BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BYBLOS BANK SAL

Qualified Opinion
We have audited the consolidated financial statements of Byblos Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, 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"* section of our report, 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 consolidated 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 35 to the consolidated financial statements, during 2016, the Group did not recognize in the consolidated income statement an amount of LL 126,682 million in gains realized from certain transactions on financial instruments with the Central Bank of Lebanon. The Group recognized this amount under "Deferred revenues" within "Other liabilities" in compliance with Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016. Furthermore, as disclosed in note 36 to the consolidated financial statements, the Group recorded excess provisions amounting to LL 102,480 million under "Provisions for risks and charges" in order to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016. The Group's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards (IFRSs). This caused us to qualify our audit opinion on the consolidated financial statements relating to the year ended 31 December 2016.

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

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 2016 would have increased by LL 229,162 million through an increase in "Net gain from financial instruments at fair value through profit or loss" by LL 108,392 million, an increase in "Net gain from sale of financial assets at amortized cost" by LL 40,692 million, a decrease in "Provisions for risks and charges" by LL 102,480 million and an increase in "Income tax expense" by LL 22,402 million;

- Total liabilities as at 31 December 2017 and 31 December 2016 would have decreased by LL 229,162 million, through a decrease in "Deferred revenues" (reflected under "Other liabilities") by LL 86,682 million as at 31 December 2017 and LL 126,682 million as at 31 December 2016, and a decrease in "Provisions for risks and charges" by LL 142,480 million as at 31 December 2017 and LL 102,480 million as at 31 December 2016; and

- Total equity as at 31 December 2017 and 31 December 2016 would have increased by LL 229,162 million.

Basis for Qualified Opinion (continued)

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the 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 consolidated financial statements of the year ended 31 December 2017. In addition to the matter described in the *"Basis for Qualified Opinion"* section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Our description of how our audit addressed this matter is provided in that context.

We have fulfilled the responsibilities described in the "*Auditors' Responsibilities for the Audit of the 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 consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	**How our audit addresses the Key Audit Matter**
Impairment of Loans and Advances	
Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances 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. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. This includes the analysis of the financial performance of the borrower, historic experience when assessing the likelihood of incurred losses in the portfolios and the adequacy of collateral for secure lending. However, 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. Note 24 to the consolidated financial statements provides details relating to the impairment of loans and advances.	These risks were addressed by us as follows: 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. 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. 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.

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 auditors' report.

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

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

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 judgement 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.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Walid Nakfour for Ernst & Young and Antoine Gholam for BDO, Semaan, Gholam & Co.

Ernst & Young

BDO, Semaan, Gholam & Co.

23 March 2018
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Notes	***2017*** ***LL million***	*2016* *LL million*
Interest and similar income	8	**1,702,286**	1,545,922
Interest and similar expense	9	**(1,275,994)**	(1,176,124)
NET INTEREST INCOME		**426,292**	369,798
Fee and commission income	10	**147,162**	134,122
Fee and commission expense	10	**(12,138)**	(12,515)
NET FEE AND COMMISSION INCOME	10	**135,024**	121,607
Net gain from financial instruments at fair value through profit or loss	11	**48,456**	79,970
Net gain from sale of financial assets at amortized cost	12	**36,232**	417,699
Dividend income from financial assets at fair value through other comprehensive income	26	**4,445**	4,413
Other operating income	13	**31,573**	27,803
TOTAL OPERATING INCOME		**682,022**	1,021,290
Net credit (losses) gains	14	**(18,870)**	8,925
Impairment losses on financial investments	2	**-**	(49,676)
NET OPERATING INCOME		**663,152**	980,539
Personnel expenses	15	**(205,603)**	(195,787)
Other operating expenses	16	**(129,287)**	(159,474)
Depreciation of property and equipment	27	**(21,133)**	(22,425)
Amortisation of intangible assets	28	**(113)**	(113)
Impairment of goodwill	5	**-**	(12,427)
TOTAL OPERATING EXPENSES		**(356,136)**	(390,226)
OPERATING PROFIT		**307,016**	590,313
Provisions for risks and charges	36	**-**	(102,480)
Foreign currency translation losses on deconsolidation of subsidiaries	2	**-**	(137,890)
Net gain on disposal of property and equipment		**1,853**	11
PROFIT BEFORE TAX		**308,869**	349,954
Income tax expense	17	**(52,415)**	(100,719)
PROFIT FOR THE YEAR		**256,454**	249,235
Attributable to:			
Equity holders of the parent		**248,539**	232,672
Non-controlling interests		**7,915**	16,563
		256,454	249,235
Earnings per share		***LL***	*LL*
Equity holders of the parent:			
Basic earnings per share	18	**355.14**	327.22
Diluted earnings per share	18	**333.57**	310.18

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	*2017* *LL million*	*2016* *LL million*
PROFIT FOR THE YEAR		**256,454**	249,235
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to the income statement in subsequent periods:			
Exchange difference on translation of foreign operations		**15,661**	(68,161)
Net other comprehensive gain (loss) to be reclassified to the income statement in subsequent periods		**15,661**	(68,161)
Items not to be reclassified to the income statement in subsequent periods:			
Net unrealized gain (loss) from financial assets at fair value through other comprehensive income	43	**6,026**	(1,306)
Income tax effect	43	**(1,445)**	194
		4,581	(1,112)
Re-measurement gains (losses) on defined benefit plans	36 (a)	**2,164**	(99)
Net other comprehensive income (loss) not to be reclassified to the income statement in subsequent periods		**6,745**	(1,211)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		**22,406**	(69,372)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**278,860**	179,863
Attributable to:			
Equity holders of the parent		**270,778**	190,591
Non-controlling interests		**8,082**	(10,728)
		278,860	179,863

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	***2017*** ***LL million***	*2016* *LL million*
ASSETS			
Cash and balances with central banks	19	**11,966,804**	8,717,615
Due from banks and financial institutions	20	**3,928,586**	2,657,429
Loans to banks and financial institutions and reverse repurchase agreements	21	**754,394**	964,066
Derivative financial instruments	22	**2,790**	4,420
Financial assets at fair value through profit or loss	23	**256,025**	789,172
Net loans and advances to customers at amortized cost	24	**8,192,985**	7,787,275
Net loans and advances to related parties at amortized cost	45	**22,030**	20,714
Debtors by acceptances		**354,023**	223,883
Financial assets at amortized cost	25	**8,155,350**	9,641,023
Financial assets at fair value through other comprehensive income	26	**108,552**	101,305
Property and equipment	27	**273,437**	247,095
Intangible assets	28	**267**	380
Assets obtained in settlement of debt	29	**44,891**	43,299
Other assets	30	**102,073**	110,438
TOTAL ASSETS		**34,162,207**	31,308,114
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	31	**1,374,837**	267,494
Due to banks and financial institutions	32	**972,315**	774,095
Derivative financial instruments	22	**3,544**	2,106
Customers' deposits at amortized cost	33	**26,757,716**	25,415,634
Deposits from related parties at amortized cost	45	**380,790**	366,027
Debt issued and other borrowed funds	34	**453,556**	444,072
Engagements by acceptances		**354,023**	223,883
Other liabilities	35	**258,870**	374,911
Provisions for risks and charges	36	**350,936**	300,292
Subordinated debt	37	**422,995**	420,165
TOTAL LIABILITIES		**31,329,582**	28,588,679
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	38	**684,273**	684,273
Share capital – preferred shares	38	**4,840**	4,840
Share premium – common shares	38	**229,014**	229,014
Share premium – preferred shares	38	**591,083**	591,083
Non distributable reserves	39	**924,812**	843,320
Distributable reserves	40	**110,616**	103,246
Treasury shares	41	**(6,002)**	(5,161)
Retained earnings		**52,282**	67,518
Revaluation reserve of real estate	42	**5,689**	5,689
Change in fair value of financial assets at fair value through other comprehensive income	43	**(4,538)**	(9,081)
Net results of the financial period – profit		**248,539**	232,672
Foreign currency translation reserve		**(49,847)**	(65,341)
		2,790,761	2,682,072
NON-CONTROLLING INTERESTS		**41,864**	37,363
TOTAL EQUITY		**2,832,625**	2,719,435
TOTAL LIABILITIES AND EQUITY		**34,162,207**	31,308,114

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 23 March 2018 by:

Semaan Bassil	Ziad El Zoghbi
Chairman and General Manager	Head of Finance and Administration

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

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the parent													*Non-controlling interests*	*Total*
	Common shares LL million	*Preferred shares LL million*	*Share premium - common shares LL million*	*Share premium - preferred shares LL million*	*Non-distributable reserves LL million*	*Distributable reserves LL million*	*Treasury shares LL million*	*Retained earnings LL million*	*Revaluation reserve of real estate LL million*	*Change in fair value of financial assets at fair value through other comprehensive income LL million*	*Net results of the financial period - profit LL million*	*Foreign currency translation reserve LL million*	*Total LL million*	*LL million*	*LL million*
Balance at 1 January 2017	684,273	4,840	229,014	591,083	843,320	103,246	(5,161)	67,518	5,689	(9,081)	232,672	(65,341)	2,682,072	37,363	2,719,435
Profit for the year	-	-	-	-	-	-	-	-	-	-	248,539	-	248,539	7,915	256,454
Other comprehensive income	-	-	-	-	-	-	-	2,164	-	4,581	-	15,494	22,239	167	22,406
Total comprehensive income	-	-	-	-	-	-	-	2,164	-	4,581	248,539	15,494	270,778	8,082	278,860
Transfer to retained earnings	-	-	-	-	-	-	-	232,672	-	-	(232,672)	-	-	-	-
Appropriations from retained earnings	-	-	-	-	81,492	7,370	-	(88,862)	-	-	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,581)	(3,581)
Equity dividends paid (note 52)	-	-	-	-	-	-	-	(161,137)	-	-	-	-	(161,137)	-	(161,137)
Translation difference	-	-	-	-	-	-	-	(73)	-	(38)	-	-	(111)	-	(111)
Treasury shares	-	-	-	-	-	-	(841)	-	-	-	-	-	(841)	-	(841)
Balance at 31 December 2017	**684,273**	**4,840**	**229,014**	**591,083**	**924,812**	**110,616**	**(6,002)**	**52,282**	**5,689**	**(4,538)**	**248,539**	**(49,847)**	**2,790,761**	**41,864**	**2,832,625**

	Attributable to equity holders of the parent													*Non-controlling interests*	*Total*
	Common shares LL million	*Preferred shares LL million*	*Share premium - common shares LL million*	*Share premium - preferred shares LL million*	*Non-distributable reserves LL million*	*Distributable reserves LL million*	*Treasury shares LL million*	*Retained earnings LL million*	*Revaluation reserve of real estate LL million*	*Change in fair value of financial assets at fair value through other comprehensive income LL million*	*Net results of the financial period - profit LL million*	*Foreign currency translation reserve LL million*	*Total LL million*	*LL million*	*LL million*
Balance at 1 January 2016	684,273	4,840	229,014	591,083	815,884	99,211	(6,807)	61,832	5,689	(7,961)	228,185	(193,842)	2,511,401	72,042	2,583,443
Profit for the year	-	-	-	-	-	-	-	-	-	-	232,672	-	232,672	16,563	249,235
Other comprehensive loss	-	-	-	-	-	-	-	(99)	-	(1,112)	-	(40,870)	(42,081)	(27,291)	(69,372)
Total comprehensive income (loss)	-	-	-	-	-	-	-	(99)	-	(1,112)	232,672	(40,870)	190,591	(10,728)	179,863
Transfer to retained earnings	-	-	-	-	-	-	-	228,185	-	-	(228,185)	-	-	-	-
Transfer to retained earnings due to deconsolidation	-	-	-	-	(8,450)	(1,123)	-	9,573	-	-	-	-	-	-	-
Appropriations from retained earnings	-	-	-	-	61,822	5,629	-	(67,451)	-	-	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,153)	(3,153)
Equity dividends paid (note 52)	-	-	-	-	-	-	-	(161,060)	-	-	-	-	(161,060)	-	(161,060)
Translation difference	-	-	-	-	(25,818)	(3,273)	-	(3,462)	-	(8)	-	31,481	(1,080)	-	(1,080)
Treasury shares	-	-	-	-	(118)	-	1,646	-	-	-	-	-	1,528	-	1,528
Reversal of put options on non-controlling interests due to deconsolidation	-	-	-	-	-	4,663	-	-	-	-	-	-	4,663	13,600	18,263
Deconsolidation of subsidiaries (note 2)	-	-	-	-	-	-	-	-	-	-	-	137,890	137,890	(34,398)	103,492
Acquisition of additional non-controlling interests (note 5)	-	-	-	-	-	(1,861)	-	-	-	-	-	-	(1,861)	-	(1,861)
Balance at 31 December 2016	684,273	4,840	229,014	591,083	843,320	103,246	(5,161)	67,518	5,689	(9,081)	232,672	(65,341)	2,682,072	37,363	2,719,435

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	*2017* *LL million*	*2016* *LL million*
OPERATING ACTIVITIES			
Profit before tax		**308,869**	349,954
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	27 & 28	**21,246**	22,538
Provision (write-back of provision) for loans and advances and direct write offs, net	14	**18,870**	(7,347)
Write-back of provision for balances with central banks, net	14	**-**	(1,578)
Gain on disposal of property and equipment		**(1,853)**	(11)
Gain on disposal of assets obtained in settlement of debt	13	**(3,202)**	(4,093)
Provisions for risks and charges, net		**17,953**	154,612
Unrealized fair value losses on financial instruments at fair value through profit or loss		**703**	3,727
Realized gains from financial assets		**(30,217)**	(397,821)
Derivative financial instruments		**3,068**	(2,953)
Impairment losses on financial investments	2	**-**	49,676
Impairment of goodwill	5	**-**	12,427
Foreign currency translation losses on deconsolidation of subsidiaries	2	**-**	137,890
Operating profit before working capital changes		**335,437**	317,021
Changes in operating assets and liabilities			
Due from central banks		**(2,664,426)**	(1,563,261)
Due to central banks		**596,650**	226,518
Due from banks and financial institutions		**54,695**	(2,832)
Financial assets at fair value through profit or loss		**526,338**	(516,138)
Due to banks and financial institutions		**16,186**	61,285
Net loans and advances to customers and related parties		**(425,896)**	(316,469)
Assets obtained in settlement of debt	29	**(4,546)**	(2,836)
Proceeds from sale of assets obtained in settlement of debt		**6,156**	5,679
Other assets		**8,365**	(17,397)
Customers' and related parties' deposits		**1,356,845**	516,361
Other liabilities		**(11,748)**	223,967
Cash used in operations		**(205,944)**	(1,068,102)
Provision for risks and charges paid	36	**(5,091)**	(3,487)
Taxation paid		**(116,708)**	(54,374)
Net cash used in operating activities		**(327,743)**	(1,125,963)
INVESTING ACTIVITIES			
Financial assets at amortized cost		**1,521,996**	1,499,210
Financial assets at fair value through other comprehensive income		**(2,704)**	(1,096)
Loans to banks and financial institutions and reverse repurchase agreements		**44,178**	420,841
Purchase of property and equipment	27	**(49,484)**	(35,011)
Proceeds from sale of property and equipment		**3,969**	377
Net cash outflow from deconsolidation of subsidiaries	2	**-**	(132,565)
Acquisition of a subsidiary, net of cash acquired	5	**-**	(83,599)
Net cash from investing activities		**1,517,955**	1,668,157
FINANCING ACTIVITIES			
Debts issued and other borrowed funds		**9,484**	(1,127)
Subordinated debt		**2,830**	2,765
Treasury shares		**(841)**	1,528
Dividends paid to equity holders of the parent	52	**(161,137)**	(161,060)
Dividends paid to non-controlling interests		**(3,581)**	(3,153)
Acquisition of additional non-controlling interests	5	**-**	(1,861)
Net cash used in financing activities		**(153,245)**	(162,908)
INCREASE IN CASH AND CASH EQUIVALENTS		**1,036,967**	379,286
Net effect of foreign exchange		**15,427**	(58,374)
Cash and cash equivalents at 1 January		**5,087,112**	4,766,200
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44	**6,139,506**	5,087,112
Operational cash flows from interest and dividends			
Interest paid		**(1,258,322)**	(1,168,296)
Interest received		**1,735,080**	1,566,523
Dividend received		**5,293**	5,049

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

1 CORPORATE INFORMATION

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

The Bank, together with its affiliated banks and subsidiaries (collectively the "Group"), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 9 locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of Congo and Armenia). Further information on the Group's structure is provided in note 4.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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 the Banking Control Commission ("BCC").

Presentation of financial statements

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

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

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group 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. 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

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee,
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities,
- Contractual arrangements such as call rights, put rights and liquidation rights, and
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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.

Non-controlling interests

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interests in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as profit or loss attributable to non-controlling interests. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Put options granted to non-controlling interests give rise to a financial liability for the present value of the redemption amount. Non-controlling interest continues to be recognised within equity, with changes in the carrying amounting arising from: a) an allocation of the profit or loss for the year; b) a share of changes in appropriate reserves; and c) dividends declared before the end of the reporting period. At the end of each reporting period, the non-controlling interest is then derecognised as if it was acquired at that date. The liability is recognised at the end of the reporting period at its fair value, and any difference between the amount of non-controlling interest derecognised and this liability is accounted for within equity.

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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 derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

Deconsolidation of the subsidiary Byblos Bank Syria

The subsidiary Byblos Bank Syria, which is 59.87% owned by the Group, is engaged in commercial banking activities, mainly deposits taking and loan granting, in Syria. Starting March 2011, Syria has witnessed an extremely violent and crippling civil war between the regime and various opposition groups in different parts of the country. The war has turned into a humanitarian disaster resulting in Syria being ranked number one on the list of the most dangerous countries in the world. In addition, this has led several international bodies and countries (e.g. EU and USA) to set and implement several sanctions and restrictions on dealing with Syria.

The Syrian pound has lost at least 90% of its value against the US Dollar since 2011. The Syrian government has maintained currency controls and has created exchange mechanisms, which have become extremely illiquid over time, resulting in an other-than-temporary lack of exchangeability between the Syrian Pound and US Dollar. The supply of foreign currencies in the market remains structurally well below demand and there are no obvious limits as to how low the Syrian currency can fall.

Sanctions and the war, combined with the lack of exchangeability between the Syrian Pound and US Dollar, have significantly affected Syria's financial system. Banks are largely isolated from the international banking market, being shut-off from the international payment and settlement systems, as well as the credit markets. There was a major flight of deposits as Syrians have reallocated to safer assets. Syria's economy has contracted considerably in real terms since 2011, which has significantly affected the demand for credit facilities and the investment opportunities available for banks inside Syria. Banks are unable to repatriate funds outside the country and end up placing their funds in non-income generating assets, with the Central Bank of Syria and other local commercial or state-owned banks. The negative evolution of the macroeconomic situation limited the Group's ability to effectively manage the subsidiary. In addition, regulatory restrictions, such as foreign exchange controls, import authorization control, interest rates controls, and foreign currency credit facilities controls, have added to the limitations already existing on the significant activities of banks, preventing further the Group from developing and implementing decisions on the relevant activities of the subsidiary. Recently issued regulations requiring board meetings to be held in the Syrian territory and attended by the board members in person have also significantly impacted the Group's ability to attend the meetings and make and execute key operational and financial decisions regarding its Syrian operations.

As a result of these factors, which are expected to continue for the foreseeable future, effective 31 December 2016, the Group concluded that it no longer met the accounting criteria for consolidation of its Syrian subsidiary due to a loss of control, and therefore it deconsolidated its Syrian subsidiary effective as of 31 December 2016. The Group has determined the fair value of its investment in its Syrian subsidiary to be insignificant based on its expectations of dividend payments in future periods.

The deconsolidation of the subsidiary resulted in the recognition of a negative impact on the consolidated income statement for the year 2016, in the amount of LL 144,504 million, which includes:

- negative impact of LL 107,282 million deriving from losses from the translation into Lebanese Lira of the financial statements of the subsidiary previously recognized under equity and reclassified to the consolidated income statement; and
- negative impact of LL 37,222 million due to the full-write off of the net assets of the subsidiary.

Cash and cash equivalents of the subsidiary Byblos Bank Syria upon deconsolidation amounted to LL 95,783 million.

As a consequence of the deconsolidation, effective 1 January 2017, the Group shall no longer include the results of the Syrian subsidiary in its consolidated financial statements. Further, dividends and inter-bank interest will be recorded as income and expense upon receipt or payment. The Group will monitor the extent of its ability to control its Syrian operations as its current situation in Syria may change over time and lead to consolidation at a future date.

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Deconsolidation of the subsidiary Byblos Bank Africa
The subsidiary Byblos Bank Africa, which is 56.86% owned by the Group, is engaged in commercial banking activities, mainly deposits taking and loan granting, in Sudan. Sudan, one of the largest and most geographically diverse states in Africa, gained independence on the first of January 1956. Since then, the country has experienced alternating forms of democratic and authoritarian governments. Cross-border violence, political instability, poor infrastructure, weak property rights, and corruption has led several international bodies and countries (e.g. EU and USA) to set and implement several sanctions and restrictions on dealing with Sudan. In addition, the business environment of the country has been trapped by business regulations that inhibit registration and a rigid labor market that discourages formal hiring and Sudan was ranked as a repressed economy by Heritage Foundation.

The Sudanese Pound has lost at least 84% of its value against the US Dollar since 2011, when South Sudan seceded, taking with it three-quarters of the country's oil output, the main source of foreign currency used to support the Sudanese pound and to pay for food and other imports. Low foreign exchange reserves resulted in illiquid foreign currency markets and other-than-temporary lack of exchangeability between the Sudanese Pound and US Dollar. The official exchange rate was 100% below the parallel black market rate.

As a result of these factors, which are expected to continue for the foreseeable future, effective 31 December 2016, the Group concluded that it no longer met the accounting criteria for consolidation of its Sudanese subsidiary due to a loss of control, and therefore it deconsolidated its Sudanese subsidiary effective as of 31 December 2016. The Group has determined the fair value of its investment in its Sudanese subsidiary to be insignificant based on its expectations of dividend payments in future periods.

The deconsolidation of the subsidiary resulted in the recognition of a negative impact on the consolidated income statement for the year 2016, in the amount of LL 43,062 million, which includes:

- negative impact of LL 30,608 million deriving from losses from the translation into Lebanese Lira of the financial statements of the subsidiary previously recognized under equity and reclassified to the consolidated income statement; and
- negative impact of LL 12,454 million due to the full-write off of the net assets of the subsidiary.

Cash and cash equivalents of the subsidiary Byblos Bank Africa upon deconsolidation amounted to LL 36,782 million.

As a consequence of the deconsolidation, effective 1 January 2017, the Group shall no longer include the results of the Sudanese subsidiary in its consolidated financial statements. Further, dividends and inter-bank interest will be recorded as income and expense upon receipt or payment. The Group will monitor the extent of its ability to control its Sudanese operations as its current situation in Sudan may change over time and lead to consolidation at a future date.

2.3 Changes in accounting policies and disclosures

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

2 ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied the amendments retrospectively. However, their application has no material effect on the Group's financial position and performance.

Annual Improvements Cycle - 2014-2016
Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments do not have any impact on the Group.

2.4 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 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 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 93 billion, which is already covered by the Group's excess provisions disclosed in note 36. Accordingly, there will be no impact on the Group's equity from the adoption of the IFRS 9 impairment requirements.

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

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

- IFRS 9 will require the 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.

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

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

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

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

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.
(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.</td></tr>
</table>

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

<table>
<tr><td>II. Impairment</td><td> 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 Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions. </td></tr>
</table>

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

II. Impairment	*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.

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

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

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

2.5 Summary of significant accounting policies

Foreign currency translation
The consolidated financial statements are presented in Lebanese Lira which is the Bank's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

(i) Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rate of exchange ruling at the date the transaction first qualifies for recognition.

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

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

(ii) Group companies
On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified to the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement

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

(ii) Classification and measurement of financial instruments

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

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

a. Financial assets (continued)

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

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

b. Financial liabilities

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

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

b. Financial liabilities (continued)

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

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

c. Derivatives recorded at fair value through profit or loss
The Group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(iv) Reclassification of financial assets (continued)

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

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

Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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

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

(ii) Financial liabilities

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

Repurchase and reverse repurchase agreements

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Repurchase and reverse repurchase agreements (continued)
Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position within "Due from banks and financial institutions and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

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

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

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

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

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

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

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

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

For assets and liabilities that are recognised 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.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)
For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

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

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

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

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

Hedge accounting
The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

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

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

(ii) Cash flow hedges
For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated income statement.

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

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

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

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

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 recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Leasing (continued)

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.

Recognition of income and expenses
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

(iii) Dividend income

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

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

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

(vi) Insurance revenue

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

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

Cash and cash equivalents

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

Property and equipment

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

- Key money 10-15 years

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

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

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously 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 estimates 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 recognized in the consolidated income statement.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

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

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

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

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group’s consolidated statement of financial position.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

Dividends on ordinary shares
Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

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

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Judgements (continued)

Business model (continued)
In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the 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 sold assets are held for an extended period of time relative to their contractual maturity.

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

Deconsolidation of Byblos Bank Syria and Byblos Bank Africa as at 31 December 2016
The Group proceeded with the deconsolidation of the subsidiaries Byblos Bank Syria and Byblos Bank Africa, effective as of 31 December 2016. The decision to proceed with the deconsolidation was mainly due to the loss of control over the subsidiaries and the Group's inability to direct the relevant activities of the subsidiaries. The violent and crippling civil war, the international sanctions, the lack of exchangeability between the Syrian and Sudanese Pounds from one side and the US Dollar from the other, combined with other restrictive regulations, have limited the Group's ability to effectively manage the subsidiaries. Given this scenario, which is expected to endure for the foreseeable future, it was considered that the requisite conditions of IFRS 10 have not been met in order for an accounting control to be carried out on the subsidiaries. Therefore, the deconsolidation of the subsidiaries was proceeded with. Given the complexity of the Syrian and Sudanese scenarios, the previously summarised considerations and assumptions inevitably relied on complex and subjective assessments and estimates based on historical experience, and are considered reasonable and realistic in the circumstances. These assessments and assumptions resulted in significant overall effects on the consolidated financial statements of the Group. Please refer to note 2, "Deconsolidation of the subsidiary Byblos Bank Syria" and "Deconsolidation of the subsidiary Byblos Bank Africa" for more details on these effects.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates and assumptions (continued)

Impairment losses on loans and advances
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.
Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

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

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

4 GROUP INFORMATION

The consolidated financial statements of the Group comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

Subsidiary	*Percentage of ownership*		*Principal activity*	*Country of incorporation*
	2017	*2016*		
	%	%		
Byblos Bank Europe SA	**99.95**	99.95	Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris	Belgium
Adonis Insurance and Reinsurance Co. (ADIR) SAL	**64.00**	64.00	Insurance	Lebanon
Adonis Brokerage House SAL	**100.00**	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	**99.99**	99.99	Investment banking	Lebanon
Byblos Bank Africa (*)	**56.86**	56.86	Commercial Banking	Sudan
Byblos Bank Syria S.A. (*)	**59.87**	59.87	Commercial Banking	Syria
Byblos Bank Armenia CJSC	**100.00**	100.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	**76.00**	76.00	Insurance	Syria
Byblos Bank RDC SARL	**66.67**	66.67	Banking activities	Democratic Republic of Congo

(*) Effective 31 December 2016, the Group deconsolidated Byblos Bank Syria S.A. and Byblos Bank Africa since it no longer meets the accounting criteria for consolidation. These investments are accounted for at fair value through other comprehensive income and are fully provided for.

5 BUSINESS COMBINATIONS

Acquisition of ownership interest in Banque Pharaon & Chiha SAL

During 2016, the Group acquired 100% of the voting shares of Banque Pharaon & Chiha SAL, an unlisted bank operating in Lebanon, for a total consideration of LL 148,732 million. Banque Pharaon & Chiha SAL was engaged in providing a wide range of banking services to its customers through its Head Office and branches located in Lebanon. The acquisition was accounted for under the acquisition method. The consolidated financial statements for the year ended 31 December 2016 include the results of Banque Pharaon & Chiha SAL for the six-month period from 30 April 2016, the acquisition date, until 31 October 2016 when the assets and liabilities of Banque Pharaon & Chiha SAL were merged with the assets and liabilities of Byblos Bank SAL. From 30 April 2016, the date of acquisition, till 31 October 2016, Banque Pharaon & Chiha SAL contributed LL 2,524 million to the consolidated net profit of the Group. If the acquisition had taken place at the beginning of the year 2016, consolidated net income for the year ended 31 December 2016 would have increased by LL 2,491 million.

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

	Fair value recognised on acquisition LL million
Assets	
Cash and balances with central bank	**90,604**
Due from banks and financial institutions	**27,139**
Financial assets at fair value through profit or loss	**794**
Net loans and advances to customers at amortized cost	**135,165**
Debtors by acceptances	**1,228**
Financial assets at amortized cost	**206,564**
Property and equipment	**520**
Assets obtained in settlement of debt	**47**
Other assets	**2,030**
	464,091
Liabilities	
Deposits from customers at amortized cost	**(307,863)**
Deposits from related parties at amortized cost	**(37,899)**
Engagements by acceptances	**(1,228)**
Other liabilities	**(7,734)**
Provisions for risks and charges	**(2,138)**
	(356,862)
Total identifiable net assets	**107,229**

	LL million
Acquisition percentage	***100%***
Fair value of net assets acquired	**(107,229)**
Consideration paid	**148,732**
Excess fair value of soft loan (*)	**(73,159)**
Additional expenses to be incurred upon acquisition (note 35)	**44,083**
Goodwill arising on acquisition	**12,427**

5 BUSINESS COMBINATIONS (continued)

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

	LL million
Impairment of goodwill	**29,076**
Credit losses	**27,094**
Employees indemnities	**16,989**
Total	**73,159**

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

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

Transaction costs of LL 1,610 million were expensed and included in "Other operating expenses" in the consolidated statement of income.

	LL million
Cash paid	**(148,732)**
Net cash acquired with the subsidiary	**65,133**
Net cash outflow	**(83,599)**

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

Acquisition of EBRD share in Byblos Bank Armenia CJSC
Effective 24 June 2016, European Bank for Reconstruction and Development (EBRD), holders of 8.53% non-controlling interests of the subsidiary Byblos Bank Armenia CJSC, exercised the put option granted by Byblos Bank SAL which resulted in the Group acquiring an additional 8.53% interest in the voting shares of Byblos Bank Armenia CJSC, increasing its ownership interest to 96.59%. A cash consideration of LL 6,130 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was LL 4,800 million. As the Group accounts for such put options through partial recognition of non-controlling interests, this transaction did not have an impact on non-controlling interests in equity. The difference between the cash consideration paid to non-controlling shareholders and the carrying value of additional interest acquired amounting to LL 1,330 million is recognized within equity.

5 BUSINESS COMBINATIONS (continued)

Acquisition of OFID share in Byblos Bank Armenia CJSC

Effective 20 July 2016, Opec Fund for International Development (OFID), holders of the remaining 3.41% non-controlling interests of the subsidiary Byblos Bank Armenia CJSC, exercised the put option granted by Byblos Bank SAL which resulted in the Group acquiring an additional 3.41% interest in the voting shares of Byblos Bank Armenia CJSC, increasing its ownership interest to 100%. A cash consideration of LL 2,452 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was LL 1,921 million. As the Group accounts for such put options through partial recognition of non-controlling interests, this transaction did not have an impact on non-controlling interests in equity. The difference between the cash consideration paid to non-controlling shareholders and the carrying value of additional interest acquired amounting to LL 531 million is recognized within equity.

6 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests are provided below:

Proportion of equity interests held by non-controlling interests:

Name	***2017*** *%*	*2016* *%*
Byblos Bank Africa (*)	**43.14**	43.14
Adonis Insurance and Reinsurance Co. (ADIR) SAL	**36.00**	36.00
Byblos Bank Syria S.A. (*)	**40.13**	40.13

(*) Effective 31 December 2016, the Group deconsolidated Byblos Bank Syria S.A. and Byblos Bank Africa since it no longer meets the accounting criteria for consolidation.

The summarized financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations:

Summarized income statement for 2017:

	Adonis Insurance and Reinsurance Co. (ADIR) SAL ***LL million***
Net interest income	**11,504**
Net fee and commission income	**4,636**
Net gain from financial instruments at fair value through profit or loss	**406**
Other operating income	**21,002**
Total operating expenses	**(12,765)**
Income tax expense	**(2,067)**
Profit for the year	**22,716**
Attributable to non-controlling interests	**8,178**
Dividends paid to non-controlling interests	**3,219**

6 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized income statement for 2016:

	Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million	*Byblos Bank Africa LL million*	*Byblos Bank Syria S.A. LL million*
Net interest income	10,613	4,807	1,989
Net fee and commission income	3,084	877	939
Net gain from financial instruments at fair value through profit or loss	143	213	30,937
Other operating income	19,415	128	90
Net credit gains	-	1,010	4,044
Total operating expenses	(11,651)	(2,988)	(16,926)
Income tax expense	(1,737)	(897)	(996)
Profit for the year	19,867	3,150	20,077
Attributable to non-controlling interests	7,152	1,359	8,057
Dividends paid to non-controlling interests	3,148	-	-

Summarized statement of financial position as at 31 December 2017 and 2016:

	Adonis Insurance and Reinsurance Co. (ADIR) SAL 2017 LL million	*Adonis Insurance and Reinsurance Co. (ADIR) SAL 2016 LL million*
Cash and balances with central banks	**12**	6
Due from banks and financial institutions	**37,117**	27,179
Balances with Parent and Group entities	**165,276**	153,055
Financial assets at fair value through profit or loss	**37,811**	37,085
Net loans and advances at amortized cost	**5,182**	4,875
Financial assets at amortized cost	**186,848**	156,694
Property and equipment	**2,267**	2,612
Other assets	**62,672**	56,297
Deposits at amortized cost	**(272,925)**	(234,383)
Other liabilities	**(129,669)**	(121,614)
Total equity	**94,591**	81,806
Attributable to non-controlling interests	**34,053**	29,491

6 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized cash flow information for the year ended 31 December 2017:

	Adonis Insurance and Reinsurance Co. (ADIR) SAL
	LL million
Operating	**29,257**
Investing	**(18,217)**
Financing	**(4,640)**
Net increase in cash and cash equivalents	**6,400**

Summarized cash flow information for the year ended 31 December 2016:

	Adonis Insurance and Reinsurance Co. (ADIR) SAL	*Byblos Bank Africa*	*Byblos Bank Syria S.A.*
	LL million	*LL million*	*LL million*
Operating	14,274	3,611	1,223
Investing	(8,502)	(11,123)	4,406
Financing	(5,161)	(6,420)	-
Net increase (decrease) in cash and cash equivalents	611	(13,932)	5,629

7 SEGMENT INFORMATION

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

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

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

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

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

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

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

7 SEGMENT INFORMATION (continued)

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

Profit for the year information

	2017				
	Retail banking LL million	***Corporate banking LL million***	***Treasury and capital markets LL million***	***Other[1] LL million***	***Total LL million***
Net interest income (expense)	**165,463**	**130,531**	**132,646**	**(2,348)**	**426,292**
Net fee and commission income	**62,536**	**60,646**	**2,179**	**9,663**	**135,024**
Net gain from financial instruments at fair value through profit or loss	**-**	**-**	**48,456**	**-**	**48,456**
Net gain from sale of financial assets at amortized cost	**-**	**-**	**36,232**	**-**	**36,232**
Dividend income from financial assets at fair value through other comprehensive income	**-**	**-**	**4,445**	**-**	**4,445**
Other operating income	**-**	**-**	**-**	**31,573**	**31,573**
Net credit losses	**(6,070)**	**(12,800)**	**-**	**-**	**(18,870)**
Net operating income	**221,929**	**178,377**	**223,958**	**38,888**	**663,152**

	2016				
	Retail banking LL million	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Other[1] LL million*	*Total LL million*
Net interest income (expense)	193,029	123,550	54,034	(815)	369,798
Net fee and commission income	58,370	57,368	574	5,295	121,607
Net gain from financial instruments at fair value through profit or loss	-	-	79,970	-	79,970
Net gain from sale of financial assets at amortized cost	-	-	417,699	-	417,699
Dividend income from financial assets at fair value through other comprehensive income	-	-	4,413	-	4,413
Other operating income	-	-	-	27,803	27,803
Net credit (losses) gains	(12,143)	19,490	1,578	-	8,925
Impairment losses on financial investments	-	-	-	(49,676)	(49,676)
Net operating income	239,256	200,408	558,268	(17,393)	980,539

Financial position information

	2017				
	Retail banking LL million	***Corporate banking LL million***	***Treasury and capital markets LL million***	***Other[1] LL million***	***Total LL million***
Total assets	**2,935,563**	**5,633,475**	**25,172,501**	**420,668**	**34,162,207**
Total liabilities	**25,674,063**	**1,464,443**	**3,227,247**	**963,829**	**31,329,582**

	2016				
	Retail banking LL million	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Other[1] LL million*	*Total LL million*
Total assets	2,712,947	5,318,924	22,875,030	401,213	31,308,114
Total liabilities	24,303,619	1,478,042	1,907,931	899,087	28,588,679

[1] Other includes all non-banking activities.

7 SEGMENT INFORMATION (continued)

Geographic information

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

	2017			
	Lebanon LL million	***Europe LL million***	***Other LL million***	***Total LL million***
Total operating income	**598,492**	**51,866**	**31,664**	**682,022**
Net credit losses	**(15,039)**	**(3,630)**	**(201)**	**(18,870)**
Net operating income[2]	**583,453**	**48,236**	**31,463**	**663,152**
Non-current assets[3]	**282,983**	**8,525**	**27,087**	**318,595**

	2016			
	Lebanon LL million	*Europe LL million*	*Other LL million*	*Total LL million*
Total operating income	916,303	37,899	67,088	1,021,290
Net credit gains (losses)	7,302	(3,345)	4,968	8,925
Impairment losses on financial investments	(49,676)	-	-	(49,676)
Net operating income[2]	873,929	34,554	72,056	980,539
Non-current assets[3]	261,783	9,614	19,377	290,774

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

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

8 INTEREST AND SIMILAR INCOME

	2017 LL million	*2016 LL million*
Balances with central banks	**532,532**	326,669
Due from banks and financial institutions	**46,468**	16,243
Loans to banks and financial institutions and reverse repurchase agreements	**21,053**	26,181
Loans and advances to customers at amortized cost	**529,214**	514,775
Loans and advances to related parties at amortized cost	**1,457**	1,628
Financial assets at amortized cost	**571,562**	660,426
	1,702,286	1,545,922

9 INTEREST AND SIMILAR EXPENSE

	2017	*2016*
	LL million	*LL million*
Due to central banks	**19,549**	3,167
Due to banks and financial institutions	**22,058**	26,136
Customers' deposits at amortized cost	**1,152,239**	1,066,168
Deposits from related parties at amortized cost	**18,646**	18,104
Debt issued and other borrowed funds	**31,806**	31,069
Subordinated debt	**31,696**	31,480
	1,275,994	1,176,124

10 NET FEE AND COMMISSION INCOME

	2017	*2016*
	LL million	*LL million*
Fee and commission income		
Loans and advances	**25,418**	24,873
Letters of guarantee	**11,551**	13,584
Acceptances	**7,206**	5,094
Letters of credit	**21,022**	14,634
Credit cards	**19,985**	17,933
Domiciled bills	**2,465**	2,524
Checks for collection	**2,911**	3,081
Maintenance of accounts	**16,383**	13,829
Transfers	**10,222**	8,621
Safe rental	**1,171**	1,210
Portfolio commission	**2,203**	2,989
Commission on insurance related activities	**10,952**	9,474
Refund of banking services	**12,043**	12,958
Other commissions	**3,630**	3,318
	147,162	134,122
Fee and commission expense	**(12,138)**	(12,515)
Net fee and commission income	**135,024**	121,607

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

	2017	*2016*
	LL million	*LL million*
Interest and similar income from debt instruments		
- Lebanese treasury bills	**23,216**	27,125
- Certificates of deposit issued by the Central Bank of Lebanon	**9,412**	27,991
- Foreign governmental debt securities	**-**	26
- Other debt securities	**197**	18
	32,825	55,160
(Loss) gain from sale of debt instruments		
- Lebanese treasury bills	**(2,857)**	(2,722)
- Certificates of deposit issued by the Central Bank of Lebanon	**(3,908)**	(17,519)
- Foreign governmental debt securities	**-**	120
- Other debt securities	**22**	39
	(6,743)	(20,082)
Unrealized (loss) gain from revaluation of debt instruments		
- Lebanese treasury bills	**(3,723)**	1,061
- Certificates of deposit issued by the Central Bank of Lebanon	**-**	(6,809)
- Other debt securities	**(19)**	214
	(3,742)	(5,534)
Net gain from debt instruments	**22,340**	29,544
Equity instruments		
- Gain from sale	**637**	204
- Unrealized gain from revaluation	**3,039**	1,807
- Dividend income	**848**	636
Net gain from equity instruments	**4,524**	2,647
Unrealized gain from revaluation of structural position of a subsidiary	**-**	30,662
Foreign exchange	**21,592**	21,908
Fair value of put options on non-controlling interests	**-**	(4,791)
	48,456	79,970

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

12 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

The Group derecognises some debt instruments classified at amortised cost due to the following reasons:
- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of certificates of deposit by the Lebanese Central Bank;
- Currency risk management as a result of change in the currency base of deposits; or
- Liquidity for capital expenditures.

The schedule below details the gains and losses arising from the derecognition of these financial assets:

	2017		
	Gains LL million	***Losses LL million***	***Net LL million***
Lebanese treasury bills	**22,576**	**(591)**	**21,985**
Certificates of deposit issued by the Central Bank of Lebanon	**12,943**	**-**	**12,943**
Foreign governmental debt securities	**1,304**	**-**	**1,304**
	36,823	**(591)**	**36,232**

	2016		
	Gains LL million	*Losses LL million*	*Net LL million*
Lebanese treasury bills	286,220	(6,757)	279,463
Certificates of deposit issued by the Central Bank of Lebanon	136,003	-	136,003
Foreign governmental debt securities	828	-	828
Other debt securities	1,493	(88)	1,405
	424,544	(6,845)	417,699

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

13 OTHER OPERATING INCOME

	2017 LL million	*2016 LL million*
Net gain from sale of assets obtained in settlement of debt	**3,202**	4,093
Rental income from assets obtained in settlement of debt	**734**	963
Write back of provisions for risks and charges (note 36 (b))	**4,711**	3,073
Other operating income from insurance related activities	**18,838**	16,901
Others	**4,088**	2,773
	31,573	27,803

14 NET CREDIT (LOSSES) GAINS

	2017	2016
	LL million	*LL million*
Charge for the year:		
Loans and advances to customers at amortized cost (note 24)	**(45,454)**	(29,736)
Bad debts written off	**(115)**	(53)
	(45,569)	(29,789)
Recoveries during the year:		
Loans and advances to customers (note 24)	**23,994**	33,466
Balances with central banks (note 19)	**-**	1,578
Unrealized interest on loans and advances to customers (note 24)	**2,705**	3,670
	26,699	38,714
	(18,870)	8,925

15 PERSONNEL EXPENSES

	2017	2016
	LL million	*LL million*
Salaries and related charges	**155,288**	152,816
Social security contributions	**20,738**	20,635
Bonuses	**22,777**	15,051
Provision for end of service benefits (note 36 (a))	**6,800**	7,285
	205,603	195,787

16 OTHER OPERATING EXPENSES

	2017	2016
	LL million	*LL million*
Taxes on interest	**3,546**	3,299
Taxes and duties	**7,172**	6,790
Contribution to deposits guarantee fund	**12,728**	12,601
Rent and related charges	**7,021**	6,898
Professional fees	**10,721**	15,209
Telecommunications and postage expenses	**7,216**	7,457
Board of Directors’ attendance fees	**1,191**	956
Maintenance and repairs	**16,762**	16,673
Electricity and fuel	**5,518**	5,839
Travel and entertainment	**3,257**	3,452
Publicity and advertising	**15,132**	14,948
Subscriptions	**4,487**	5,665
Legal expenses	**4,539**	4,342
Insurance	**1,210**	1,691
Guarding fees	**2,496**	2,366
Printings and stationery	**2,973**	3,293
Donations	**2,837**	2,460
Provisions for risks and charges (note 36 (b))	**8,098**	34,733
Others	**12,383**	10,802
	129,287	159,474

17 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2017 and 2016 are as follows:

	2017	*2016*
	LL million	*LL million*
Current income tax expense	**50,108**	89,846
Deferred tax related to origination and reversal of temporary differences	**-**	956
Other taxes	**2,307**	9,917
	52,415	100,719

The tax rates applicable to the parent and subsidiaries vary from 0% to 40% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense and are based on the current understanding of the existing tax laws and regulations and tax practices.

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

	2017	*2016*
	LL million	*LL million*
Profit before tax	**308,869**	349,954
Income tax at Lebanese tax rate	**47,448**	52,493
Impact of increase resulting from:		
Different tax rates	**435**	5,156
Non-deductible expenses	**4,648**	39,585
	5,083	44,741
Impact of decrease resulting from:		
Revenues previously subject to tax	**(2,423)**	(2,789)
Unrealized gain from revaluation of structural position of a subsidiary	**-**	(4,599)
	(2,423)	(7,388)
Income tax	**50,108**	89,846
Effective income tax rate	**16.22%**	25.67%

17 INCOME TAX EXPENSE (continued)

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

	2017 ***LL million***	*2016* *LL million*
Balance at 1 January	**96,028**	26,822
Charge for the year	**52,415**	99,763
Deferred taxes related to deferred revenues (note 35)	**-**	22,402
Acquisition of a subsidiary	**-**	2,783
Deconsolidation of subsidiaries	**-**	(1,368)
	148,443	150,402
Less taxes paid:		
Current year tax liability *	**(21,929)**	(29,498)
Prior years tax liabilities	**(94,779)**	(24,876)
	(116,708)	(54,374)
Balance at 31 December (note 35 (a))	**31,735**	96,028

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

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

	2017	
	Deferred tax assets LL million	***Deferred tax liabilities LL million***
Fair value of financial instruments	**137**	**5,807**

	2016	
	Deferred tax assets LL million	*Deferred tax liabilities LL million*
Fair value of financial instruments	593	4,323

18 EARNINGS PER SHARE

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

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

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

	2017	*2016*
Weighted average number of common shares outstanding during the year (*)	**563,322,218**	562,891,539

	2017 ***LL million***	*2016* *LL million*
Net profit attributable to equity holders of the parent	**248,539**	232,672
(Less): proposed dividends to preferred shares	**(48,480)**	(48,480)
Net profit attributable to equity holders of the parent	**200,059**	184,192
Basic earnings per share in LL	**355.14**	327.22

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

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

	2017	*2016*
Weighted average number of ordinary shares for basic earnings per share	**563,322,218**	562,891,539
Effect of dilution:		
Convertible subordinated debt	**117,200,000**	117,200,000
Weighted average number of ordinary shares adjusted for the effect of dilution	**680,522,218**	680,091,539

	2017 ***LL million***	*2016* *LL million*
Net profit attributable to equity holders of the parent	**200,059**	184,192
Interest on convertible debt	**31,696**	31,480
Less: income tax	**(4,754)**	(4,722)
Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt	**227,001**	210,950
Diluted earnings per share in LL	**333.57**	310.18

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

19 CASH AND BALANCES WITH CENTRAL BANKS

	2017 **LL million**	2016 LL million
Cash on hand	**248,598**	249,425
Balances with the Central Bank of Lebanon:		
- Current accounts	**274,211**	446,310
- Time deposits	**11,038,716**	7,707,705
	11,312,927	8,154,015
Balances with Central Banks in other countries:		
- Current accounts	**318,107**	221,651
- Time deposits	**443**	38,845
- Provision for balances with Central Banks in other countries (a)	**(31,533)**	(31,561)
	287,017	228,935
Accrued interest receivable	**118,262**	85,240
	11,966,804	8,717,615

(a) Provision for balances with Central Banks in other countries

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

	2017 **LL million**	2016 LL million
At 1 January	**31,561**	35,445
Write-back during the year (note 14)	**-**	(1,578)
Foreign exchange	**(28)**	(2,306)
At 31 December	**31,533**	31,561

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

(b) Obligatory reserves:

- In accordance with the Central Bank of Lebanon’s rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. This is not applicable for investment banks which are exempt from obligatory reserve requirements on commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts with the Central Bank of Lebanon amounted to LL 2,719,320 million and LL 2,763,003 million respectively as at 31 December 2017 (2016: LL 2,650,875 million and LL 2,703,653 million respectively).
- Subsidiary banks and branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2017, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LL 47,061 million (2016: LL 47,240 million).

20 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2017	*2016*
	LL million	*LL million*
Banks:		
- Current accounts	**1,140,179**	784,522
- Time deposits	**2,780,678**	1,868,039
- Accrued interest receivable	**3,454**	1,442
- Doubtful bank accounts	**1,919**	1,718
- Provision for doubtful bank accounts	**(1,919)**	(1,718)
	3,924,311	2,654,003
Financial institutions:		
- Current accounts	**3,640**	2,312
Registered exchange companies:		
- Current accounts	**70**	243
- Doubtful exchange companies accounts	**-**	2,306
- Provision for doubtful exchange companies accounts	**-**	(2,306)
	70	243
Brokerage companies:		
- Current accounts	**565**	871
	3,928,586	2,657,429

Doubtful banks and registered exchange companies

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

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

21 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2017	*2016*
	LL million	*LL million*
Loans to banks and financial institutions	**117,729**	94,191
Accrued interest receivable	**731**	781
	118,460	94,972
Discounted acceptances	**215,099**	108,915
Interest received in advance	**(1,325)**	(533)
	213,774	108,382
Reverse repurchase agreements	**419,459**	760,411
Accrued interest receivable	**2,701**	301
	422,160	760,712
	754,394	964,066

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

31 December 2017	***Balance (000)***	***Balance LL million***	***Average interest rate %***	***Collateral type***	***Collateral value LL million***
LL	**240,489,000**	**240,489**	**3.59**	**BDL CDs**	**228,000**
US$	**97,997**	**147,731**	**3.52**	**BDL CDs**	**150,750**
AMD	**10,044,595**	**31,239**	**6.00**	**Armenian TBs**	**31,829**

31 December 2016	*Balance (000)*	*Balance LL million*	*Average interest rate %*	*Collateral type*	*Collateral value LL million*
LL	300,636,000	300,636	3.24	BDL CDs	285,000
US$	301,060	453,847	1.43	BDL CDs	452,250
AMD	1,899,980	5,928	5.75	Armenian TBs	6,180

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

As of 31 December 2017, the Group had Certificates of Deposit issued by the Central Bank of Lebanon with a total nominal amount of US$ 100 million and LL 228,000 million and Armenian Treasury Bills issued by the Armenian government with a total nominal amount of AMD (000) 10,234,433 bought from financial institutions under the agreement to resell them during the first half of 2018 (2016: Certificates of Deposit issued by the Central Bank of Lebanon with a total nominal amount of US$ 300 million and LL 285,000 million and Armenian Treasury Bills issued by the Armenian government with a total nominal amount of AMD (000) 1,980,896 bought from financial institutions under the agreement to resell them during the first half of 2017).

Net interest income on the reverse repurchase agreements amounted to LL 14,229 million for the year ended 31 December 2017 (31 December 2016: LL 18,208 million).

22 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	2017			*2016*		
	Assets LL million	***Liabilities LL million***	***Notional amount LL million***	*Assets LL million*	*Liabilities LL million*	*Notional amount LL million*
Held for trading						
Currency swaps	**1,522**	**1,937**	**260,345**	1,958	938	194,933
Forward foreign exchange contracts	**1,268**	**1,607**	**244,451**	2,462	1,168	115,601
	2,790	**3,544**	**504,796**	4,420	2,106	310,534

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

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

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

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

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 ***LL million***	*2016* *LL million*
Quoted		
Lebanese treasury bills – Eurobonds	**71,426**	24,032
Debt securities issued by banks and financial institutions	**2,494**	2,513
Equity securities	**31,834**	40,065
	105,754	66,610
Unquoted		
Lebanese treasury bills – denominated in LL	**150,271**	293,990
Certificates of deposit issued by the Central Bank of Lebanon – denominated in LL	**-**	428,572
	150,271	722,562
	256,025	789,172

24 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2017 ***LL million***	*2016* *LL million*
Commercial loans	**5,448,570**	5,253,773
Consumer loans	**3,036,968**	2,824,387
	8,485,538	8,078,160
Less:		
- Individual impairment allowances	**(164,545)**	(158,278)
- Collective impairment allowances	**(75,006)**	(78,643)
- Unrealized interest	**(53,002)**	(53,964)
	8,192,985	7,787,275

Bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 214,368 million as of 31 December 2017 (2016: LL 167,558 million).

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

	2017		
	Commercial loans LL million	***Consumer loans LL million***	***Total LL million***
Balance at 1 January	**51,089**	**2,875**	**53,964**
Add (less):			
- Unrealized interest for the year	**19,502**	**1,638**	**21,140**
- Transfer from off financial position	**1,251**	**-**	**1,251**
- Transfer to off financial position	**(20,729)**	**-**	**(20,729)**
- Recoveries (note 14)	**(2,682)**	**(23)**	**(2,705)**
- Amounts written off	**(176)**	**(522)**	**(698)**
- Difference of exchange	**778**	**1**	**779**
Balance at 31 December	**49,033**	**3,969**	**53,002**

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

	2016		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*
Balance at 1 January	79,172	1,499	80,671
Add (less):			
- Unrealized interest for the year	24,122	2,033	26,155
- Transfer from off financial position	206	1	207
- Transfer to off financial position	(30,552)	-	(30,552)
- Recoveries (note 14)	(3,160)	(510)	(3,670)
- Amounts written off	(7,222)	(41)	(7,263)
- Acquisition of a subsidiary	12,612	-	12,612
- Deconsolidation of subsidiaries	(17,713)	(85)	(17,798)
- Difference of exchange	(6,376)	(22)	(6,398)
Balance at 31 December	51,089	2,875	53,964

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

	2017		
	Commercial loans LL million	***Consumer loans LL million***	***Total LL million***
Balance at 1 January	**61,626**	**96,652**	**158,278**
Add (less):			
- Charge for the year (note 14)	**23,152**	**18,562**	**41,714**
- Amounts written off	**(792)**	**(459)**	**(1,251)**
- Recoveries (note 14)	**(1,836)**	**(14,957)**	**(16,793)**
- Transfer to off financial position	**(13,976)**	**(5,062)**	**(19,038)**
- Transfer from/to collective impairment allowances	**1,460**	**(3)**	**1,457**
- Difference of exchange	**139**	**39**	**178**
Balance at 31 December	**69,773**	**94,772**	**164,545**
Gross amount of loans individually determined to be impaired	**243,251**	**158,853**	**402,104**

	2016		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*
Balance at 1 January	97,435	86,303	183,738
Add (less):			
- Charge for the year (note 14)	5,717	18,768	24,485
- Amounts written off	(2,530)	(380)	(2,910)
- Recoveries (note 14)	(6,622)	(7,184)	(13,806)
- Transfer to off financial position	(14,524)	-	(14,524)
- Transfer to collective impairment allowances	(1,432)	(8)	(1,440)
- Acquisition of a subsidiary	9,224	-	9,224
- Deconsolidation of subsidiaries	(19,336)	(600)	(19,936)
- Difference of exchange	(6,306)	(247)	(6,553)
Balance at 31 December	61,626	96,652	158,278
Gross amount of loans individually determined to be impaired	225,317	145,169	370,486

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

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

	2017		
	Commercial loans LL million	***Consumer loans LL million***	***Total LL million***
Balance at 1 January	**66,730**	**11,913**	**78,643**
Add (less):			
- Charge for the year (note 14)	**2,114**	**1,626**	**3,740**
- Recoveries (note 14)	**(7,201)**	**-**	**(7,201)**
- Transfer from/to individual impairment allowances	**(1,460)**	**3**	**(1,457)**
- Difference of exchange	**1,281**	**-**	**1,281**
Balance at 31 December	**61,464**	**13,542**	**75,006**

	2016		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*
Balance at 1 January	120,551	10,897	131,448
Add (less):			
- Charge for the year (note 14)	4,235	1,016	5,251
- Recoveries (note 14)	(19,660)	-	(19,660)
- Transfer from individual impairment allowances	1,432	8	1,440
- Transfer from provisions for risks and charges (note 36)	1,532	-	1,532
- Acquisition of a subsidiary	798	19	817
- Deconsolidation of subsidiaries	(21,430)	(26)	(21,456)
- Difference of exchange	(20,728)	(1)	(20,729)
Balance at 31 December	66,730	11,913	78,643

25 FINANCIAL ASSETS AT AMORTIZED COST

	2017 LL million	*2016 LL million*
Quoted		
Lebanese treasury bills – Eurobonds	**2,204,944**	2,099,538
Foreign governmental debt securities	**167,733**	138,113
Debt securities issued by banks and financial institutions	**3,931**	5,477
Corporate bonds	**-**	635
	2,376,608	2,243,763
Unquoted		
Lebanese treasury bills – denominated in LL	**1,808,188**	2,657,946
Lebanese treasury bills – denominated in LL, given as collateral (*)	**735,962**	224,044
Certificates of deposit issued by the Central Bank of Lebanon – denominated in LL	**1,736,194**	2,525,812
Certificates of deposit issued by the Central Bank of Lebanon – EuroCDs	**1,498,398**	1,956,230
Certificates of deposit issued by banks and financial institutions	**-**	33,228
	5,778,742	7,397,260
	8,155,350	9,641,023

(*) This balance represents Lebanese treasury bills pledged as collateral against loans obtained from the Central Bank of Lebanon (note 31).

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2017	*2016*
	LL million	*LL million*
Quoted shares	**47,452**	44,388
Unquoted shares	**61,100**	56,917
	108,552	101,305

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

	2017			*2016*		
	Carrying amount LL million	***Cumulative fair value changes LL million***	***Dividend income LL million***	*Carrying amount LL million*	*Cumulative fair value changes LL million*	*Dividend income LL million*
Unquoted shares:						
Banque de l'Habitat SAL	**32,162**	**26,974**	**94**	29,213	24,025	548
Intra Investment Company SAL	**17,591**	**4,567**	**-**	17,591	4,567	-
Interbank Payment Network (IPN) SAL	**1,363**	**360**	**-**	1,363	360	-
Arab Trade Financing Program	**2,118**	**626**	**-**	2,118	626	-
Impact Fund	**2,685**	**-**	**-**	2,237	-	-
Others	**5,181**	**346**	**2,373**	4,395	333	-
Quoted shares:						
Jordan Ahli Bank	**47,452**	**(32,962)**	**1,978**	44,388	(36,026)	3,865
	108,552	**(89)**	**4,445**	101,305	(6,115)	4,413

Dividend income amounted to LL 4,445 million for the year ended 31 December 2017 (2016: LL 4,413 million) and resulted from equity instruments held at year end (2016: the same).

27 PROPERTY AND EQUIPMENT

	Buildings LL million	***Motor vehicles LL million***	***Furniture and equipment LL million***	***Deposits LL million***	***Advance payments LL million***	***Total LL million***
Cost:						
At 1 January 2017	248,016	2,788	243,616	688	12,604	507,712
Additions	16,479	389	19,403	2	13,211	49,484
Transfers	16,977	47	1,111	-	(18,135)	-
Disposals	(2,395)	(163)	(7,602)	-	-	(10,160)
Foreign exchange difference	(127)	(55)	511	17	-	346
At 31 December 2017	**278,950**	**3,006**	**257,039**	**707**	**7,680**	**547,382**
Depreciation:						
At 1 January 2017	60,587	2,047	197,983	-	-	260,617
Depreciation during the year	4,545	312	16,276	-	-	21,133
Related to disposals	(754)	(163)	(7,127)	-	-	(8,044)
Foreign exchange difference	(49)	(38)	326	-	-	239
At 31 December 2017	**64,329**	**2,158**	**207,458**	**-**	**-**	**273,945**
Net carrying value:						
At 31 December 2017	**214,621**	**848**	**49,581**	**707**	**7,680**	**273,437**

27 PROPERTY AND EQUIPMENT (continued)

	Buildings LL million	*Motor vehicles LL million*	*Furniture and equipment LL million*	*Deposits LL million*	*Advance payments LL million*	*Total LL million*
Cost:						
At 1 January 2016	265,139	3,135	236,161	687	4,131	509,253
Additions	7,083	227	18,091	68	9,542	35,011
Transfers	-	-	1,009	(59)	(950)	-
Disposals	-	(76)	(949)	-	-	(1,025)
Foreign exchange difference	(13,649)	(285)	(5,548)	(8)	-	(19,490)
Deconsolidation of subsidiaries	(10,557)	(213)	(5,148)	-	(119)	(16,037)
At 31 December 2016	248,016	2,788	243,616	688	12,604	507,712
Depreciation:						
At 1 January 2016	59,894	2,270	191,964	-	-	254,128
Depreciation during the year	6,438	297	15,690	-	-	22,425
Related to disposals	-	(76)	(583)	-	-	(659)
Foreign exchange difference	(3,287)	(304)	(5,032)	-	-	(8,623)
Deconsolidation of subsidiaries	(2,458)	(140)	(4,056)	-	-	(6,654)
At 31 December 2016	60,587	2,047	197,983	-	-	260,617
Net carrying value:						
At 31 December 2016	187,429	741	45,633	688	12,604	247,095

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

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

28 INTANGIBLE ASSETS

	2017 LL million	*2016 LL million*
Cost:		
At 1 January and 31 December	**2,303**	2,303
Accumulated amortization:		
At 1 January	**1,923**	1,810
Amortization expense for the year	**113**	113
At 31 December	**2,036**	1,923
Net carrying value:		
At 31 December	**267**	380

29 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	2017	*2016*
	LL million	*LL million*
Cost:		
At 1 January	**48,458**	47,165
Additions	**4,546**	2,836
Disposals	**(2,954)**	(1,543)
At 31 December	**50,050**	48,458
Impairment:		
At 1 January and 31 December	**(5,159)**	(5,159)
Net carrying value:		
At 31 December	**44,891**	43,299

Advance payments received in connection with future sale transactions for the above assets amounted to LL 885 million as of 31 December 2017 (2016: LL 373 million) (note 35).

30 OTHER ASSETS

		2017	*2016*
		LL million	*LL million*
Obligatory deposits	a	**2,250**	2,250
Other assets	b	**99,686**	107,595
Deferred tax assets (note 17)		**137**	593
		102,073	110,438

a) Obligatory deposits consist of deposits at a percentage of the share capital of subsidiary banks that were blocked at incorporation as a guarantee with the authorities. These deposits shall be returned to the subsidiary banks without any interest upon liquidation of their activities.

b) Other assets comprise of the following:

	2017	*2016*
	LL million	*LL million*
Prepaid rent	**3,074**	3,140
Printings and stationery	**3,820**	3,415
Credit card balances due from customers	**15,685**	27,307
Insurance premiums receivable	**4,526**	4,365
Reinsurers’ share of technical reserves of subsidiary insurance companies	**48,898**	41,025
Receivables from the National Social Security Fund	**12,442**	12,361
Other debit balances	**11,241**	15,982
	99,686	107,595

31 DUE TO CENTRAL BANKS

	2017	*2016*
	LL million	*LL million*
Current accounts	**1,109**	2,163
Loans due to the Central Bank of Lebanon	**858,203**	261,277
Loans due to the Central Bank of Angola	**507,079**	-
Loans due to the Central Bank of Armenia	**2,110**	2,150
Accrued interest payable	**6,336**	1,904
	1,374,837	267,494

Loans due to the Central Bank of Lebanon:

- The Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision no. 6116 dated 7 March 1996 relating to the facilities which can be granted by the Central Bank of Lebanon to banks. The balance amounted to LL 197,240 million as of 31 December 2017 (2016: LL 111,145 million).
- During 2010, the Group obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war. These loans were originally granted in the amount of LL 8,810 million, out of which LL 1,895 million matured during 2013 and LL 5,528 million matured during 2015. These loans are secured by the pledge of Lebanese treasury bills amounting to LL 1,387 million included under financial assets at amortized cost as of 31 December 2017 and 2016 (note 25).
- During 2016, the Group obtained 2 loans from the Central Bank of Lebanon to finance the merger of the assets and liabilities of Banque Pharaon & Chiha SAL. These loans were originally granted in the amount of LL 221,000 million netted by a discount of LL 65,509 million as at 31 December 2017 (2016: netted by a discount of LL 72,255 million) and are secured by the pledge of Lebanese treasury bills amounting to LL 221,000 million included under financial assets at amortized cost as of 31 December 2017 and 2016 (note 25).
- During 2017, the Group obtained 10 loans from the Central Bank of Lebanon amounting to LL 504,085 million having maturities ranging between the years 2022 and 2027. These loans are secured by the pledge of Lebanese treasury bills amounting to LL 504,085 million included under financial assets at amortized cost as of 31 December 2017 (note 25).

Loans due to the Central Bank of Angola:

- During 2017, the Group obtained 8 loans from the Central Bank of Angola denominated in US Dollars amounting to LL 507,079 million and maturing during the first quarter of the year 2018. These loans were granted to cover the letters of credit issued by the Group in the framework of the essential goods importation program sponsored by the Angolan government.

32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2017	*2016*
	LL million	*LL million*
Banks:		
- Current accounts	**135,930**	111,924
- Term loans	**253,950**	164,177
- Time deposits	**169,111**	168,332
- Cash margins	**193,912**	153,710
- Accrued interest payable	**2,848**	2,001
	755,751	600,144
Financial institutions:		
- Current accounts	**6,275**	7,118
- Term loans	**180,095**	121,786
- Time deposits	**21,610**	38,473
- Accrued interest payable	**1,937**	1,449
	209,917	168,826

32 DUE TO BANKS AND FINANCIAL INSTITUTIONS (continued)

	2017 LL million	*2016 LL million*
Registered exchange companies:		
- Current accounts	**362**	462
- Time deposits	**6,212**	4,558
- Accrued interest payable	**43**	15
	6,617	5,035
Brokerage institutions:		
- Current accounts	**30**	90
	972,315	774,095

33 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2017 LL million	*2016 LL million*
Current accounts	**3,474,417**	3,244,752
Term deposits	**21,896,171**	20,891,474
Cash margins	**1,241,692**	1,151,475
Accrued interest payable	**145,436**	127,933
	26,757,716	25,415,634

34 DEBT ISSUED AND OTHER BORROWED FUNDS

	Maturity	***Interest rate %***	***2017 LL million***	*2016 LL million*
Bonds (*)				
Issue 2011	**24/06/2021**	**7.00**	**443,404**	443,456
Accrued interest payable			**616**	616
			444,020	444,072
Debt issued				
Issue 2017	**19/01/2021**	**7.50**	**9,334**	-
Accrued interest payable			**202**	-
			9,536	-
			453,556	444,072

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

35 OTHER LIABILITIES

	2017	*2016*
	LL million	*LL million*
Accrued expenses	**41,280**	31,216
Fixed assets suppliers	**245**	624
Unearned commission and interest	**6,387**	5,903
Cash margins related to companies under establishment	**1,525**	1,663
Insurance premiums received in advance	**2,798**	3,841
Payables to the National Social Security Fund	**1,610**	2,065
Advance payments linked to assets obtained in settlement of debt (note 29)	**885**	373
Current tax liability (a)	**45,376**	108,591
Deferred tax liability (note 17)	**5,807**	4,323
Put options on non-controlling interests	**4,791**	4,791
Amounts to be incurred upon acquisition of a subsidiary (note 5)	**24,953**	44,083
Escrow account (note 5)	**4,776**	5,758
Deferred revenues (b)	**86,682**	126,682
Other creditors	**31,755**	34,998
	258,870	374,911

(a) Current tax liability

	2017	*2016*
	LL million	*LL million*
Income tax due (note 17)	**31,735**	96,028
Withholding tax on salaries	**2,257**	2,210
Withholding tax on interest earned by customers	**8,662**	6,913
Value added tax	**227**	527
Other taxes	**2,495**	2,913
	45,376	108,591

(b) Deferred revenues

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

The Group did not recognise in its consolidated income statement LL 126,682 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon. The related taxes amounting to LL 22,402 million were recorded directly in current tax liability (refer to note 17). During 2017, the Group transferred an amount of LL 40,000 million (net of tax) from “Deferred revenues” to “Provisions for risks and charges” (note 36). The amount recorded as “Deferred revenues” qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

36 PROVISIONS FOR RISKS AND CHARGES

	2017	*2016*
	LL million	*LL million*
Technical reserves of insurance subsidiaries	**108,060**	99,914
Employees' end of service benefits (a)	**48,864**	49,189
Other provisions (b)	**194,012**	151,189
	350,936	300,292

(a) Employees' end of service benefits

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

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

	2017	*2016*
	LL million	*LL million*
Balance at 1 January	**49,189**	45,754
Costs charged to the income statement (note 15):		
Service costs	**3,681**	4,360
Net interest	**3,119**	2,925
	6,800	7,285
Re-measurement losses (gains) in other comprehensive income:		
Experience adjustments	**(2,164)**	99
	(2,164)	99
Acquisition of a subsidiary	**-**	1,349
Deconsolidation of subsidiaries	**-**	(753)
End of service benefits paid during the year	**(5,091)**	(3,487)
Foreign exchange	**130**	(1,058)
Balance at 31 December	**48,864**	49,189

36 PROVISIONS FOR RISKS AND CHARGES (continued)

(a) Employees' end of service benefits (continued)

Defined benefit plans in Lebanon constitute more than 95% of the Group's retirement obligation. The principal assumptions used in determining the end of service benefit obligations of these plans are shown below:

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

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

	Discount rate		*Future salary increase*		*Future expected return on contributions*	
	increase LL million	*decrease LL million*	*increase LL million*	*decrease LL million*	*increase LL million*	*decrease LL million*
Impact on net defined benefit obligations						
2017	**(1,435)**	**1,541**	**3,069**	**(2,909)**	**(1,466)**	**1,419**
2016	(1,397)	1,501	2,984	(2,830)	(1,425)	1,377

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

(b) Other provisions

	2017 LL million	*2016 LL million*
Provisions to comply with Central Bank of Lebanon Intermediate Circular number 439 (note 35) (*)	**142,480**	102,480
Provisions for contingencies	**42,661**	34,563
Provisions for legal claims	**4,523**	4,523
Other	**4,348**	9,623
	194,012	151,189

36 PROVISIONS FOR RISKS AND CHARGES (continued)

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

Movement in other provisions during the year was as follows:

	2017 ***LL million***	*2016* *LL million*
At 1 January	**151,189**	42,345
Charge for the year	**8,098**	137,213
Write back during the year (note 13)	**(4,711)**	(3,073)
Transfer to collective provisions on loans and advances (note 24)	**-**	(1,532)
Transfer from "Deferred revenues" (note 35)	**40,000**	-
Acquisition of a subsidiary	**-**	1,410
Deconsolidation of subsidiaries	**-**	(23,848)
Foreign exchange	**(564)**	(1,326)
At 31 December	**194,012**	151,189

37 SUBORDINATED DEBT

	2017 ***LL million***	*2016* *LL million*
Nominal value	**441,544**	441,692
Unamortized discount	**(18,712)**	(21,690)
Accrued interest payable	**163**	163
	422,995	420,165

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

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

The convertible subordinated loan was recorded at issuance as follows:

	LL million
Nominal value of convertible bonds	**441,544**
Equity component	**(31,618)**
Liability component	**409,926**

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

38 SHARE CAPITAL

	2017			2016		
	No of shares	**Share capital LL million**	**Share premium LL million**	*No of shares*	*Share capital LL million*	*Share premium LL million*
Common shares	**565,515,040**	**684,273**	**229,014**	565,515,040	684,273	229,014
Preferred shares						
- Series 2008	**2,000,000**	**2,420**	**295,154**	2,000,000	2,420	295,154
- Series 2009	**2,000,000**	**2,420**	**295,929**	2,000,000	2,420	295,929
	4,000,000	**4,840**	**591,083**	4,000,000	4,840	591,083

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

Preferred shares

i) Series 2008 Preferred Shares

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

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

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

ii) Series 2009 Preferred Shares

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

Number of shares:	2,000,000
Share’s issue price:	US$ 96
Share’s nominal value:	LL 1,210
Issue premium :	US$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US$ as the difference between the total issue of US$ (000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US$ (000) 2,082.
Benefits:	Non-cumulative annual dividends of US$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank’s option at US$ 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

38 SHARE CAPITAL (continued)

Listing of shares

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

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

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

39 NON DISTRIBUTABLE RESERVES

	Legal reserve *LL million*	*Reserves for capital increase* *LL million*	*Equity component of convertible subordinated debt* *LL million*	*Reserve for general banking risks* *LL million*	*Other reserves* *LL million*	*Total* *LL million*
Balance at 1 January 2017	**286,956**	**68,420**	**31,618**	**298,583**	**157,743**	**843,320**
Appropriations from retained earnings	**24,142**	**49,564**	**-**	**-**	**7,786**	**81,492**
Balance at 31 December 2017	**311,098**	**117,984**	**31,618**	**298,583**	**165,529**	**924,812**
Balance at 1 January 2016	271,877	65,105	31,618	271,570	175,714	815,884
Appropriations from retained earnings	23,158	3,433	-	27,982	7,249	61,822
Transfer to retained earnings due to deconsolidation	(1,881)	-	-	-	(6,569)	(8,450)
Net loss on sale of treasury shares	-	(118)	-	-	-	(118)
Translation difference	(6,198)	-	-	(969)	(18,651)	(25,818)
Balance at 31 December 2016	286,956	68,420	31,618	298,583	157,743	843,320

Legal reserve

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

During 2017, the Group appropriated LL 24,142 million from 2016 profits to the legal reserve (2016: LL 23,158 million from 2015 profits).

39 NON DISTRIBUTABLE RESERVES (continued)

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

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

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

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

Other reserves
Other reserves consist of the following:

- During 2013, the Group transferred an amount of LL 31,077 million from retained earnings to other reserves related to the subordinated debt.

- Non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2017, the Group transferred an amount of LL 4,657 million from retained earnings to other reserves in this respect (2016: LL 4,781 million).

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

- As of 31 December 2017, “Other reserves” include reserves of LL 106,040 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2016: LL 89,368 million).

40 DISTRIBUTABLE RESERVES

	2017	*2016*
	LL million	*LL million*
General reserves	**109,590**	102,220
Other capital reserves	**1,026**	1,026
	110,616	103,246

40 DISTRIBUTABLE RESERVES (continued)

General reserves
The Group appropriates general reserves from its retained earnings to strengthen its equity. The movement in general reserves during the year was as follows:

	2017 ***LL million***	*2016* *LL million*
At 1 January	**102,220**	93,789
Appropriation from retained earnings	**7,370**	5,629
Acquisition of additional non-controlling interests	**-**	(1,861)
Reversal of put options on non-controlling interests	**-**	4,663
At 31 December	**109,590**	102,220

Other capital reserves

	2017 ***LL million***	*2016* *LL million*
Premium on capital increase of Byblos Bank Armenia CJSC	**1,026**	1,026

41 TREASURY SHARES

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

Year ended 31 December 2017

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

Year ended 31 December 2016

	Common shares		*Global Depository Receipts*	
	No. of shares	*Amount US$(000)*	*No. of shares*	*Amount US$(000)*
At 1 January 2016	2,151,237	3,797	8,690	718
Acquisitions of treasury shares	296,757	494	251	20
Sales of treasury shares	(915,812)	(1,605)	-	-
At 31 December 2016	1,532,182	2,686	8,941	738
Total treasury shares in LL million				5,161

42 REVALUATION RESERVE OF REAL ESTATE

	2017	*2016*
	LL million	*LL million*
Revaluation reserve accepted in Tier II capital	**1,978**	1,978
Revaluation reserve not accepted in Tier II capital	**3,711**	3,711
	5,689	5,689

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

Movement of the change in fair value of financial assets at fair value through other comprehensive income during the year was as follows:

	2017	*2016*
	LL million	*LL million*
At 1 January	**(9,081)**	(7,961)
Net changes in fair values during the year	**6,026**	(1,306)
Net changes in deferred taxes	**(1,445)**	194
Difference on exchange	**(38)**	(8)
Balance at 31 December	**(4,538)**	(9,081)

44 CASH AND CASH EQUIVALENTS

	2017	*2016*
	LL million	*LL million*
Cash and balances with central banks	**2,672,001**	2,087,238
Due from banks and financial institutions	**3,894,191**	2,568,339
Loans to banks and financial institutions and reverse repurchase agreements	**684,852**	850,346
	7,251,044	5,505,923
Less: Due to central banks	**(516,350)**	(5,657)
Less: Due to banks and financial institutions	**(595,188)**	(413,154)
Cash and cash equivalents at 31 December	**6,139,506**	5,087,112

45 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The definition includes subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

A list of the Group’s principal subsidiaries is shown in note 4. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group’s financial statements.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Directors and the Officers of the Group.

45 RELATED PARTY TRANSACTIONS (continued)

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

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

	31 December 2017			*31 December 2016*		
	Key management personnel LL million	***Other LL million***	***Total LL million***	*Key management personnel LL million*	*Other LL million*	*Total LL million*
Due from banks and financial institutions	**-**	**15,095**	**15,095**	-	31,227	31,227
Loans to banks and financial institutions	**-**	**-**	**-**	-	13,339	13,339
Loans and advances	**7,992**	**14,038**	**22,030**	6,577	14,137	20,714
Due to banks and financial institutions	**-**	**93,493**	**93,493**	-	93,383	93,383
Deposits	**107,988**	**272,802**	**380,790**	104,431	261,596	366,027
Debt issued and other borrowed funds	**973**	**10,307**	**11,280**	977	977	1,954
Subordinated debt	**360**	**8,710**	**9,070**	368	17,756	18,124
Guarantees received	**6,587**	**5,305**	**11,892**	6,796	11,467	18,263
Guarantees given	**77**	**729**	**806**	80	423	503
Commitments (including acceptances)	**2,812**	**1,603**	**4,415**	1,835	2,199	4,034

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

	31 December 2017			*31 December 2016*		
	Key management personnel LL million	***Other LL million***	***Total LL million***	*Key management personnel LL million*	*Other LL million*	*Total LL million*
Interest income on due from banks and financial institutions	**-**	**32**	**32**	-	429	429
Interest income on loans to banks and financial institutions	**-**	**242**	**242**	-	18	18
Interest income on loans and advances	**419**	**1,038**	**1,457**	342	1,286	1,628
Interest expense on deposits	**6,124**	**12,522**	**18,646**	6,781	11,323	18,104
Interest expense on due to banks and financial institutions	**-**	**1,566**	**1,566**	-	1,459	1,459
Interest expense on debt issued and other borrowed funds	**68**	**805**	**873**	68	68	136
Interest expense on subordinated debt	**23**	**560**	**583**	24	1,141	1,165
Rent expense	**-**	**544**	**544**	-	544	544

In addition to the above, the Group entered into an agreement with the International Finance Corporation (IFC) whereby the latter makes available a non-committed trade finance guarantee facility to the Group up to US$ 50 million. As at 31 December 2017, guarantees issued by IFC amounted to LL 18,013 million (2016: LL 27,677 million).

Compensation of the Key Management Personnel of the Group

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

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

46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit-related commitments and contingent liabilities

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

		2017	
	Banks LL million	***Customers LL million***	***Total LL million***
Guarantees and contingent liabilities			
Financial guarantees	**-**	**208,735**	**208,735**
Other guarantees	**152,940**	**779,968**	**932,908**
	152,940	**988,703**	**1,141,643**
Commitments			
Documentary credits	**352,327**	**425,887**	**778,214**
Loan commitments	**-**	**2,141,250**	**2,141,250**
	352,327	**2,567,137**	**2,919,464**

		2016	
	Banks LL million	*Customers LL million*	*Total LL million*
Guarantees and contingent liabilities			
Financial guarantees	-	217,934	217,934
Other guarantees	176,854	819,799	996,653
	176,854	1,037,733	1,214,587
Commitments			
Documentary credits	159,909	185,773	345,682
Loan commitments	-	2,979,622	2,979,622
	159,909	3,165,395	3,325,304

Guarantees

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

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

Documentary credits

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

Loan commitments

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

46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Investment commitments

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

Legal claims

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

Lease arrangements

Operating leases – Group as lessee

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

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

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

Other contingencies

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

47 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2017	*2016*
	LL million	*LL million*
Assets held in custody and under administration	**3,073,423**	3,068,782

Assets held in custody and under administration

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

48 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	2017			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Assets:				
Derivative financial instruments:				
Currency swaps	-	**1,522**	-	**1,522**
Forward foreign exchange contracts	-	**1,268**	-	**1,268**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	**71,426**	**150,271**	-	**221,697**
Debt securities issued by banks and financial institutions	**2,494**	-	-	**2,494**
Equity securities	**31,834**	-	-	**31,834**
Financial assets at fair value through other comprehensive income	**47,452**	-	**61,100**	**108,552**
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	**1,937**	-	**1,937**
Forward foreign exchange contracts	-	**1,607**	-	**1,607**

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value measurement hierarchy of the Group's financial assets and liabilities carried at fair value (continued):

	2016			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Assets:				
Derivative financial instruments:				
Currency swaps	-	1,958	-	1,958
Forward foreign exchange contracts	-	2,462	-	2,462
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	24,032	293,990	-	318,022
Certificates of deposit issued by the Central Bank of Lebanon	-	428,572	-	428,572
Debt securities issued by banks and financial institutions	2,513	-	-	2,513
Equity securities	40,065	-	-	40,065
Financial assets at fair value through other comprehensive income	44,388	-	56,917	101,305
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	938	-	938
Forward foreign exchange contracts	-	1,168	-	1,168

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

Assets and liabilities carried at fair value using a valuation technique with significant observable inputs (Level 2)

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

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

Assets and liabilities carried at fair value using a valuation technique with significant unobservable inputs (Level 3)

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

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	2017	*2016*
	LL million	*LL million*
Balance at 1 January	**56,917**	53,666
Additions	**1,221**	2,133
Deconsolidation of subsidiaries	**-**	(578)
Re-measurement recognized in other comprehensive income	**2,962**	1,696
	61,100	56,917

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

	2017		*2016*	
	Fair value	***Carrying value***	*Fair value*	*Carrying value*
	LL million	***LL million***	*LL million*	*LL million*
FINANCIAL ASSETS				
Cash and balances with central banks	**11,966,804**	**11,966,804**	8,717,615	8,717,615
Due from banks and financial institutions	**3,928,586**	**3,928,586**	2,657,429	2,657,429
Loans to banks and financial institutions and reverse repurchase agreements	**754,381**	**754,394**	963,963	964,066
Net loans and advances to customers at amortized cost	**8,193,358**	**8,192,985**	7,787,138	7,787,275
Net loans and advances to related parties at amortized cost	**22,030**	**22,030**	20,714	20,714
Financial assets at amortized cost				
Lebanese treasury bills	**4,707,143**	**4,749,094**	4,958,618	4,981,528
Certificates of deposit issued by the Central Bank of Lebanon	**3,287,258**	**3,234,592**	4,535,221	4,482,042
Foreign governmental debt securities	**172,163**	**167,733**	142,680	138,113
Debt securities issued by banks and financial institutions	**3,931**	**3,931**	5,336	5,477
Corporate bonds	-	-	635	635
Certificates of deposit issued by banks and financial institutions	-	-	33,267	33,228
FINANCIAL LIABILITIES				
Due to central banks	**1,374,837**	**1,374,837**	267,494	267,494
Due to banks and financial institutions	**972,315**	**972,315**	774,095	774,095
Customers' deposits at amortized cost	**26,812,215**	**26,757,716**	25,488,342	25,415,634
Deposits from related parties at amortized cost	**386,795**	**380,790**	372,577	366,027
Debt issued and other borrowed funds	**450,164**	**453,556**	442,941	444,072
Subordinated debt	**402,644**	**422,995**	409,989	420,165

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

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

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Government bonds, certificates of deposits and other debt securities

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

Loans and advances to customers

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

Deposits from banks and customers

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

Debt issued and other borrowed funds and subordinated debt

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

	2017			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Assets for which fair values are disclosed:				
Cash and balances with central banks	**248,598**	**11,718,206**	**-**	**11,966,804**
Due from banks and financial institutions	**-**	**3,928,586**	**-**	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	**-**	**754,381**	**-**	**754,381**
Net loans and advances to customers at amortized cost	**-**	**-**	**8,193,358**	**8,193,358**
Net loans and advances to related parties at amortized cost	**-**	**-**	**22,030**	**22,030**
Financial assets at amortized cost:				
Lebanese treasury bills	**2,145,082**	**2,562,061**	**-**	**4,707,143**
Certificates of deposit issued by the Central Bank of Lebanon	**-**	**3,287,258**	**-**	**3,287,258**
Foreign governmental debt securities	**172,163**	**-**	**-**	**172,163**
Debt securities issued by banks and financial institutions	**3,931**	**-**	**-**	**3,931**
Liabilities for which fair values are disclosed:				
Due to central banks	**-**	**1,374,837**	**-**	**1,374,837**
Due to banks and financial institutions	**-**	**972,315**	**-**	**972,315**
Customers' deposits at amortized cost	**-**	**26,812,215**	**-**	**26,812,215**
Deposits from related parties at amortized cost	**-**	**386,795**	**-**	**386,795**
Debt issued and other borrowed funds	**-**	**450,164**	**-**	**450,164**
Subordinated debt	**-**	**402,644**	**-**	**402,644**

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2016			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Assets for which fair values are disclosed:				
Cash and balances with central banks	249,425	8,468,190	-	8,717,615
Due from banks and financial institutions	-	2,657,429	-	2,657,429
Loans to banks and financial institutions and reverse repurchase agreements	-	963,963	-	963,963
Net loans and advances to customers at amortized cost	-	-	7,787,138	7,787,138
Net loans and advances to related parties at amortized cost	-	-	20,714	20,714
Financial assets at amortized cost:				
Lebanese treasury bills	2,045,535	2,913,083	-	4,958,618
Certificates of deposit issued by the Central Bank of Lebanon	-	4,535,221	-	4,535,221
Foreign governmental debt securities	142,680	-	-	142,680
Debt securities issued by banks and financial institutions	5,336	-	-	5,336
Corporate bonds	419	216	-	635
Certificates of deposit issued by banks and financial institutions	-	33,267	-	33,267
Liabilities for which fair values are disclosed:				
Due to central banks	-	267,494	-	267,494
Due to banks and financial institutions	-	774,095	-	774,095
Customers' deposits at amortized cost	-	25,488,342	-	25,488,342
Deposits from related parties at amortized cost	-	372,577	-	372,577
Debt issued and other borrowed funds	-	442,941	-	442,941
Subordinated debt	-	409,989	-	409,989

49 RISK MANAGEMENT

49.1 INTRODUCTION

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

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

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

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

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

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

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

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

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

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

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

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

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

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

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

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

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

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

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

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

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

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

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

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

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

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

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

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

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

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

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

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

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

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

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

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK

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

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

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

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

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

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

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

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

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

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

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

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Impairment assessment (continued)
The Group has an established policy to measure and allocate provision against the incurred and the expected credit loss (ECL) that are inherent to the portfolio. The framework covers the impaired and non-impaired credit portfolio. A specific provision is allocated against impaired credits based on the net present value of estimated future cash flows while abiding by a minimum provision rate based on days in arrears to ensure that impaired loans are sufficiently covered at all time regardless of collateral. A collective provision is allocated against the non-impaired loans following the use of credit risk rating and scoring systems along the measurement of credit components: PD (probability of default), LGD (loss given default), and EAD (exposure at default) leading to measure ECL against the non-impaired loans. Concurrently to its internal credit risk measurement and provision allocation framework, the Group is in full compliance with BDL circular 81 and BCCL circular 280 regarding the allocation of specific and collective provisions and general reserves against loans.

Starting 1 January 2018, the Bank is implementing the IASB's International Financial Reporting Standard No. 9 Expected Credit Loss model, in line with BDL Circular 143 dated 7 November 2017 and BCC Circular 293 dated 28 December 2017. The Bank has put in place the IFRS 9 policy to clarify how it intends to apply the Standard, and established the necessary governance for that purpose. Fulfilling IFRS 9 ECL requires defining the different stages determined by the Standard: Stage 1 exposures (for no significant increase in credit risk) and Stages 2 and 3 (for significant increase in credit risk); validating and calibrating the risk parameters: PD, LGD, and exposure; setting a calculation methodology; preparing and extracting the data; reviewing ECL calculation and its impact on the Bank's capital. Finance and GRM are cooperating in managing the IFRS 9 project.

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

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

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

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

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Analysis of maximum exposure to credit risk and collateral and other credit enhancements

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

	2017					
	Maximum exposure LL million	*Cash LL million*	*Securities LL million*	*Letters of credit / guarantees LL million*	*Real estate LL million*	*Net credit exposure LL million*
Balances with central banks	**11,718,206**	**-**	**-**	**-**	**-**	**11,718,206**
Due from banks and financial institutions	**3,928,586**	**(638)**	**-**	**-**	**-**	**3,927,948**
Loans to banks and financial institutions and reverse repurchase agreements	**754,394**	**(60,480)**	**(406,970)**	**-**	**-**	**286,944**
Derivative financial instruments	**2,790**	**-**	**-**	**-**	**-**	**2,790**
Financial assets at fair value through profit or loss	**224,191**	**-**	**-**	**-**	**-**	**224,191**
Net loans and advances to customers at amortized cost:						
Commercial loans	**5,268,300**	**(655,571)**	**(92,405)**	**(3,421)**	**(1,078,861)**	**3,438,042**
Consumer loans	**2,924,685**	**(365,977)**	**(20)**	**(192)**	**(1,591,876)**	**966,620**
Net loans and advances to related parties at amortized cost	**22,030**	**(5,258)**	**-**	**-**	**(3,103)**	**13,669**
Financial assets at amortized cost	**8,155,350**	**-**	**-**	**-**	**-**	**8,155,350**
	32,998,532	**(1,087,924)**	**(499,395)**	**(3,613)**	**(2,673,840)**	**28,733,760**
Financial guarantees	**208,735**	**(13,012)**	**-**	**-**	**-**	**195,723**
Documentary credits (including acceptances)	**1,132,237**	**(15,766)**	**-**	**-**	**-**	**1,116,471**
	34,339,504	**(1,116,702)**	**(499,395)**	**(3,613)**	**(2,673,840)**	**30,045,954**
Utilized collateral		**(1,116,702)**	**(499,395)**	**(3,613)**	**(2,673,840)**	
Surplus of collateral before undrawn credit lines		**(319,318)**	**(323,426)**	**(52,632)**	**(2,206,622)**	
Guarantees received from banks, financial institutions and customers		**(1,436,020)**	**(822,821)**	**(56,245)**	**(4,880,462)**	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,141,250 million as at 31 December 2017.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)

	2016					
	Maximum exposure LL million	*Cash LL million*	*Securities LL million*	*Letters of credit / guarantees LL million*	*Real estate LL million*	*Net credit exposure LL million*
Balances with central banks	8,468,190	-	-	-	-	8,468,190
Due from banks and financial institutions	2,657,429	(585)	-	-	-	2,656,844
Loans to banks and financial institutions and reverse repurchase agreements	964,066	(23,475)	(743,178)	-	-	197,413
Derivative financial instruments	4,420	-	-	-	-	4,420
Financial assets at fair value through profit or loss	749,107	-	-	-	-	749,107
Net loans and advances to customers at amortized cost:						
Commercial loans	5,074,328	(551,117)	(171,283)	(21,708)	(1,032,087)	3,298,133
Consumer loans	2,712,947	(317,054)	-	(326)	(1,470,178)	925,389
Net loans and advances to related parties at amortized cost	20,714	(5,286)	-	-	(3,356)	12,072
Financial assets at amortized cost	9,641,023	-	-	-	-	9,641,023
	30,292,224	(897,517)	(914,461)	(22,034)	(2,505,621)	25,952,591
Financial guarantees	217,934	(28,698)	-	-	-	189,236
Documentary credits (including acceptances)	569,565	(31,307)	-	-	-	538,258
	31,079,723	(957,522)	(914,461)	(22,034)	(2,505,621)	26,680,085
Utilized collateral		(957,522)	(914,461)	(22,034)	(2,505,621)	
Surplus of collateral before undrawn credit lines		(349,543)	(553,438)	(57,220)	(1,976,340)	
Guarantees received from banks, financial institutions and customers		(1,307,065)	(1,467,899)	(79,254)	(4,481,961)	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,979,622 million as at 31 December 2016.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Collateral and other credit enhancements

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

Securities:

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

Letters of credit / guarantees:

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

Real estate (commercial and residential):

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

Other:

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

Credit quality per class of financial assets

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

	2017				
	Neither past due nor impaired				
	High grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Individually impaired LL million*	*Total LL million*
Balances with central banks	**11,590,723**	**133,441**	**-**	**25,575**	**11,749,739**
Due from banks and financial institutions	**3,175,841**	**752,745**	**-**	**1,919**	**3,930,505**
Loans to banks and financial institutions and reverse repurchase agreements	**521,151**	**233,243**	**-**	**-**	**754,394**
Derivative financial instruments	**2,790**	**-**	**-**	**-**	**2,790**
Financial assets at fair value through profit or loss:					
Lebanese treasury bills	**221,697**	**-**	**-**	**-**	**221,697**
Debt securities issued by banks and financial institutions	**2,494**	**-**	**-**	**-**	**2,494**
Net loans and advances to customers at amortized cost:					
Commercial loans	**5,003,300**	**156,125**	**45,894**	**243,251**	**5,448,570**
Consumer loans	**2,649,104**	**29,218**	**199,793**	**158,853**	**3,036,968**
Net loans and advances to related parties at amortized cost	**22,030**	**-**	**-**	**-**	**22,030**
Debtors by acceptances	**319,148**	**34,875**	**-**	**-**	**354,023**
Financial assets at amortized cost:					
Lebanese treasury bills	**4,749,094**	**-**	**-**	**-**	**4,749,094**
Certificates of deposit issued by the Central Bank of Lebanon	**3,234,592**	**-**	**-**	**-**	**3,234,592**
Foreign governmental debt securities	**75,169**	**92,564**	**-**	**-**	**167,733**
Debt securities issued by banks and financial institutions	**3,931**	**-**	**-**	**-**	**3,931**
	31,571,064	**1,432,211**	**245,687**	**429,598**	**33,678,560**

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

	2016				
	Neither past due nor impaired				
	High grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Individually impaired LL million*	*Total LL million*
Balances with central banks	8,306,723	161,987	-	31,041	8,499,751
Due from banks and financial institutions	2,195,741	461,688	-	4,024	2,661,453
Loans to banks and financial institutions and reverse repurchase agreements	799,221	164,845	-	-	964,066
Derivative financial instruments	4,420	-	-	-	4,420
Financial assets at fair value through profit or loss:					
Lebanese treasury bills	318,022	-	-	-	318,022
Certificates of deposit issued by the Central Bank of Lebanon	428,572	-	-	-	428,572
Debt securities issued by banks and financial institutions	2,513	-	-	-	2,513
Net loans and advances to customers at amortized cost:					
Commercial loans	4,831,212	129,872	67,372	225,317	5,253,773
Consumer loans	2,460,500	18,815	199,903	145,169	2,824,387
Net loans and advances to related parties at amortized cost	20,714	-	-	-	20,714
Debtors by acceptances	193,801	30,082	-	-	223,883
Financial assets at amortized cost:					
Lebanese treasury bills	4,981,528	-	-	-	4,981,528
Certificates of deposit issued by the Central Bank of Lebanon	4,482,042	-	-	-	4,482,042
Foreign governmental debt securities	65,684	72,429	-	-	138,113
Debt securities issued by banks and financial institutions	5,477	-	-	-	5,477
Corporate bonds	635	-	-	-	635
Certificates of deposit issued by banks and financial institutions	3,033	30,195	-	-	33,228
	29,099,838	1,069,913	267,275	405,551	30,842,577

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

	2017			
	Less than 90 days LL million	***91 to 180 days LL million***	***More than 181 days LL million***	***Total LL million***
Loans and advances to customers at amortized cost:				
- Commercial loans	**14,769**	**3,833**	**27,292**	**45,894**
- Consumer loans	**192,997**	**2,423**	**4,373**	**199,793**
	207,766	**6,256**	**31,665**	**245,687**

	2016			
	Less than 90 days LL million	*91 to 180 days LL million*	*More than 181 days LL million*	*Total LL million*
Loans and advances to customers at amortized cost:				
- Commercial loans	27,474	22,486	17,412	67,372
- Consumer loans	194,922	1,897	3,084	199,903
	222,396	24,383	20,496	267,275

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Mapping to external credit rating

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

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

	2017			
	Gross balance LL million	***Unrealised interest LL million***	***Impairment allowances LL million***	***Net balance LL million***
Regular	**7,286,683**	**-**	**-**	**7,286,683**
Follow up	**537,698**	**-**	**-**	**537,698**
Follow up and regularization	**259,053**	**-**	**-**	**259,053**
Substandard	**56,967**	**(7,512)**	**-**	**49,455**
Doubtful	**272,070**	**(36,716)**	**(100,252)**	**135,102**
Bad	**73,067**	**(8,774)**	**(64,293)**	**-**
	8,485,538	**(53,002)**	**(164,545)**	**8,267,991**
Collective impairment	**(75,006)**	**-**	**-**	**(75,006)**
	8,410,532	**(53,002)**	**(164,545)**	**8,192,985**

	2016			
	Gross balance LL million	*Unrealised interest LL million*	*Impairment allowances LL million*	*Net balance LL million*
Regular	6,970,892	-	-	6,970,892
Follow up	539,426	-	-	539,426
Follow up and regularization	197,356	-	-	197,356
Substandard	69,985	(5,757)	-	64,228
Doubtful	199,812	(24,801)	(80,995)	94,016
Bad	100,689	(23,406)	(77,283)	-
	8,078,160	(53,964)	(158,278)	7,865,918
Collective impairment	(78,643)	-	-	(78,643)
	7,999,517	(53,964)	(158,278)	7,787,275

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Renegotiated loans

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

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

	2017	*2016*
	LL million	*LL million*
Commercial loans	**44,785**	75,890

Analysis of risk concentration

The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2017 was LL 95,605 million (2016: LL 121,630 million) before taking account of collateral or other credit enhancements and LL 95,605 million (2016: nil) net of such protection.

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

Geographic analysis

	2017			
	Lebanon LL million	***Europe LL million***	***Others LL million***	***Total LL million***
Balances with central banks	**11,431,189**	**125,157**	**161,860**	**11,718,206**
Due from banks and financial institutions	**91,562**	**2,462,733**	**1,374,291**	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	**398,614**	**169,193**	**186,587**	**754,394**
Derivative financial instruments	**530**	**1,385**	**875**	**2,790**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	**221,697**	**-**	**-**	**221,697**
Debt securities issued by banks and financial institutions	**-**	**777**	**1,717**	**2,494**
Net loans and advances to customers at amortized cost				
Commercial loans	**4,557,803**	**165,467**	**545,030**	**5,268,300**
Consumer loans	**2,769,798**	**43,936**	**110,951**	**2,924,685**
Net loans and advances to related parties at amortized cost	**21,253**	**666**	**111**	**22,030**
Debtors by acceptances	**290,018**	**6,374**	**57,631**	**354,023**
Financial assets at amortized cost:				
Lebanese treasury bills	**4,749,094**	**-**	**-**	**4,749,094**
Certificates of deposit issued by the Central Bank of Lebanon	**3,234,592**	**-**	**-**	**3,234,592**
Foreign governmental debt securities	**-**	**154,338**	**13,395**	**167,733**
Debt securities issued by banks and financial institutions	**-**	**3,931**	**-**	**3,931**
	27,766,150	**3,133,957**	**2,452,448**	**33,352,555**

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Analysis of risk concentration (continued)

Geographic analysis (continued)

	2016			
	Lebanon LL million	*Europe LL million*	*Others LL million*	*Total LL million*
Balances with central banks	8,239,246	70,120	158,824	8,468,190
Due from banks and financial institutions	63,684	913,078	1,680,667	2,657,429
Loans to banks and financial institutions and reverse repurchase agreements	780,495	48,103	135,468	964,066
Derivative financial instruments	1,935	920	1,565	4,420
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	318,022	-	-	318,022
Certificates of deposit issued by the Central Bank of Lebanon	428,572	-	-	428,572
Debt securities issued by banks and financial institutions	-	787	1,726	2,513
Net loans and advances to customers at amortized cost				
Commercial loans	4,339,119	184,356	550,853	5,074,328
Consumer loans	2,576,999	42,708	93,240	2,712,947
Net loans and advances to related parties at amortized cost	19,554	577	583	20,714
Debtors by acceptances	193,664	2,312	27,907	223,883
Financial assets at amortized cost:				
Lebanese treasury bills	4,981,528	-	-	4,981,528
Certificates of deposit issued by the Central Bank of Lebanon	4,482,042	-	-	4,482,042
Foreign governmental debt securities	-	138,113	-	138,113
Debt securities issued by banks and financial institutions	-	5,477	-	5,477
Corporate bonds	-	635	-	635
Certificates of deposit issued by banks and financial institutions	33,228	-	-	33,228
	26,458,088	1,407,186	2,650,833	30,516,107

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at an excessive cost. The Group's policy with regards to the liquidity risk management is centered on a conservative approach, whereby the liquidity is managed strongly in normal times and adequate liquidity buffers are maintained, in a way that enables the Group to withstand a prolonged period of liquidity stress.

Net immediate cash and near cash in foreign currencies are held at sight in prime international banks to keep the Net Immediate Liquidity above the defined tolerance level by the Board of Directors, at all times.

The Group has updated its Liquidity Risk Policy to include Liquidity Standards such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), based on Basel III and own conservative assumptions. The LCR is kept well above the established internal minimum, ensuring that the Group maintains High Quality Liquid Assets (HQLAs), both in local and foreign currencies, which allow the Group to cover more than 100% of a potentially stressed net outflow in a liquidity crisis based on severe internal estimates and haircuts. The NSFR is designed to ensure that long term assets are funded with at least a minimum amount of stable resources in relation to their liquidity characteristics.

Moreover, the policy defined a set of Early Warning Indicators (EWIs) along with other liquidity ratios and monitoring tools that are continuously screened by Senior Management and the Board of Directors.

49 RISK MANAGEMENT (continued)

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

The Group stresses the importance of customer deposits as source of funds to finance its lending activities. This is monitored by using the loans to deposits ratio, which compare loans and advances to customers as a percentage of deposits from customers.

Loans to deposits	***2017***	*2016*
Year-end	**30.27%**	30.29%
Maximum	**30.27%**	30.29%
Minimum	**29.48%**	29.19%
Average	**29.79%**	29.69%

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

	2017					
	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	**1,671,084**	**1,021,605**	**810,141**	**5,423,911**	**8,364,685**	**17,291,426**
Due from banks and financial institutions	**3,189,937**	**706,832**	**13,493**	**17,986**	**2,916**	**3,931,164**
Loans to banks and financial institutions and reverse repurchase agreements	**607,254**	**77,923**	**53,897**	**16,328**	**-**	**755,402**
Derivative financial instruments	**2,557**	**210**	**23**	**-**	**-**	**2,790**
Financial assets at fair value through profit or loss	**426**	**10,117**	**159,366**	**21,160**	**123,514**	**314,583**
Net loans and advances to customers at amortized cost	**3,260,509**	**583,515**	**1,242,948**	**2,465,023**	**1,644,251**	**9,196,246**
Net loans and advances to related parties at amortized cost	**7,973**	**2,343**	**595**	**2,993**	**8,428**	**22,332**
Debtors by acceptances	**106,542**	**115,326**	**114,041**	**18,114**	**-**	**354,023**
Financial assets at amortized cost	**75,681**	**287,730**	**882,664**	**5,059,642**	**4,542,780**	**10,848,497**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**108,552**	**108,552**
Total undiscounted financial assets	**8,921,963**	**2,805,601**	**3,277,168**	**13,025,157**	**14,795,126**	**42,825,015**
Financial liabilities						
Due to central banks	**209,696**	**307,855**	**27,682**	**536,102**	**400,704**	**1,482,039**
Due to banks and financial institutions	**492,581**	**104,374**	**90,227**	**214,233**	**132,372**	**1,033,787**
Derivative financial instruments	**3,206**	**283**	**55**	**-**	**-**	**3,544**
Customers' deposits at amortized cost	**13,870,804**	**3,542,345**	**6,784,127**	**2,918,964**	**415,287**	**27,531,527**
Deposits from related parties at amortized cost	**85,905**	**15,629**	**267,602**	**44,730**	**5,990**	**419,856**
Debt issued and other borrowed funds	**-**	**-**	**31,658**	**522,548**	**-**	**554,206**
Engagements by acceptances	**106,542**	**115,326**	**114,041**	**18,114**	**-**	**354,023**
Subordinated debt	**-**	**7,349**	**21,966**	**539,845**	**-**	**569,160**
Total undiscounted financial liabilities	**14,768,734**	**4,093,161**	**7,337,358**	**4,794,536**	**954,353**	**31,948,142**
Net undiscounted financial assets / (liabilities)	**(5,846,771)**	**(1,287,560)**	**(4,060,190)**	**8,230,621**	**13,840,773**	**10,876,873**

49 RISK MANAGEMENT (continued)

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

	2016					
	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	1,485,985	544,930	1,173,883	3,702,866	4,954,806	11,862,470
Due from banks and financial institutions	2,048,400	521,382	80,257	9,596	203	2,659,838
Loans to banks and financial institutions and reverse repurchase agreements	796,338	54,350	97,578	17,995	-	966,261
Derivative financial instruments	2,859	369	1,192	-	-	4,420
Financial assets at fair value through profit or loss	74,447	178,433	215,023	306,310	54,253	828,466
Net loans and advances to customers at amortized cost	3,223,783	456,343	1,154,824	2,156,188	1,744,180	8,735,318
Net loans and advances to related parties at amortized cost	11,534	627	923	1,530	7,368	21,982
Debtors by acceptances	60,943	87,316	63,108	12,516	-	223,883
Financial assets at amortized cost	123,661	560,066	1,179,880	5,261,401	5,433,352	12,558,360
Financial assets at fair value through other comprehensive income	-	-	-	-	101,305	101,305
Total undiscounted financial assets	7,827,950	2,403,816	3,966,668	11,468,402	12,295,467	37,962,303
Financial liabilities						
Due to central banks	3,923	1,781	12,701	79,562	216,980	314,947
Due to banks and financial institutions	341,787	76,087	181,465	139,956	72,775	812,070
Derivative financial instruments	1,606	69	431	-	-	2,106
Customers' deposits at amortized cost	13,976,802	3,232,429	5,188,030	3,251,312	454,281	26,102,854
Deposits from related parties at amortized cost	138,818	6,347	216,932	32,589	8,416	403,102
Debt issued and other borrowed funds	-	-	31,658	554,257	-	585,915
Engagements by acceptances	60,943	87,316	63,108	12,516	-	223,883
Subordinated debt	-	7,257	21,371	115,003	447,308	590,939
Total undiscounted financial liabilities	14,523,879	3,411,286	5,715,696	4,185,195	1,199,760	29,035,816
Net undiscounted financial assets / (liabilities)	(6,695,929)	(1,007,470)	(1,749,028)	7,283,207	11,095,707	8,926,487

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date on which it can be drawn down.

	2017					
	Less than 1 month LL million	***1 to 3 months LL million***	***3 to 12 months LL million***	***1 to 5 years LL million***	***More than 5 years LL million***	***Total LL million***
Financial guarantees	**-**	**-**	**26,765**	**181,970**	**-**	**208,735**
Documentary credits	**102,927**	**422,903**	**247,846**	**4,538**	**-**	**778,214**
Commitments to lend	**2,141,250**	**-**	**-**	**-**	**-**	**2,141,250**
	2,244,177	**422,903**	**274,611**	**186,508**	**-**	**3,128,199**

	2016					
	Less than 1 month LL million	*1 to 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*More than 5 years LL million*	*Total LL million*
Financial guarantees	-	68	114,711	103,093	62	217,934
Documentary credits	20,212	166,831	145,585	13,054	-	345,682
Commitments to lend	2,979,622	-	-	-	-	2,979,622
	2,999,834	166,899	260,296	116,147	62	3,543,238

The Group expects that not all of the contingent liabilities or commitments will be demanded before maturity.

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK

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

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

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

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

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

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

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

		2017	*2016*
Currency	***Increase in basis points***	***Effect on net interest income LL million***	*Effect on net interest income LL million*
LBP	50 basis point	**(19,561)**	(20,705)
US Dollar	50 basis point	**792**	1,165
Euro	50 basis point	**(559)**	(1,170)

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Interest rate risk (continued)

Interest rate sensitivity (continued)

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

	2017						
	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Non interest bearing items LL million*	*Total LL million*
ASSETS							
Cash and balances with central banks	**799,418**	**957,263**	**250,000**	**3,101,434**	**5,924,515**	**934,174**	**11,966,804**
Due from banks and financial institutions	**2,043,683**	**704,265**	**14,524**	**17,986**	**220**	**1,147,908**	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	**606,381**	**77,916**	**53,337**	**16,328**	**-**	**432**	**754,394**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**2,790**	**2,790**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**256,025**	**256,025**
Net loans and advances to customers at amortized cost	**3,304,400**	**780,152**	**2,422,575**	**1,218,836**	**250,662**	**216,360**	**8,192,985**
Net loans and advances to related parties at amortized cost	**14,110**	**813**	**-**	**-**	**7,093**	**14**	**22,030**
Debtors by acceptances	**-**	**-**	**-**	**-**	**-**	**354,023**	**354,023**
Financial assets at amortized cost	**22,257**	**197,634**	**519,774**	**3,418,480**	**3,877,096**	**120,109**	**8,155,350**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**108,552**	**108,552**
Total	**6,790,249**	**2,718,043**	**3,260,210**	**7,773,064**	**10,059,586**	**3,140,387**	**33,741,539**
LIABILITIES							
Due to central banks	**205,747**	**305,298**	**14,007**	**468,890**	**373,449**	**7,446**	**1,374,837**
Due to banks and financial institutions	**333,917**	**101,348**	**72,798**	**176,486**	**121,953**	**165,813**	**972,315**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**3,544**	**3,544**
Customers' deposits at amortized cost	**10,878,370**	**3,414,944**	**6,487,675**	**2,892,252**	**348,210**	**2,736,265**	**26,757,716**
Deposits from related parties at amortized cost	**77,609**	**13,540**	**241,571**	**25,630**	**565**	**21,875**	**380,790**
Debt issued and other borrowed funds	**-**	**-**	**-**	**443,404**	**9,335**	**817**	**453,556**
Engagements by acceptances	**-**	**-**	**-**	**-**	**-**	**354,023**	**354,023**
Subordinated debt	**-**	**-**	**-**	**422,832**	**-**	**163**	**422,995**
Total	**11,495,643**	**3,835,130**	**6,816,051**	**4,429,494**	**853,512**	**3,289,946**	**30,719,776**
Total interest sensitivity gap	**(4,705,394)**	**(1,117,087)**	**(3,555,841)**	**3,343,570**	**9,206,074**	**(149,559)**	**3,021,763**

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Interest rate risk (continued)

Interest rate sensitivity (continued)

	2016						
	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Non interest bearing items LL million*	*Total LL million*
ASSETS							
Cash and balances with central banks	538,665	527,625	829,125	2,304,412	3,546,722	971,066	8,717,615
Due from banks and financial institutions	1,258,325	519,850	79,746	9,915	203	789,390	2,657,429
Loans to banks and financial institutions and reverse repurchase agreements	795,622	54,237	95,962	17,696	-	549	964,066
Derivative financial instruments	-	-	-	-	-	4,420	4,420
Financial assets at fair value through profit or loss	-	-	-	-	-	789,172	789,172
Net loans and advances to customers at amortized cost	3,212,058	694,235	2,277,152	1,174,183	246,275	183,372	7,787,275
Net loans and advances to related parties at amortized cost	11,807	1,277	2,378	361	4,891	-	20,714
Debtors by acceptances	-	-	-	-	-	223,883	223,883
Financial assets at amortized cost	79,781	412,023	741,296	3,540,539	4,730,203	137,181	9,641,023
Financial assets at fair value through other comprehensive income	-	-	-	-	-	101,305	101,305
Total	5,896,258	2,209,247	4,025,659	7,047,106	8,528,294	3,200,338	30,906,902
LIABILITIES							
Due to central banks	431	1,780	7,982	55,250	197,984	4,067	267,494
Due to banks and financial institutions	258,830	73,379	132,771	119,584	66,472	123,059	774,095
Derivative financial instruments	-	-	-	-	-	2,106	2,106
Customers’ deposits at amortized cost	11,262,765	3,136,856	4,808,987	3,158,236	376,972	2,671,818	25,415,634
Deposits from related parties at amortized cost	104,927	8,582	217,435	13,712	1,018	20,353	366,027
Debt issued and other borrowed funds	-	-	-	443,456	-	616	444,072
Engagements by acceptances	-	-	-	-	-	223,883	223,883
Subordinated debt	-	-	-	-	420,001	164	420,165
Total	11,626,953	3,220,597	5,167,175	3,790,238	1,062,447	3,046,066	27,913,476
Total interest sensitivity gap	(5,730,695)	(1,011,350)	(1,141,516)	3,256,868	7,465,847	154,272	2,993,426

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

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

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Currency risk (continued)

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

	2017		
	LL million	*Foreign currencies in LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	**4,202,817**	**7,763,987**	**11,966,804**
Due from banks and financial institutions	**39,756**	**3,888,830**	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	**240,594**	**513,800**	**754,394**
Derivative financial instruments	**2,144**	**646**	**2,790**
Financial assets at fair value through profit or loss	**150,271**	**105,754**	**256,025**
Net loans and advances to customers at amortized cost	**2,290,455**	**5,902,530**	**8,192,985**
Net loans and advances to related parties at amortized cost	**3,831**	**18,199**	**22,030**
Debtors by acceptances	**-**	**354,023**	**354,023**
Financial assets at amortized cost	**4,280,345**	**3,875,005**	**8,155,350**
Financial assets at fair value through other comprehensive income	**34,419**	**74,133**	**108,552**
Property and equipment	**240,026**	**33,411**	**273,437**
Intangible assets	**267**	**-**	**267**
Assets obtained in settlement of debt	**(8,222)**	**53,113**	**44,891**
Other assets	**87,602**	**14,471**	**102,073**
TOTAL ASSETS	**11,564,305**	**22,597,902**	**34,162,207**
LIABILITIES AND EQUITY			
Due to central banks	**863,058**	**511,779**	**1,374,837**
Due to banks and financial institutions	**8,575**	**963,740**	**972,315**
Derivative financial instruments	**2,956**	**588**	**3,544**
Customers' deposits at amortized cost	**9,031,051**	**17,726,665**	**26,757,716**
Deposits from related parties at amortized cost	**16,034**	**364,756**	**380,790**
Debt issued and other borrowed funds	**-**	**453,556**	**453,556**
Engagement by acceptances	**-**	**354,023**	**354,023**
Other liabilities	**209,727**	**49,143**	**258,870**
Provisions for risks and charges	**340,988**	**9,948**	**350,936**
Subordinated debt	**-**	**422,995**	**422,995**
TOTAL LIABILITIES	**10,472,389**	**20,857,193**	**31,329,582**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	**684,273**	**-**	**684,273**
Share capital – preferred shares	**4,840**	**-**	**4,840**
Share premium – common shares	**-**	**229,014**	**229,014**
Share premium – preferred shares	**-**	**591,083**	**591,083**
Non distributable reserves	**525,332**	**399,480**	**924,812**
Distributable reserves	**92,586**	**18,030**	**110,616**
Treasury shares	**-**	**(6,002)**	**(6,002)**
Retained earnings	**(88,237)**	**140,519**	**52,282**
Revaluation reserve of real estate	**5,689**	**-**	**5,689**
Change in fair value of financial assets at fair value through other comprehensive income	**22,989**	**(27,527)**	**(4,538)**
Net results of the financial period – profit	**206,273**	**42,266**	**248,539**
Foreign currency translation reserves	**(49,847)**	**-**	**(49,847)**
NON-CONTROLLING INTERESTS	**34,108**	**7,756**	**41,864**
TOTAL EQUITY	**1,438,006**	**1,394,619**	**2,832,625**
TOTAL LIABILITIES AND EQUITY	**11,910,395**	**22,251,812**	**34,162,207**

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Currency risk (continued)

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

	2016		
	LL million	*Foreign currencies in LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	2,556,060	6,161,555	8,717,615
Due from banks and financial institutions	33,547	2,623,882	2,657,429
Loans to banks and financial institutions and reverse repurchase agreements	301,530	662,536	964,066
Derivative financial instruments	3,943	477	4,420
Financial assets at fair value through profit or loss	722,562	66,610	789,172
Net loans and advances to customers at amortized cost	2,071,913	5,715,362	7,787,275
Net loans and advances to related parties at amortized cost	2,189	18,525	20,714
Debtors by acceptances	-	223,883	223,883
Financial assets at amortized cost	5,407,802	4,233,221	9,641,023
Financial assets at fair value through other comprehensive income	31,470	69,835	101,305
Property and equipment	222,156	24,939	247,095
Intangible assets	380	-	380
Assets obtained in settlement of debt	(8,393)	51,692	43,299
Other assets	80,906	29,532	110,438
TOTAL ASSETS	11,426,065	19,882,049	31,308,114
LIABILITIES AND EQUITY			
Due to central banks	265,075	2,419	267,494
Due to banks and financial institutions	29,369	744,726	774,095
Derivative financial instruments	1,561	545	2,106
Customers' deposits at amortized cost	9,491,880	15,923,754	25,415,634
Deposits from related parties at amortized cost	72,248	293,779	366,027
Debt issued and other borrowed funds	-	444,072	444,072
Engagement by acceptances	-	223,883	223,883
Other liabilities	243,623	131,288	374,911
Provisions for risks and charges	287,041	13,251	300,292
Subordinated debt	-	420,165	420,165
TOTAL LIABILITIES	10,390,797	18,197,882	28,588,679
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	591,083	591,083
Non distributable reserves	451,800	391,520	843,320
Distributable reserves	84,175	19,071	103,246
Treasury shares	-	(5,161)	(5,161)
Retained earnings	68,067	(549)	67,518
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	21,027	(30,108)	(9,081)
Net results of the financial period - profit	42,408	190,264	232,672
Foreign currency translation reserves	(65,341)	-	(65,341)
NON-CONTROLLING INTERESTS	29,497	7,866	37,363
TOTAL EQUITY	1,326,435	1,393,000	2,719,435
TOTAL LIABILITIES AND EQUITY	11,717,232	19,590,882	31,308,114

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Currency risk (continued)

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

	2017			*2016*		
Currency	***Change in currency rate %***	***Effect on profit before tax LL million***	***Effect on equity LL million***	*Change in currency rate %*	*Effect on profit before tax LL million*	*Effect on equity LL million*
US Dollar	**+1**	**135**	**-**	+1	191	-
Euro	**+1**	**10**	**1,521**	+1	(2)	1,261

Equity price risk
Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 per cent increase in the value of the Group's equities at 31 December 2017 would have increased other comprehensive income by LL 2,373 million and net income by LL 1,592 million (2016: LL 2,219 million and LL 2,003 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

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

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

49.5 OPERATIONAL RISK

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

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

49 RISK MANAGEMENT (continued)

49.5 OPERATIONAL RISK (continued)

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

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

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

50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	2017							
	Less than 12 months				*Over 12 months*			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*Total*
ASSETS								
Cash and balances with central banks	**1,666,714**	**1,005,287**	**293,503**	**2,965,504**	**3,102,319**	**5,898,981**	**9,001,300**	**11,966,804**
Due from banks and financial institutions	**3,188,591**	**705,600**	**13,493**	**3,907,684**	**17,986**	**2,916**	**20,902**	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	**607,023**	**77,829**	**53,214**	**738,066**	**16,328**	**-**	**16,328**	**754,394**
Derivative financial instruments	**2,557**	**210**	**23**	**2,790**	**-**	**-**	**-**	**2,790**
Financial assets at fair value through profit or loss	**196**	**3,892**	**153,915**	**158,003**	**4,717**	**93,305**	**98,022**	**256,025**
Net loans and advances to customers at amortized cost	**3,234,684**	**535,481**	**1,068,519**	**4,838,684**	**1,993,612**	**1,360,689**	**3,354,301**	**8,192,985**
Net loans and advances to related parties at amortized cost	**9,436**	**2,257**	**383**	**12,076**	**2,193**	**7,761**	**9,954**	**22,030**
Debtors by acceptances	**106,542**	**115,326**	**114,041**	**335,909**	**18,114**	**-**	**18,114**	**354,023**
Financial assets at amortized cost	**43,710**	**218,734**	**507,223**	**769,667**	**3,487,902**	**3,897,781**	**7,385,683**	**8,155,350**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**108,552**	**108,552**	**108,552**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**273,437**	**273,437**	**273,437**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**267**	**267**	**267**
Assets obtained in settlement of debt	**-**	**-**	**-**	**-**	**-**	**44,891**	**44,891**	**44,891**
Other assets	**5,402**	**-**	**76,457**	**81,859**	**-**	**20,214**	**20,214**	**102,073**
TOTAL ASSETS	**8,864,855**	**2,664,616**	**2,280,771**	**13,810,242**	**8,643,171**	**11,708,794**	**20,351,965**	**34,162,207**
LIABILITIES								
Due to central banks	**209,530**	**306,820**	**16,148**	**532,498**	**468,890**	**373,449**	**842,339**	**1,374,837**
Due to banks and financial institutions	**492,049**	**103,139**	**80,071**	**675,259**	**175,976**	**121,080**	**297,056**	**972,315**
Derivative financial instruments	**3,206**	**283**	**55**	**3,544**	**-**	**-**	**-**	**3,544**
Customers' deposits at amortized cost	**13,568,253**	**3,451,766**	**6,728,455**	**23,748,474**	**2,660,994**	**348,248**	**3,009,242**	**26,757,716**
Deposits from related parties at amortized cost	**84,703**	**13,583**	**256,309**	**354,595**	**25,630**	**565**	**26,195**	**380,790**
Debt issued and other borrowed funds	**-**	**202**	**615**	**817**	**452,739**	**-**	**452,739**	**453,556**
Engagements by acceptances	**106,542**	**115,326**	**114,041**	**335,909**	**18,114**	**-**	**18,114**	**354,023**
Other liabilities	**43,273**	**1,515**	**77,722**	**122,510**	**102,252**	**34,108**	**136,360**	**258,870**
Provisions for risks and charges	**-**	**-**	**-**	**-**	**-**	**350,936**	**350,936**	**350,936**
Subordinated debt	**-**	**163**	**-**	**163**	**422,832**	**-**	**422,832**	**422,995**
TOTAL LIABILITIES	**14,507,556**	**3,992,797**	**7,273,416**	**25,773,769**	**4,327,427**	**1,228,386**	**5,555,813**	**31,329,582**
Net	**(5,642,701)**	**(1,328,181)**	**(4,992,645)**	**(11,963,527)**	**4,315,744**	**10,480,408**	**14,796,152**	**2,832,625**

50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	2016							
	Less than 12 months				*Over 12 months*			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*Total*
ASSETS								
Cash and balances with central banks	1,482,459	539,302	876,281	2,898,042	2,304,412	3,515,161	5,819,573	8,717,615
Due from banks and financial institutions	2,047,873	520,466	79,291	2,647,630	9,596	203	9,799	2,657,429
Loans to banks and financial institutions and reverse repurchase agreements	796,152	54,194	96,024	946,370	17,696	-	17,696	964,066
Derivative financial instruments	2,859	369	1,192	4,420	-	-	-	4,420
Financial assets at fair value through profit or loss	73,403	165,524	197,599	436,526	298,952	53,694	352,646	789,172
Net loans and advances to customers at amortized cost	3,200,519	411,629	993,245	4,605,393	1,714,221	1,467,661	3,181,882	7,787,275
Net loans and advances to related parties at amortized cost	11,530	602	811	12,943	1,054	6,717	7,771	20,714
Debtors by acceptances	60,943	87,316	63,108	211,367	12,516	-	12,516	223,883
Financial assets at amortized cost	95,255	458,038	736,975	1,290,268	3,604,589	4,746,166	8,350,755	9,641,023
Financial assets at fair value through other comprehensive income	-	-	-	-	-	101,305	101,305	101,305
Property and equipment	-	-	-	-	-	247,095	247,095	247,095
Intangible assets	-	-	-	-	-	380	380	380
Assets obtained in settlement of debt	-	-	-	-	-	43,299	43,299	43,299
Other assets	8,336	-	81,041	89,377	-	21,061	21,061	110,438
TOTAL ASSETS	7,779,329	2,237,440	3,125,567	13,142,336	7,963,036	10,202,742	18,165,778	31,308,114
LIABILITIES								
Due to central banks	2,586	1,785	8,569	12,940	56,571	197,983	254,554	267,494
Due to banks and financial institutions	339,376	73,778	174,885	588,039	119,584	66,472	186,056	774,095
Derivative financial instruments	1,606	69	431	2,106	-	-	-	2,106
Customers' deposits at amortized cost	13,746,913	3,170,698	4,961,442	21,879,053	3,159,608	376,973	3,536,581	25,415,634
Deposits from related parties at amortized cost	138,461	5,031	207,806	351,298	13,712	1,017	14,729	366,027
Debt issued and other borrowed funds	-	-	616	616	443,456	-	443,456	444,072
Engagements by acceptances	60,943	87,316	63,108	211,367	12,516	-	12,516	223,883
Other liabilities	52,146	18,579	140,699	211,424	126,682	36,805	163,487	374,911
Provisions for risks and charges	-	-	-	-	-	300,292	300,292	300,292
Subordinated debt	-	163	408	571	-	419,594	419,594	420,165
TOTAL LIABILITIES	14,342,031	3,357,419	5,557,964	23,257,414	3,932,129	1,399,136	5,331,265	28,588,679
Net	(6,562,702)	(1,119,979)	(2,432,397)	(10,115,078)	4,030,907	8,803,606	12,834,513	2,719,435

51 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 eligible capital with its statement of financial position assets and off-balance sheet commitments at a weighted amount to reflect their relative risk.

During 2016, the Central Bank of Lebanon issued intermediary circular no. 436 by which it amended Basic Circular 44 related to the minimum Capital Adequacy Ratios (CAR). These ratios are set to increase gradually between December 2016 and December 2018 to reach 10.0%, 13.0% and 15.0% for Common Equity Tier 1 (CET1), Tier 1 and Total CAR respectively in 2018, including a capital conservation buffer of 4.5% in 2018. The following table shows the applicable regulatory capital ratios from end of 2015 to end of 2018:

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

(*) Include Capital Conservation Buffer (CCB). This CCB, which will reach 4.5% of risk-weighted assets by end of 2018, must be met through Common Equity Tier 1 capital.

51 CAPITAL (continued)

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	**17,416,358**	16,269,178

Regulatory capital

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

	Excluding profit for the year		*Including profit for the year less proposed dividends*	
	2017	*2016*	***2017***	*2016*
	LL million	*LL million*	***LL million***	*LL million*
Common Equity Tier 1 capital	**1,862,906**	1,777,561	**1,949,894**	1,848,682
Additional Tier 1 capital	**596,191**	596,516	**596,191**	596,516
Tier 2 capital	**554,831**	615,089	**554,831**	615,089
Total capital	**3,013,928**	2,989,166	**3,100,916**	3,060,287

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 less proposed dividends*	
	2017	*2016*	***2017***	*2016*
Common Equity Tier 1 capital ratio	**10.70%**	10.93%	**11.20%**	11.36%
Total Tier 1 capital ratio	**14.12%**	14.59%	**14.62%**	15.03%
Total capital ratio	**17.31%**	18.37%	**17.80%**	18.81%

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.

52 DIVIDENDS PAID AND PROPOSED

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

53 COMPARATIVE INFORMATION

- Provisions for contingencies have been reclassified from “Income tax expense” to “Other operating expenses” in the consolidated statement of income. Comparative amounts of LL 14,000 million have been reclassified accordingly.

- Provisions for contingencies have been reclassified from “Other liabilities” to “Provisions for risks and charges” in the consolidated statement of financial position. Comparative amounts of LL 24,902 million have been reclassified accordingly.

- Balances with the Central Bank of Lebanon have been reclassified from “Due to central banks” to “Cash and balances with central banks” in the consolidated statement of financial position. Comparative amounts of LL 65,477 million have been reclassified accordingly.

- Lebanese treasury bills have been reclassified from “Financial assets given as collateral” to “Financial assets at amortized cost” in the consolidated statement of financial position. Comparative amounts of LL 224,044 million have been reclassified accordingly.