Loans and advances to corporate entities:							
Large corporate customers		72,569	-	-	-	-	72,569
SMEs		107,424	-	-	-	-	107,424
Kafalat		7,544	-	-	-	-	7,544
TOTAL CORPORATE LOANS		187,537	-	-	-	-	187,537
Investment securities – at FVTPL and amortized cost	13, 14	926,704	-	-	-	-	926,704
		1,780,428	144	15,502	38,916	16,776	1,851,766
Financial guarantees	38	12,022	-	-	-	-	12,022
Loan commitments and other credit related obligations	38	103,750	-	-	-	-	103,750

(vi) Concentration with credit risk - Geographical sectors (Continued)

Concentration by location for loans and advances and for lending commitments and financial guarantees is based on the customers' country of domicile. Concentration by location for investments securities is based on the country of domicile of the issuer of the security.

Notes	Lebanon	Arab Countries	United Kingdom	Other European Countries	Other Countries	TOTAL
	LL million	LL million	LL million	LL million	LL million	LL million
31 DECEMBER 2016						
Balances with the Central Bank	9	322,352	-	-	-	322,352
Due from banks and financial institutions	11	38,208	101	15,374	52,252	112,707
Loans and advances to customers and related parties	12, 37	293,885	-	-	-	293,885
Loans and advance to individuals:						
Overdrafts		32,717	-	-	-	32,717
Credit cards		1,263	-	-	-	1,263
Mortgages		79,515	-	-	-	79,515
Other		28,010	-	-	-	28,010
TOTAL INDIVIDUAL LOANS		141,505	-	-	-	141,505
Loans and advances to corporate entities:						
Large corporate customers		58,100	-	-	-	58,100
SMEs		89,132	-	-	-	89,132
Kafalat		5,148	-	-	-	5,148
TOTAL CORPORATE LOANS		152,380	-	-	-	152,380
Investment securities - at FVTPL and amortized cost	13, 14	922,974	-	-	-	922,974
		1,577,419	101	15,374	52,252	1,651,918
Financial guarantees	38	10,616	-	-	-	10,616
Loan commitments and other credit related obligations	38	93,720	-	-	-	93,720

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

(vii) Lending commitments and other credit related obligations classified by type

	2017	2016
	LL million	LL million
Loans and advances to individuals:		
Overdrafts	8,321	8,572
Credit cards	5,742	6,208
Mortgages	6,128	4,330
Other	2,453	2,184
TOTAL INDIVIDUAL LOANS	22,644	21,294
Loans and advances to corporate entities:		
Large corporate customers	41,115	35,592
SMEs	37,862	35,371
Kafalat	2,129	1,463
TOTAL CORPORATE LOANS	81,106	72,426
	103,750	93,720

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

The Group's Board of Directors sets the Group's strategy for managing liquidity risk and delegates the responsibility for oversight of the implementation of this policy to the Board Risk Committee and ALCO. ALCO approves the Group's liquidity policies and procedures. Central Treasury manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and maintaining contingency facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding;
- Carrying out stress testing of the Group's liquidity position.

In addition, the Group maintains statutory deposits with Central Banks. As per Lebanese Banking regulations, the Bank must retain non-interest bearing balances with the Central Bank of Lebanon equivalent to 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds. As for foreign currencies, the Bank must retain with the Central Bank of Lebanon interest bearing statutory investments equivalent to 15% of all deposits regardless of their nature.

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 Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. The net liquid assets consist of cash and all issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposits and acceptances and other debt instruments issued by the Bank and loans from the public sector that mature within one year.

(ii) Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, "net liquid assets" includes cash and cash equivalents and investment securities at fair value through profit or loss for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Central Bank of Lebanon and the Banking Control Commission.

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

(ii) Exposure to liquidity risk (continued)

The tables below set out the maturities of the Group's assets and liabilities:

Notes	Carrying amount	Gross nominal inflow / outflow	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
								31 DECEMBER 2017
	LL million	LL million	LL million	LL million	LL million	LL million	LL million	
Financial Assets								
Cash and balances with the Central Bank	9	464,089	656,055	165,535	3,778	7,576	120,710	358,456
Loans under reverse repurchase agreements	10	15,300	15,300	15,300	-	-	-	-
Due from banks and financial institutions	11	99,198	99,198	77,500	15,149	-	6,549	-
Loans and advances to customers and related parties	12, 37	355,099	411,119	145,425	25,408	76,915	38,974	124,397
Investment securities at fair value through profit or loss	13	11,899	16,511	-	-	-	10,094	6,417
Investment securities at amortized cost	14	914,805	1,367,906	-	19,172	140,392	248,616	959,726
Investment securities at fair value through other comprehensive income	15	1,836	1,836	-	-	-	-	1,836
Debtors by acceptances		6,881	6,881	451	1,994	4,436	-	-
TOTAL FINANCIAL ASSETS		1,869,107	2,574,806	404,211	65,501	229,319	424,943	1,450,832
Financial Liabilities								
Due to Central Bank	20	(60,884)	(64,354)	(36,890)	-	-	(1,681)	(25,783)
Due to banks and financial institutions	21	(98,308)	(98,308)	(64,829)	(3,532)	(29,947)	-	-
Deposits from customers at amortized cost	22	(1,504,087)	(1,513,401)	(1,276,836)	(157,288)	(79,277)	-	-
Deposits from related parties at amortized cost	38	(58,207)	(58,446)	(58,446)	-	-	-	-
Engagement by acceptances		(6,881)	(6,881)	(451)	(1,994)	(4,436)	-	-
TOTAL FINANCIAL LIABILITIES		(1,728,367)	(1,741,390)	(1,437,452)	(162,814)	(113,660)	(1,681)	(25,783)
NET FINANCIAL ASSETS / (FINANCIAL LIABILITIES)		140,740	833,416	(1,033,241)	(97,313)	115,659	423,262	1,425,049

Notes	Carrying amount	Gross nominal inflow / outflow	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	31 DECEMBER 2016									
								LL million	LL million	LL million	LL million	LL million	LL million	LL million			
Financial Assets																	
Cash and balances with the Central Bank	9	331,747	388,827	134,169	6,035	49,073	75,765	123,785									
Due from banks and financial institutions	11	112,707	112,707	96,889	7,553	-	4,060	4,205									
Loans and advances to customers and related parties	12, 37	293,885	298,315	249,108	7,860	24,462	16,447	438									
Investment securities at fair value through profit or loss	13	23,727	37,723	-	2,210	-	3,582	31,931									
Investment securities at amortized cost	14	899,247	1,504,782	2,250	68,586	8,265	382,155	1,043,526									
Investment securities at fair value through other comprehensive income	15	2,089	2,089	-	-	-	-	2,089									
Debtors by acceptances		403	403	49	230	124	-	-									
TOTAL FINANCIAL ASSETS		1,663,805	2,344,846	482,465	92,474	81,924	482,009	1,205,974									
Financial Liabilities																	
Due to banks and financial institutions	21	(88,433)	(88,433)	(68,621)	(11,502)	(8,310)	-	-									
Deposits from customers at amortized cost	22	(1,393,719)	(1,403,957)	(1,145,812)	(174,752)	(83,393)	-	-									
Deposits from related parties at amortized cost	38	(55,135)	(55,394)	(55,394)	-	-	-	-									
Engagement by acceptances		(403)	(403)	(49)	(230)	(124)	-	-									
TOTAL FINANCIAL LIABILITIES		(1,537,690)	(1,548,187)	(1,269,876)	(186,484)	(91,827)	-	-									
NET FINANCIAL ASSETS / (FINANCIAL LIABILITIES)		126,115	796,659	(787,411)	(94,010)	(9,903)	482,009	1,205,974									

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

(iii) Maturity analysis for financial assets and financial liabilities

The tables below set out the undiscounted cash flows on the Group's financial assets and financial liabilities based on their earliest possible contractual maturity.

	Notes	Carrying amount
		31 DECEMBER 2017
		LL million
Financial Assets		
Cash and balances with the Central Bank	9	464,089
Loans under reverse repurchase agreements		15,300
Due from banks and financial institutions	11	99,198
Loans and advance to customers at amortized cost		353,766
Loans and advances to customers and related parties at amortized cost	12 & 37	1,333
Investment securities at fair value through profit or loss	13	11,899
Investment securities at amortized cost	14	914,805
Investment securities at fair value through other comprehensive income	15	1,836
Debtors by acceptances		6,881
TOTAL FINANCIAL ASSETS		1,869,107
Financial Liabilities		
Due to Central Bank	21	60,884
Due to banks and financial institutions	22	98,308
Deposits from customers at amortized cost	37	1,504,087
Deposits from related parties at amortized cost		58,207
Engagement by acceptances		6,881
TOTAL LIABILITIES		1,728,367
NET FINANCIAL ASSETS / (LIABILITIES)		140,740

	Notes	Carrying amount
		31 DECEMBER 2016
		LL million
Financial Assets		
Cash and balances with the Central Bank	9	331,747
Due from banks and financial institutions	11	112,707
Loans and advances to customers and related parties at amortized cost	12 & 37	293,885
Investment securities at fair value through profit or loss	13	23,727
Investment securities at amortized cost	14	899,247
Investment securities at fair value through other comprehensive income	15	2,089
Debtors by acceptances		403
TOTAL FINANCIAL ASSETS		1,663,805
Financial Liabilities		
Due to banks and financial institutions	21	(88,433)
Deposits from customers at amortized cost	22	(1,393,719)
Deposits from related parties at amortized cost	37	(55,135)
Engagement by acceptances		(403)
TOTAL LIABILITIES		(1,537,690)
NET FINANCIAL ASSETS / (LIABILITIES)		126,115

Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
31 DECEMBER 2017				
LL million	LL million	LL million	LL million	LL million
165,535	3,778	7,576	98,539	188,661
15,300	-	-	-	-
77,500	15,149	-	6,549	-
144,701	25,156	72,270	33,890	77,749
-	-	1,333	-	-
-	-	-	8,375	3,524
-	18,940	133,048	209,980	552,837
-	-	-	-	1,836
451	1,994	4,436	-	-
403,487	65,017	218,663	357,333	824,607
36,844	-	-	1,620	22,420
64,829	3,532	29,947	-	-
1,271,622	156,009	76,456	-	-
58,207	-	-	-	-
451	1,994	4,436	-	-
1,431,953	161,535	110,839	1,620	22,420
(629,198)	(96,518)	107,824	355,713	802,187

Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
31 DECEMBER 2016				
LL million	LL million	LL million	LL million	LL million
134,169	6,035	49,073	65,704	76,766
96,889	7,553	-	4,060	4,205
183,929	7,787	23,493	18,491	60,185
-	2,184	-	3,032	18,511
2,231	67,442	7,679	304,658	517,237
-	-	-	-	2,089
49	230	124	-	-
417,267	91,231	80,369	395,945	678,993
(68,621)	(11,502)	(8,310)	-	-
(1,140,522)	(173,146)	(80,051)	-	-
(55,135)	-	-	-	-
(49)	(230)	(124)	-	-
(1,264,327)	(184,878)	(88,485)	-	-
(847,060)	(93,647)	(8,116)	395,945	678,993

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

(iii) Maturity analysis for financial assets and financial liabilities (Continued)

The Group's expected cash flows on some assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

As part of the management of its liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investment securities at fair value through profit or loss for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Group's solvency while optimising the return on risk.

(i) Management of market risks

The Group separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are managed on a fair value basis.

Overall authority for market risk is vested in Board Risk Committee and ALCO. Both set up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Group Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by ALCO and the Board Risk Committee) and for the day-to-day review of their implementation.

The Group employs a range of tools to monitor and limit market risk exposures.

(ii) Market risk measurement techniques

Effective identification and monitoring of market risk is essential for maintaining stable profit. This is called out by the Group's Risk Management Unit. The Group's risk management, ALCO and Treasury are responsible for managing the Group's exposure within the risk exposure limits set out in the policies as approved by the Assets and Liabilities Committee and the Board of Directors. These policies set out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk. The basic techniques used by the Risk Management Unit to assess and monitor market risk are set out below:

a) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Group's Risk Management Unit include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by the Board Risk Committee, the Group Management and Assets and Liabilities Committee. The stress testing is tailored to the business and typically uses scenario analysis.

(b) Sensitivity analysis

Sensitivity analysis is a technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price. Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different compared to the key predictions.

The Group performs this analysis for each type of market risk to which the Group is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

(iii) Exposure to market risks - non - trading portfolios

The principal risk to which non - trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having limits and is assisted by the Risk Management, ALCO and Treasury in its day-to-day monitoring activities.

The Group complies with the requirements of the Central Bank of Lebanon in respect of the management of interest rate risk. The Risk Management and Assets and Liabilities Committee monitor these risks which are measured using the gap analysis. Gap analysis depends on the earnings approach and the economic value of equity approach which measures the effect of interest rate reprising of assets and liabilities on the income.

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

(iv) Exposure to interest rate risks - non - trading portfolios

The tables below summarise the Group's exposure to interest rate risk. This table includes the assets and liabilities categorised by the earlier of contractual re-pricing:

	Notes	Up to 1 month	1 to 3 months
		31 DECEMBER 2017	
		LL million	LL million
Financial Assets			
Cash and balances with the Central Bank	9	64,986	118,791
Loans under reserve repurchase agreements		15,300	-
Due from banks and financial institutions	11	48,903	17,239
Loans and advances to customers and related parties	12, 37	295,118	4,131
Investment securities at fair value through profit or loss	13	-	-
Financial assets at fair value through other comprehensive income		-	-
Investment securities at amortized cost	14	-	18,502
TOTAL FINANCIAL ASSETS		424,307	158,663
Financial Liabilities			
Due to Central Bank		(36,844)	-
Due to banks and financial institutions	21	(56,798)	(23,170)
Deposits from customers and related parties at amortized cost	22, 37	(1,216,673)	(157,196)
TOTAL FINANCIAL LIABILITIES		(1,310,315)	(180,366)
TOTAL INTEREST RE-PRICING GAP		(886,008)	(21,703)

	Notes	Up to 1 month	1 to 3 months
		31 DECEMBER 2016	
		LL million	LL million
Financial Assets			
Cash and balances with the Central Bank	9	85,441	94,219
Due from banks and financial institutions	11	68,582	10,350
Loans and advances to customers and related parties	12, 37	237,512	7,787
Investment securities at fair value through profit or loss	13	-	2,130
Investment securities at amortized cost	14	46	43,301
TOTAL FINANCIAL ASSETS		391,581	157,787
Financial Liabilities			
Due to banks and financial institutions	20	(66,220)	(11,156)
Deposits from customers and related parties at amortized cost	22, 37	(1,098,476)	(173,146)
TOTAL FINANCIAL LIABILITIES		(1,164,696)	(184,302)
TOTAL INTEREST RE-PRICING GAP		(773,115)	(26,515)

3 - 12 Months	1-5 years	Over 5 years	Total interest bearing	Non-interest bearing	TOTAL
31 DECEMBER 2017					
LL million	LL million	LL million	LL million	LL million	LL million
170,084	-	-	353,861	110,228	464,089
-	-	-	15,300	-	15,300
3,500	-	-	69,642	29,556	99,198
20,455	12,819	1,588	334,111	20,988	355,099
-	8,182	3,511	11,693	206	11,899
-	-	-	-	1,836	1,836
130,857	206,999	545,948	902,306	12,499	914,805
324,896	228,000	551,047	1,686,913	175,313	1,862,226
-	(1,620)	(22,291)	(60,755)	(129)	(60,884)
(14,520)	-	-	(94,488)	(3,820)	(98,308)
(86,651)	-	-	(1,460,520)	(101,774)	(1,562,294)
(101,171)	(1,620)	(22,291)	(1,615,763)	(105,723)	(1,721,486)
223,725	226,380	528,756	71,150	69,590	140,740
31 DECEMBER 2016					
LL million	LL million	LL million	LL million	LL million	LL million
61,537	-	-	241,197	90,550	331,747
4,200	-	-	83,132	29,575	112,707
23,467	14,411	280	283,457	10,428	293,885
-	3,011	18,226	23,367	360	23,727
33,382	300,572	506,626	883,927	15,320	899,247
122,586	317,994	525,132	1,515,080	146,233	1,661,313
(8,291)	-	-	(85,667)	(2,766)	(88,433)
(80,051)	-	-	(1,351,673)	(97,181)	(1,448,854)
(88,342)	-	-	(1,437,340)	(99,947)	(1,537,287)
34,244	317,994	525,132	77,740	46,286	124,026

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

(iv) Exposure to interest rate risks - non - trading portfolios (Continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows:

	1% parallel increase	1% parallel decrease
	LL million	LL million
At 31 December 2017	(7,988)	7,988
At 31 December 2016	(7,803)	7,803

(v) Exposure to foreign exchange risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Central Bank of Lebanon sets limits on the level of exposure to foreign exchange risk which should not exceed 1% of Tier 1 capital and the foreign exchange position (short or long) should not exceed 40% of Tier 1 capital.

This exposure limit is related to and set out in compliance with the limits set by the BDL (basic circular number 32) as approved by the ALCO and Board of Directors and closely monitored by the Group's Risk Management and Treasury department on a daily basis.

	Notes	LL	USD	EUR	GBP	Others	TOTAL
31 DECEMBER 2017							
		LL million	LL million	LL million	LL million	LL million	LL million
Financial Assets							
Cash and balances with the Central Bank	9	256,779	206,403	645	262	-	464,089
Loans under reverse repurchase agreements		-	15,300	-	-	-	15,300
Due from banks and financial institutions	11	7,921	85,371	2,666	2,249	991	99,198
Loans and advances to customers and related parties at amortized cost	12, 37	148,354	189,861	16,869	15	-	355,099
Investment securities at fair value through profit or loss	13	4,090	7,809	-	-	-	11,899
Investment securities at amortized cost	14	451,550	444,155	19,100	-	-	914,805
Investment securities at fair value through other comprehensive income	15	865	971	-	-	-	1,836
TOTAL FINANCIAL ASSETS		869,559	949,870	39,280	2,526	991	1,862,226
Financial Liabilities							
Due to the Central Bank		60,884	-	-	-	-	60,884
Due to banks and financial institutions	21	29,234	46,915	22,120	39	-	98,308
Deposits from customers and related parties at amortized cost	22, 37	649,574	891,351	17,093	2,448	1,828	1,562,294
TOTAL FINANCIAL LIABILITIES		739,692	938,266	39,213	2,487	1,828	1,721,486
Loan commitments and other credit related obligations	38	16,267	80,927	1,944	-	4,612	103,750
Financial guarantees	38	839	10,925	258	-	-	12,022

	Notes	LL	USD	EUR	GBP	Others	TOTAL
31 DECEMBER 2016							
		LL million	LL million	LL million	LL million	LL million	LL million
Financial Assets							
Cash and balances with the Central Bank	9	149,362	180,431	1,234	720	-	331,747
Due from banks and financial institutions	11	20,430	84,223	4,567	1,740	1,747	112,707
Loans and advances to customers and related parties at amortized cost	12, 37	93,999	182,916	14,335	-	2,635	293,885
Investment securities at fair value through profit or loss	13	1,155	22,572	-	-	-	23,727
Investment securities at amortized cost	14	491,725	390,858	16,664	-	-	899,247
Investment securities at fair value through other comprehensive income	15	865	1,224	-	-	-	2,089
TOTAL FINANCIAL ASSETS		757,536	862,224	36,800	2,460	4,382	1,663,402
Financial Liabilities							
Due to banks and financial institutions	20	(22,843)	(42,814)	(22,455)	(320)	(1)	(88,433)
Deposits from customers and related parties at amortized cost	22, 37	(619,829)	(810,348)	(14,015)	(2,131)	(2,531)	(1,448,854)
TOTAL FINANCIAL LIABILITIES		(642,672)	(853,162)	(36,470)	(2,451)	(2,532)	(1,537,287)
Loan commitments and other credit related obligations	38	13,330	65,361	1,409	-	13,620	93,720
Financial guarantees	38	891	9,577	148	-	-	10,616

INDEPENDENT AUDITORS' REPORT

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Market risk (Continued)

(v) Exposure to foreign exchange risk (Continued)

	Short		Long	
	2017		2016	
	LL million	LL million	LL million	LL million
Position in:				
USD	-	576	-	626
EUR	-	61	-	326
GBP	-	41	-	8
CAD	-	5	-	1
CHF	-	20	-	28
Other currencies	864	-	815	-
TOTAL SHORT / LONG POSITION	864	703	815	989
NET FOREIGN EXCHANGE POSITION		(161)		174

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risks to management which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Internal Audit department. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group. Besides that, the Risk Management Unit analyses all the operational incidents and submits a periodic report to the Management Risk Committee for further discussion.

f) Capital

By maintaining an actively managed capital base, the Group'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 Group'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 Group's regulatory capital with its consolidated 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 for the year ended 31 December 2016 and thereafter:

	Common Tier 1 capital ratio	Tier 1 capital ratio	TOTAL CAPITAL RATIO
Year ended 31 December 2017	13.10%	13.10%	16.18%
Year ended 31 December 2016	13.74%	13.74%	17.23%

Risk weighted assets

As of 31 December 2017 and 2016, risk weighted assets are as follows:

	2017	2016
	LL million	LL million
Risk weighted assets	978,588	868,327

Regulatory capital

At 31 December 2017 and 2016, regulatory capital consists of the following:

	Excluding profit for the year		Including profit for the year	
	2017	2016	2017	2016
	LL million	LL million	LL million	LL million
Common Tier 1 capital	128,220	119,329	140,931	127,920
Tier 2 capital	30,148	30,247	30,148	30,247
TOTAL CAPITAL	158,368	149,576	171,079	158,167

Capital adequacy ratio

As of 31 December 2017 and 2016, capital adequacy ratio is as follows:

	Excluding profit for the year		Including profit for the year	
	2017	2016	2017	2016
	LL million	LL million	LL million	LL million
Common Tier 1 capital	13.10%	13.74%	14.40%	14.73%
TOTAL TIER 1 CAPITAL RATIO	13.10%	13.74%	14.40%	14.73%
TOTAL CAPITAL RATIO	16.18%	17.23%	17.48%	18.22%

The Group 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 Group 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.

INDEPENDENT AUDITORS' REPORT

7. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and required varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

a) Valuation model

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements

- Level 1: inputs are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivations and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

b) Financial instruments measured at fair value – fair value hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting year, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	Level 1	Level 2	Level 3	TOTAL
	31 DECEMBER 2017			
	LL million	LL million	LL million	LL million
Investment securities at fair value through profit or loss	7,809	4,090	-	11,899
Investment securities at fair value through other comprehensive income	971	-	865	1,836
	8,780	4,090	865	13,735

	Level 1	Level 2	Level 3	TOTAL
	31 DECEMBER 2016			
	LL million	LL million	LL million	LL million
Investment securities at fair value through profit or loss	8,218	15,509	-	23,727
Investment securities at fair value through other comprehensive income	1,224	-	865	2,089
	9,442	15,509	865	25,816

INDEPENDENT AUDITORS' REPORT

7. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

c) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in fair value hierarchy into which each fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total fair values	TOTAL CARRYING AMOUNT
31 DECEMBER 2017					
	LL million	LL million	LL million	LL million	LL million
Assets					
Cash and balances with the Central Bank	8,624	455,465	-	464,089	464,089
Loans under reverse repurchase agreements	-	15,300	-	15,300	15,300
Due from banks and financial institutions	-	99,198	-	99,198	99,198
Loans and advances to customers and related parties at amortized cost	-	-	355,999	355,999	355,999
<i>Investment securities at amortized cost:</i>					
Lebanese government bonds	352,655	265,432	-	618,087	627,519
Certificates of deposits	-	306,703	-	306,703	282,129
Other debt securities	-	5,157	-	5,157	5,157
TOTAL INVESTMENT SECURITIES AT AMORTIZED COST	352,655	577,292	-	929,947	914,805
Liabilities					
Due to Central Bank	-	(60,884)	-	(60,884)	(60,884)
Due to banks and financial institutions	-	(98,308)	-	(98,308)	(98,308)
Deposits from customers and related parties at amortized cost	-	(1,562,294)	-	(1,562,294)	(1,562,294)

	Level 1	Level 2	Level 3	Total fair values	TOTAL CARRYING AMOUNT
31 DECEMBER 2016					
	LL million	LL million	LL million	LL million	LL million
Assets					
Cash and balances with the Central Bank	9,395	322,352	-	331,747	331,747
Due from banks and financial institutions	-	112,707	-	112,707	112,707
Loans and advances to customers and related parties at amortized cost	-	-	294,982	294,982	293,885
<i>Investment securities at amortized cost:</i>					
Lebanese government bonds	333,389	235,844	-	569,233	567,811
Certificates of deposits	-	334,902	-	334,902	325,052
Other debt securities	-	6,384	-	6,384	6,384
TOTAL INVESTMENT SECURITIES AT AMORTIZED COST	333,389	577,130	-	910,519	899,247
Liabilities					
Due to banks and financial institutions	-	(88,433)	-	(88,433)	(88,433)
Deposits from customers and related parties at amortized cost	-	(1,448,854)	-	(1,448,854)	(1,448,854)

8. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below provides reconciliation between line items in the consolidated statement of financial position and categories of financial instruments:

	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost	TOTAL
31 DECEMBER 2017				
	LL million	LL million	LL million	LL million
Cash and balances with the Central Bank	-	-	464,089	464,089
Loans under reverse repurchase agreements	-	-	15,300	15,300
Due from banks and financial institutions	-	-	99,198	99,198
Loans and advances to customers and related parties	-	-	355,099	355,099
Investment securities	11,899	1,836	914,805	928,540
	11,899	1,836	1,848,491	1,862,226
Due to Central Bank	-	-	(60,884)	(60,884)
Due to banks and financial institutions	-	-	(98,308)	(98,308)
Deposits from customers and related parties	-	-	(1,562,294)	(1,562,294)
	-	-	(1,721,486)	(1,721,486)

	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost	TOTAL
31 DECEMBER 2016				
	LL million	LL million	LL million	LL million
Cash and balances with the Central Bank	-	-	331,747	331,747
Due from banks and financial institutions	-	-	112,707	112,707
Loans and advances to customers and related parties	-	-	293,885	293,885
Investment securities	23,727	2,089	899,247	925,063
	23,727	2,089	1,637,586	1,663,402
Due to banks and financial institutions	-	-	(88,433)	(88,433)
Deposits from customers and related parties	-	-	(1,448,854)	(1,448,854)
	-	-	(1,537,287)	(1,537,287)

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9. CASH AND BALANCES WITH THE CENTRAL BANK

	2017	2016
	LL million	LL million
Cash on hand	8,624	9,395
Current accounts	67,148	38,854
Included in cash and cash equivalents (note 35)	75,772	48,249
Terms deposits	209,141	111,628
Interest receivable	2,161	1,475
CASH AND UNRESTRICTED BALANCES WITH THE CENTRAL BANK	287,074	161,352
Compulsory reserve held with the Central Bank	177,015	170,395
TOTAL CASH AND BALANCES WITH THE CENTRAL BANK	464,089	331,747

In accordance with the Central Bank's basic circular number 84, the Bank is required to constitute a compulsory reserve in Lebanese Pounds calculated on the basis of 15% of the weekly average of term deposits and 25% of the weekly average of current accounts. The Bank is also required to constitute a compulsory reserve in foreign currency calculated on the basis of 15% of foreign currency deposits. Compulsory reserve requirements are not available for use in the Group's day-to-day operations.

The reserves comprise compulsory reserves in Lebanese Pounds amounting to LL 38,304 million (2016: LL 40,825 million) and foreign currencies with a counter value of LL 138,711 million (2016: LL 129,750 million).

Term deposits generate fixed interest. Current accounts with the Central Bank of Lebanon do not generate interest.

10. LOANS UNDER REVERSE PURCHASE AGREEMENTS

Loans under reverse repurchase agreements represent loans granted to a financial institution. These loans are secured by Certificates of Deposits issued by the Central Bank and denominated in US Dollars amounting to LL 15,300 million as at 31 December 2017 (2016: LL nil million).

Interest income from loans under reverse repurchase agreements amounted to LL 103 million during the year ended 31 December 2017 (2016: LL 203 million) (note 27).

11. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2017	2016
	LL million	LL million
Current accounts	18,700	20,706
Checks for collection	10,633	8,792
Placements with banks (with original maturities for less than three months)	63,589	48,017
Included in cash and cash equivalents (note 34)	92,922	77,515
Placements with banks (with original maturities for more than three months)	6,200	35,115
Interest receivable	76	77
	99,198	112,707

12. LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES AT AMORTIZED COST

	2017	2016
	LL million	LL million
Gross loans and advances to customers	405,096	343,049
Gross loans and advances to related parties (note 37)	1,333	1,397
	406,429	344,446
Deduct:		
Individual impairment		
Unrealized interest	(42,369)	(41,444)
Specific provision	(6,009)	(6,176)
Provision based on collective assessment	(2,952)	(2,941)
	(51,330)	(50,561)
	355,099	293,885

Loans and advances to customers and related parties classified by product:

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	2017			2016		
	LL million	LL million	LL million	LL million	LL million	LL million
Retail customers:						
Lending secured by mortgage	110,384	(462)	109,922	82,922	(3,410)	79,512
Lending against cash collateral	37,815	(33)	37,782	39,064	-	39,064
Personal loans	15,226	(820)	14,406	26,931	(3,077)	23,854
Other retail lending	11,917	(5,008)	6,909	3,216	(2,667)	549
Collective impairment	-	(1,456)	(1,456)	-	(1,476)	(1,476)
	175,342	(7,779)	167,563	152,133	(10,630)	141,503
Corporate customers:						
Lending secured by mortgage	71,467	(17,981)	53,486	56,470	(17,376)	39,094
Lending against cash collateral	3,424	-	3,424	2,610	-	2,610
Other corporate lending	156,196	(24,074)	132,122	133,233	(21,090)	112,143
Collective impairment	-	(1,496)	(1,496)	-	(1,465)	(1,465)
	231,087	(43,551)	187,536	192,313	(39,931)	152,382
	406,429	(51,330)	355,099	344,446	(50,561)	293,885

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12. LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES AT AMORTIZED COST (CONTINUED)

Reconciliation of allowances account for losses on loans advances to customers is as follows:

	Movement of unrealized interests	
	2017	2016
	LL million	LL million
Balance at 1 January	41,444	37,033
Add / (deduct):		
Unrealized interest for the year	6,270	5,975
Recoveries	(297)	(217)
Amounts written-off	(5,048)	(1,347)
BALANCE AT 31 DECEMBER	42,369	41,444

	Movement of specific provision	
	2017	2016
	LL million	LL million
Balance at 1 January	6,176	6,737
Add / (deduct):		
Provision for the year	295	514
Recoveries	(462)	(818)
Amounts written-off	-	(257)
BALANCE AT 31 DECEMBER	6,009	6,176

	Movement of collective provision	
	2017	2016
	LL million	LL million
Balance at 1 January	2,941	2,754
Add / (deduct):		
Provision for the year	11	187
BALANCE AT 31 DECEMBER	2,952	2,941

Net release of impairment on loans and advances to customers recognized in the consolidated statement of comprehensive income was as follows during the year:

	2017	2016
	LL million	LL million
Specific provision during the year	295	514
Collective provision during the year	11	187
Specific provision released during the year	(462)	(818)
Recovery of unrealized interest	(297)	(217)
Release of interest on off-balance sheet items	(151)	-
	(604)	(334)

13. INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	LL million	LL million
Lebanese government treasury bills	1,334	8,190
Certificates of deposit issued by the Central Bank	10,359	15,177
Interest receivable	206	360
	11,899	23,727

Investment securities at fair value through profit or loss above comprise debt securities carried at fixed interest rates. The unrealised loss due to the change in fair value of the investment securities at fair value through profit or loss in the amount of LL 695 million (2016: Unrealized loss of LL 546 million) is recorded under "net gain from investment securities at fair value through profit or loss" (note 29) in the consolidated statement of comprehensive income.

During 2016, the Group exchanged with the Central Bank of Lebanon certificates of deposits and Lebanese government bonds denominated in Lebanese pounds with an aggregate nominal value of LL 19,035 million as per Intermediary Circular number 446 dated 30 December 2016 (refer to note 23).

14. INVESTMENT SECURITIES AT AMORTIZED COST

	2017	2016
	LL million	LL million
Lebanese government bonds*	618,294	559,454
Certificates of deposit issued by the Central Bank	278,930	318,172
Other debt securities	5,082	6,301
Interest receivable	12,499	15,320
	914,805	899,247

(*) Lebanese government bonds include Lebanese treasury bills for a nominal amount of LBP 23,911 million pledged as collateral against loans obtained from the Central Bank of Lebanon (note 20).

The table below shows the movement of investment securities classified at amortized cost:

	2017	2016
	LL million	LL million
Balance at 1 January	899,247	830,072
Securities acquired	275,207	208,928
Securities sold	(154,663)	(54,628)
Securities exchanged as per Intermediary circular 446	-	(26,715)
Securities matured	(105,176)	(57,288)
Change in net unamortized premium or discount	587	(2,081)
Change in interest receivable	(2,821)	1,701
Foreign exchange difference	2,425	(742)
BALANCE AT 31 DECEMBER	914,805	899,247

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14. INVESTMENT SECURITIES AT AMORTIZED COST (CONTINUED)

During 2017 and in order to cover interest rate risk as well as to maintain and enhance liquidity position, the Group sold certificates of deposits and Lebanese Government bonds with a nominal value of LBP 154,663 million (2016: LBP 54,268 million). The Group recorded the net resulting gain on sale amounting to LBP 8,146 million (2016: LBP 803 million) under "Revenues from investment securities at FVTOCI and net gain from investment securities at amortised cost" in the consolidated statement of profit or loss.

Also during 2016, the Group exchanged with the Central Bank of Lebanon certificates of deposits and Lebanese Government bonds denominated in Lebanese pounds with an aggregate nominal value of LBP 26,715 million as per the intermediary circular number 446 dated 30 December 2016 (refer to note 23).

15. INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2017	2016
	LL million	LL million
Equity securities with readily determinable fair value	971	1,224
Unquoted equity securities at cost	865	865
	1,836	2,089

	2017	2016
	LL million	LL million
Balance at 1 January	2,089	2,039
Securities acquired	-	22
Impairment on investments	-	(103)
Change in fair value	(253)	131
Balance at 31 December	1,836	2,089

During 2017, dividend income from investment securities at fair value through other comprehensive income amounted to LBP 285 million (2016: LBP 395 million) recorded under "Revenues from investment securities at FVTOCI and net gain from investment securities at amortised cost" in the consolidated statement of comprehensive income

16. INVESTMENT PROPERTIES

PROPERTY	2017	2016
	LL million	LL million
Cost:		
Balance at 1 January	26,116	26,116
BALANCE AT 31 DECEMBER	26,116	26,116
Depreciation:		
Balance at 1 January	6,340	5,920
Depreciation for the year (note 32)	420	420
BALANCE AT 31 DECEMBER	6,760	6,340
NET CARRYING AMOUNT: AT 31 DECEMBER	19,356	19,776

The fair value of investment property as determined by a registered independent appraiser having an appropriate recognized professional qualification and recent experience in the location and category of the property being valued amounted to LL 49,782 million (2016: LL 49,782 million). Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

17. PROPERTY AND EQUIPMENT

	Land and buildings	Leasehold improvements	Computer and office equipment	Furniture and fixtures	Vehicles	Work in progress	TOTAL
	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Cost:							
Balance at 1 January 2017	31,728	22,143	10,898	1,892	102	2,250	69,013
Additions	-	883	473	48	-	885	2,292
Disposals	-	-	(4)	-	-	-	(4)
Transfers	28	50	1,747	21	-	(1,843)	-
AT 31 DECEMBER 2017	31,756	23,076	13,114	1,961	102	1,292	71,301
Depreciation:							
Balance at 1 January 2017	6,087	15,656	7,320	1,550	37	-	30,650
Depreciation for the year	500	894	1,217	62	9	-	2,682
Disposals	-	-	(2)	-	-	-	(2)
AT 31 DECEMBER 2017	6,587	16,550	8,535	1,612	46	-	33,330
NET CARRYING AMOUNT: AT 31 DECEMBER 2017	25,169	6,526	4,579	349	56	1,292	37,971

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17. PROPERTY AND EQUIPMENT (CONTINUED)

	Land and buildings	Leasehold improvements	Computer and office equipment	Furniture and fixtures	Vehicles	Work in progress	TOTAL
	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Cost:							
Balance at 1 January 2016	31,757	21,508	9,417	1,843	102	597	65,224
Additions	-	635	319	49	-	2,789	3,792
Disposals	-	-	(3)	-	-	-	(3)
Transfers	(29)	-	1,165	-	-	(1,136)	-
AT 31 DECEMBER 2016	31,728	22,143	10,898	1,892	102	2,250	69,013
Depreciation:							
Balance at 1 January 2016	5,586	14,736	6,389	1,456	27	-	28,194
Depreciation for the year	501	920	933	94	10	-	2,458
Disposals	-	-	(2)	-	-	-	(2)
AT 31 DECEMBER 2016	6,087	15,656	7,320	1,550	37	-	30,650
NET CARRYING AMOUNT: AT 31 DECEMBER 2016	25,641	6,487	3,578	342	65	2,250	38,363

During 1995, the Group revalued its land and buildings acquired before 1993 based on an independent expert's evaluation report. In conformity with Law No. 282 dated 30 December 2003, the Group paid 1.5% on the surplus from revaluation that amounted to LBP 15,205 million. An amount of LBP 15,167 million of the revaluation was accepted by the Central Bank of Lebanon and recognized within the property and equipment and under the caption "Revaluation reserve - part of Tier II capital" in equity.

18. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2017	2016
	LL million	LL million
Balance at 1 January	2,128	4,132
Additions	18	36
Disposals during the year	(26)	(2,040)
BALANCE AT 31 DECEMBER	2,120	2,128

During 2017, the Group disposed of assets obtained in settlement of debt held for sale with carrying value of LL 26 million (2016: LL 2,040 million) and recognized a gain of LL 53 million (2016: LL 1,716 million) (note 30). In addition to the reserve released for non-current assets held classified as held for sale amounting to LL 9 million to retained earnings (2016: LL 1,747 million). This gain will be transferred to reserve for capital increase.

19. OTHER ASSETS

	2017	2016
	LL million	LL million
Receivable from the ("NSSF") (i)	2,165	1,969
Impairment provision on receivable from NSSF	(643)	(599)
Advances related to property acquired in settlement of debt	1,355	2,821
Prepaid expenses	1,847	1,443
Deferred tax asset (note 23)	2,219	2,506
Other receivables	685	852
	7,628	8,992

(i) This amount represents medical expenses reimbursed by the Group to the employees which are recoverable later from NSSF.

20. DUE TO THE CENTRAL BANK

	2017	2016
	LL million	LL million
Term soft loan	60,755	-
Interest payable	129	-
	60,884	-

Term soft loans include term loans amounting to LBP 30,900 million as at 31 December 2017 which were granted by the Central Bank of Lebanon to subsidise the loans granted to customers under circular 313 of the Central Bank of Lebanon. The term loans are subject to a 1% interest rate payable on a monthly basis.

In addition, term soft loans include term loans amounting to LBP 23,911 million secured by Lebanese treasury bills for a nominal amount of LBP 23,911 million included under investment securities at amortised cost pledged as collateral as at 31 December 2017 (note 14). The term loans are subject to a 2% interest rate payable on a monthly basis.

21. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2017	2016
	LL million	LL million
Current deposits	3,080	2,383
Outstanding checks	1,688	2,185
Term deposits	92,901	83,470
Interest payable	639	395
	98,308	88,433

Due to banks and financial institutions include a balance of LL 68,361 million (2016: LL 77,936 million) as current with maturities less than 3 months (note 35).

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22. DEPOSITS FROM CUSTOMERS AT AMORTIZED COST

	2017	2016
	LL million	LL million
Term deposits	1,326,697	1,223,104
Sight deposits (i)	98,346	93,108
Net credit against debit accounts and margins	74,819	74,077
Interest payable	4,225	3,430
	1,504,087	1,393,719

(i) Sight deposits

	2017	2016
	LL million	LL million
Checking and current accounts	77,475	78,765
Saving accounts - demand	11,205	8,952
Debtors accidentally creditors	9,037	4,563
Payment orders	629	828
	98,346	93,108

All deposits carry fixed interest rates.

At 31 December 2017, deposits from customers and related parties above LBP 1,500 million threshold amounted to LL 539,238 million represented 34.31% of total deposits held by 150 customers (2016: LL 511,297 million represented 35.08% of total deposits held by 132 customers).

23. OTHER LIABILITIES

	2017	2016
	LL million	LL million
Deferred surplus*	14,792	16,706
Tax liability	-	2,901
Provision for risks and charges	4,549	2,635
Accrued expenses and other payables	2,330	2,367
Withholding taxes and due to NSSF	711	487
Property in settlement of debt	1,053	1,304
Other liabilities	872	810
	24,307	27,210

(*) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 defining the accounting treatment of the surplus realized by banks from the transactions made with the Central Bank of Lebanon. In accordance with the provision 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 certain regulatory provisioning requirements, 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, if any.

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 with regulatory Common Equity Tier One. The remaining balance of the gain net of tax should be maintained within deferred revenue and qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

During 2016, as a result of operations with the Central Bank of Lebanon consisting of sale of Treasury Bills and Certificate of Deposits denominated in Lebanese pounds with nominal value of LBP 20,750 million and LBP 25,000 million respectively and simultaneous purchase of Certificates of Deposits denominated in US Dollar with a nominal value of USD 30.5 million, the Group received a surplus of 19,341 million.

An amount of LBP 16,706 million was recognized under "Other Liabilities" within "Deferred Surplus" after releasing an amount of LBP 2,635 million against provisions for risks and charges to comply with the provisioning requirements of the Central bank of Lebanon's Intermediate Circulars numbers 439 dated 8 November 2016 and 446 dated 30 December 2016. The resulting deferred tax asset amounting to LBP 2,506 million was debited to "Deferred tax" under "Other assets" (note 19) and credited to "Tax liability" under "Other Liabilities".

During 2017, the Group released an amount of LBP 1,914 million (2016: LBP 2,635 million) from the deferred surplus against "Revenue from investment securities at FVTOCI and net gain from investment at amortized cost" for an amount of LBP 687 million (2016: LBP 946 million) and against "Net gain from investment securities at fair value through profit or loss" for an amount of LBP 1,227 million (2016: 1,689 million). The release resulted in a decrease in deferred tax asset amounting to LBP 287 million as at 31 December 2017. The Group recorded a provision for an amount of LBP 1,914 million under "Other liabilities" within "Provisions for risk and charges" to comply with the provisioning requirements of the Central Bank of Lebanon's Intermediate Circulars numbers 439 dated 8 November 2016 and 446 dated 30 December 2016.

24. EMPLOYEES BENEFIT OBLIGATIONS

The movement in provision for employee benefit obligations is summarized as follows:

	2017	2016
	LL million	LL million
Balance at 1 January	4,124	3,948
Charge for the year (note 31)	936	483
Release of provision (note 31)	(174)	(158)
Payments during the year	(97)	(149)
BALANCE AT 31 DECEMBER	4,789	4,124

25. SHARE CAPITAL

At 31 December 2017 and 2016, the authorised and issued share capital comprised 3,450,000 nominal shares (2016: 3,450,000) with a par value of LL 15,700 each (2016: LL 15,700 each). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time. All shares rank equally with regard to the Group's residual assets.

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26. RESERVES

	2017	2016
	LL million	LL million
General Banking risk reserve (i)	19,814	17,208
Legal reserve (ii)	12,584	11,731
Reserve for capital increase	10,232	6,517
Reserve for assets classified as held for sale (iii)	927	843
Reserve on retail portfolio	711	581
Revaluation reserve for real estate	13,513	13,513
Revaluation reserve accepted as supplementary capital - part of Tier II capital	15,167	15,167
NON-DISTRIBUTABLE RESERVES	72,948	65,560
FREE RESERVE - DISTRIBUTABLE	29,287	26,009
TOTAL RESERVE	102,235	91,569

(i) General Banking risk reserve

In compliance with the requirements of the Central Bank of Lebanon basic circular number 50, the Group is required to set up a reserve for general banking risks at a minimum rate of 0.2% and a maximum of 0.3% of the risk weighted assets and off-balance sheet financial instruments in local and foreign currencies. This reserve should not be less than 1.25% and 2% by the end of the 10th and the 20th years, respectively. This reserve is not available for distribution.

(ii) Legal reserve

The Lebanese Code of Money and Credit and the Group's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. This reserve is not available for distribution.

(iii) Reserve for asset classified as held for sale

This reserve is related to properties held in settlement of debt and is not available for distribution (note 18).

27. NET INTEREST AND SIMILAR INCOME

	2017	2016
	LL million	LL million
Interest and similar income		
Loans and advances to customers and related parties	19,435	19,708
Loans under reverse repurchase agreements (note 10)	103	203
Balances with the Central Bank of Lebanon	13,733	4,711
Due from banks and financial institutions	1,058	847
Investment securities	64,340	64,148
	98,669	89,617
Interest and similar expense		
Deposits from customers and related parties	(65,819)	(60,603)
Due to banks and financial institutions	(2,636)	(1,405)
	(68,455)	(62,008)
NET INTEREST AND SIMILAR INCOME	30,214	27,609

28. FEE AND COMMISSION INCOME

	2017	2016
	LL million	LL million
Commissions on banking operations	3,594	3,282
Credit - related fees and commissions	515	563
Brokerage fees	240	173
Commissions on letters of credit and guarantees	333	316
	4,682	4,334

29. NET GAIN FROM INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	LL million	LL million
Interest income	1,519	3,012
Gain on exchange	838	842
Net gain on sales	846	2,421
Release from deferred surplus (note 23)	1,227	1,689
Change in fair value through profit or loss (note 13)	695	(546)
	5,125	7,418

30. OTHER OPERATING INCOME

	2017	2016
	LL million	LL million
Rental and related income	1,223	1,227
Gain on sales of non-current assets classified as held for sale (note 18)	53	1,716
Other operating income	135	14
	1,411	2,957

31. PERSONNEL EXPENSES

	2017	2016
	LL million	LL million
Salaries and related benefits	15,330	13,078
Social security costs	2,033	1,773
Provision for employee benefit obligations (note 24)	936	483
Release of provision for employee benefit obligations (note 24)	(174)	(158)
Other personnel expenses	441	1,234
	18,566	16,410

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32. DEPRECIATION AND AMORTIZATION CHARGES

	2017	2016
	LL million	LL million
Depreciation charge on investment properties (note 16)	420	420
Depreciation charge on property and equipment (note 17)	2,682	2,458
Amortization charge on intangible assets	15	15
	3,117	2,893

33. OTHER OPERATING EXPENSES

	2017	2016
	LL million	LL million
Repairs and maintenance	2,163	2,005
Rent	395	373
Professional fees	882	1,226
Insurance expense	1,166	1,100
Office supplies	366	309
Customer deposits insurance	729	741
Subscription fees	651	588
Travel expense	1,031	967
Custody fees	122	122
Utilities expense	530	493
Taxes	1,959	1,272
Software costs	17	35
Directors' attendance fees (note 37)	185	256
Impairment loss on receivables from NSSF	44	106
Other expenses	1,380	1,570
	11,620	11,163

34. INCOME TAX EXPENSE

	2017	2016
	LL million	LL million
Profit for the year	12,711	8,964
Income tax expense	2,817	2,371
Profit before income tax	15,528	11,335

	2017		2016	
	%	LL million	%	LL million
Income tax using domestic corporation tax rate	(15%)-(17%)	2,316	(15%)	1,636
Effect of other non-deductible expenses		26		257
Withholding tax on interest not reimbursable		475		478
Current income tax expense		2,817		2,371
EFFECTIVE TAX RATE	19.33%		21.74%	

During 2017, the Ministry of Finance increased the corporate income tax rate from 15% to 17%, 15% applicable for the period ending 26 October 2017 inclusive, and 17% applicable starting 27 October 2017.

Also during 2017, the Ministry of Finance increased the tax on interest earned from 5% to 7%; 5% applicable for the period ending 26 October 2017 inclusive, and 7% applicable starting 27 October 2017.

35. CASH AND CASH EQUIVALENTS

	2017	2016
	LL million	LL million
Cash and balances with the Central Bank (note 9)	75,772	48,249
Loans under reserve repurchase agreements (note 10)	15,300	-
Due from banks and financial institutions (note 11)	92,922	77,515
Due to banks and financial institutions (note 21)	(68,361)	(77,936)
	115,633	47,828

36. CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal proceedings

There were a number of legal proceedings outstanding against the Group at 31 December 2017. No provision has been booked against these cases beyond the amounts provided for under provision for impairment of loans and advances to customers as professional advice indicates that it is unlikely that any significant loss will arise.

b) Tax and other obligations

The Group's books and records were reviewed by the Department of Income Tax for the years 2009 to 2012 that resulted in additional taxes and penalties amounting to LBP 529 million booked in "Other operating expenses" (note 33). The Group filed an objection against this assessment. The Group settled these taxes during 2016. The books and records of the Group remain subject to review by the Department of Income Tax for the years 2013 to 2017 (inclusive).

The Group's books have not been reviewed by the National Social Security Fund (NSSF) since 2012. The ultimate outcome of any review by the NSSF on the Bank's books for the years 2013 to 2017 (inclusive) cannot be currently determined.

37. RELATED PARTIES

a) Key management compensation

Some of the board members hold positions in the subsidiaries that result in having control over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting year. The terms and conditions of the transactions with the key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

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37. RELATED PARTIES (CONTINUED)

a) Key management compensation (Continued)

	2017	2016
	LL million	LL million
Directors' attendances fees (note 33)	185	256
Employees' benefits	1,462	1,104
	1,647	1,360

b) Loans and advances to related parties at amortized cost

	2017	2016
	LL million	LL million
Ayoub Lebanese Industrial Company SAL ("ALICO")	676	782
Sleep Comfort Lebanon SAL	141	226
Key management personnel	516	389
	1,333	1,397

Sleep Comfort Lebanon SAL and ALICO SAL share Board members with the Group Interest rate charged on loans and advances to related parties average to 6.7% (2016: 8.5%) on US\$ accounts.

c) Deposits from related parties at amortized cost

	2017	2016
	LL million	LL million
Deposits from related parties	58,207	55,135

Average interest rates granted on deposits from related parties average to 7.84% (2016: 6.75%) on LL accounts and 4.25% (2016: 4.81%) on US\$ accounts.

d) Transaction with a related party

	2017	2016
	LL million	LL million
Construction and maintenance expenses charged by CAT	956	822

e) Group subsidiaries

The table below provides details of the Group's subsidiaries:

	2017	2016
	%	%
Societe Immobiliere Al - Solh SAL ("SIAS")	99.99%	99.99%
Societe Nouvelle Immobiliere SAL ("SNI")	65.63%	65.63%

38. OFF BALANCE SHEET ITEMS

	2017	2016
	LL million	LL million
FINANCING COMMITMENTS		
Financing commitments given to customers	103,750	93,720
GUARANTEES		
Guarantees given to banks and financial institutions	750	1,181
Guarantees received from banks and financial institutions	5,265	4,850
Guarantees given to customers	12,022	10,616
Guarantees received from customers	915,609	755,838
OPERATIONS IN FOREIGN CURRENCIES		
Foreign currencies to receive	942	(1,454)
Foreign currencies to deliver	(915)	(1,445)
CONTINGENCIES ON LEGAL DISPUTES	55	55
BAD LOANS FULLY PROVIDED FOR	122,925	114,505
ASSETS UNDER MANAGEMENT	89,713	91,804

CORRESPONDENT BANKS

CITY	CORRESPONDENT BANK
Bilbao	Banco Bilbao Vizcaya Argentaria SA
Toronto	Bank of Montreal
Dubai City	Blom Bank France
Frankfurt am Main	Commerzbank AG
	The Bank of New York Mellon
	Bank of Beirut (UK) Ltd
Milan	Intesa Sanpaolo SPA
London	The Bank of New York Mellon
New York	The Bank of New York Mellon
	JPMorgan Chase BANK National Association
Paris	Bank Audi France SA
	Blom Bank France
Stockholm	Skandinaviska Enskilda Banken AB
Tokyo	The Bank of New York Mellon
Beirut	Qatar National Bank (Q.P.S.C.)

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