JAMMAL TRUST BANK S.A.L.

Report and consolidated financial statements for the year ended 31 December 2017

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Report and consolidated financial statements for the year ended 31 December 2017

Independent auditor's report
to the shareholders of Jammal Trust Bank S.A.L.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Jammal Trust Bank S.A.L. (the "Bank") and its subsidiaries, together (the "Group") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements relevant to our audit of the financial statements in Lebanon. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

Independent auditor's report (continued)
to the shareholders of Jammal Trust Bank S.A.L.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers At 31 December 2017, the gross loans and advances to customers together with the impairment provision thereon amounted to LL 790.12 billion and LL 46.93 billion respectively (refer to note 8). Impairment provisions represent management's best estimate of the losses incurred within the loan portfolio at end of each reporting period. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for non-performing loans. We considered this a key audit area because the calculation of both collective and individual impairment provisions is inherently judgmental and dependent on assumptions determined by management. Individual impairment provisions are dependent on the identification of impairment events, which differs based upon the type of lending product and customer. Judgment is required to determine whether a loss has been incurred. Collective impairment provisions are used to recognise unidentified impairment. These provisions are calculated using models which generally take account of current economic and credit conditions on portfolios of similar loans. The input to these models are subject to management judgment. Judgment is also applied by management to determine appropriate parameters and assumptions used to calculate impairment. For example, the assumption of customers that will default, the valuation of collateral for secured lending and the future cash flows of corporate and SME loan customers. Judgment is also required to consider whether historic experience is appropriate when assessing the likelihood of incurred losses in the portfolios. Information on credit risk and the Group's credit risk management is provided in note 3. The use of estimates and judgments in respect of impairment of loans and advances to customers is disclosed in note 4. Disclosure of the impairment provisions and net impairment charge is given in notes 8 and 25.	We understood, evaluated and tested key processes and controls that addressed: - The identification of impairment events; and - The review and approval models that management has in place for the output of the impairment models. In addition, we performed detailed testing on the models used in calculating both identified and unidentified impairment. This testing typically included testing of the extraction of data used in the model, assessing the appropriateness of the assumptions used (including reliance on historic data) and re-performance of the impairment calculation. Where impairment was individually calculated, we tested a sample of loans and advances to ascertain whether the loss event had been identified in a timely manner. Where impairment had been identified, for a sample of loans we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, including those related to collateral values. We examined a sample of loans advances, which have not been identified by management as potentially impaired and formed our own judgment as to whether that was appropriate including using external evidence in respect of the relevant counterparties. We have also assessed the adequacy of the Group's disclosures on the allowance for impairment of loans and advances to customers and the related credit risk disclosures.

Independent auditor's report (continued)
to the shareholders of Jammal Trust Bank S.A.L.

Key audit matters (continued)

Area of focus	How our audit addressed the key audit matter
Disclosure of the likely impact of IFRS 9 on credit impairment for corporate and small and meduim sized entities ("SME") loans portfolio Banks operating in Lebanon are currently applying the requirements of IFRS 9 as issued in November 2009 (which addressed specifically the classification and measurement of financial assets). In July 2016, the definitive version of IFRS 9 was issued which introduces new requirements for (i) the classification and measurement of financial instruments, (ii) credit impairment with the "Expected Credit Loss" model replacing the "Incurred Loss" model and (iii) hedge accounting. IFRS 9 replaces the "incurred loss model" in IAS 39 with a forward-looking "expected credit loss" ("ECL") model. The new impairment model will apply to financial assets measured at amortised cost and fair value through other comprehensive income, except for investments in equity instruments. A number of significant judgements are required in applying the accounting requirements for measuring ECL on corporate and SME loans portfolio, such as: - determining criteria for significant increase in credit risk (SICR); - choosing appropriate models and assumptions for the measurement of ECL including probability of default ("PD"), loss given default ("LGD"); and exposure at default ("EAD"); and - establishing the number and relative weightings of forward-looking scenarios and the associated ECL. There is, therefore, a requirement for new models to be built and implemented to measure the expected credit losses on loans measured at amortised cost. In addition, there is a large increase in data input required by these models which increases the risk of completeness and accuracy of the data used to develop assumptions and to operate the model. The Group has disclosed the impact of the impairment as well as its overall assessment, based on significant judgements made by management, in note 2 of the consolidated financial statements.	We have obtained the disclosures prepared by management with respect to the ECL methodology and models on corporate and SME Loans portfolio. We engaged experts to perform procedures on the initial implementation of ECL on corporate and SME entities. We have used the work performed by our experts to assess the appropriateness of the methodology and disclosures. The work performed included the following: - examining (PD)/LGD)/(EAD) methodology, in addition to relevant algorithms/formulas, and assumptions applied in the PD/LGD/EAD models; - verifying applied staging rules in terms of IFRS 9 requirements based on internal data available; - quality check of one year PD for corporate and SME loans portfolio based on available historical data; - examination of lifetime PD estimation results for corporate and SME loans portfolio including methodological and numerical aspects, forward looking information and the appraisal process; and - validating the disclosures against the requirements of IFRS 9 and IAS 8.

Independent auditor's report (continued)
to the shareholders of Jammal Trust Bank S.A.L.

Other information

Management is responsible for the other information. The other information comprises the Group's complete Annual Report, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not and 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 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Group's complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 scepticism throughout the audit. We also:

Independent auditor's report (continued)
to the shareholders of Jammal Trust Bank S.A.L.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 the management.
- conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The partners in charge of the audit resulting in this independent auditors' report are Andre Rohayem for PricewaterhouseCoopers and Mowafak Al Yafi for Kudos.

PricewaterhouseCoopers Kudos

Beirut, Lebanon
4 June 2018

JAMMAL TRUST BANK S.A.L.

Consolidated statement of financial position
at 31 December 2017

	Note	**2017**	2016
		LL Million	LL Million
Assets			
Cash and balances with the Central Bank of Lebanon	5	**321,101**	277,503
Due from banks and financial institutions	6	**49,819**	66,384
Loans and advances to customers	8	**743,192**	713,798
Debtors by acceptances	9	**4,032**	2,306
Equity securities at fair value through profit or loss	10	**3,126**	2,944
Debt securities at fair value through profit or loss	10	**-**	25,574
Debt securities at amortised cost	10	**388,228**	340,005
Intangible assets	12	**1,771**	3,064
Property and equipment	11	**75,881**	60,030
Deferred tax asset	29	**1,750**	1,750
Other assets	13	**9,217**	7,361
		1,598,117	1,500,719
Assets classified as held for sale	14	**2,197**	2,194
Total assets		**1,600,314**	1,502,913
Liabilities and equity			
Liabilities			
Due to the Central Bank of Lebanon	15	**62,705**	34,762
Deposits from banks	16	**40,639**	23,542
Deposits from customers	17	**1,339,517**	1,290,046
Engagements by acceptances	9	**4,032**	2,306
Current income tax liability	29	**2,088**	3,638
Other liabilities	18	**18,341**	21,925
Retirement benefit obligations	19	**4,046**	4,118
Provision for liabilities and charges		**98**	141
Total liabilities		**1,471,466**	1,380,478
Equity attributable to owners of the parent			
Share capital	20	**75,090**	75,090
Other reserves	20	**48,794**	42,178
Retained earnings	20	**4,924**	5,129
		128,808	122,397
Non-controlling interests		**40**	38
Total equity		**128,848**	122,435
Total liabilities and equity		**1,600,314**	1,502,913

The consolidated financial statements on pages 6 to 75 were authorised for issue by the directors on 1 June 2018 and were signed on their behalf by:

Mr. Anwar Jammal
Chairman / General Manager

JAMMAL TRUST BANK S.A.L.

Consolidated statement of comprehensive income for the year ended 31 December 2017

	Note	2017 LL Million	2016 LL Million
Interest and similar income	21	**93,425**	91,055
Dividend income	22	**245**	246
Interest and similar expenses	21	**(54,941)**	(52,037)
Net interest and similar income		**38,729**	39,264
Net loan impairment charges	25	**(881)**	(11,560)
Net interest and similar income after loan impairment charges		**37,848**	27,704
Fee and commission income	23	**11,720**	11,012
Fee and commission expense	23	**(1,437)**	(1,333)
Net fee and commission income		**10,283**	9,679
Net trading income		**1,136**	1,078
Net gains on investment securities	10	**861**	9,436
Other operating income	24	**4,001**	2,800
Personnel expenses	26	**(17,293)**	(16,752)
Other operating expenses	27	**(24,566)**	(24,180)
Depreciation and amortisation charges	28	**(2,962)**	(2,719)
Profit before income tax		**9,308**	7,046
Income tax expense	29	**(1,607)**	(1,864)
Profit for the year		**7,701**	5,182
Total comprehensive income for the year		**7,701**	5,182
Profit for the year attributable to:			
- Owners of the parent:			
from continuing operations		**7,699**	5,180
- Non-controlling interests		**2**	2
Profit for the year		**7,701**	5,182
Total comprehensive income for the year attributable to:			
- Owners of the parent:			
from continuing operations		**7,699**	5,180
- Non-controlling interests		**2**	2
Total comprehensive income for the year		**7,701**	5,182

JAMMAL TRUST BANK S.A.L.

Consolidated statement of changes in equity for the year ended 31 December 2017

	Attributable to owners of the parent									
		Other reserves								
	Share capital LL Million	**Legal reserve LL Million**	**Reserve for unspecified banking risks LL Million**	**Reserve against assets classified as held for sale LL Million**	**General reserves LL Million**	**Free reserve for capital increase LL Million**	**Retained earnings LL Million**	**Total LL Million**	**Non-controlling interests LL Million**	**Total equity LL Million**
At 1 January 2016	75,090	2,839	14,849	912	630	20,178	5,251	119,749	36	119,785
Total comprehensive income for the year	-	-	-	-	-	-	5,180	5,180	2	5,182
Dividends declared (note 20)	-	-	-	-	-	-	(2,532)	(2,532)	-	(2,532)
Transfer to reserve for capital increase	-	-	-	(285)	-	285	-	-	-	-
Appropriations (note 20)	-	523	2,151	76	20	-	(2,770)	-	-	-
At 31 December 2016	**75,090**	**3,362**	**17,000**	**703**	**650**	**20,463**	**5,129**	**122,397**	**38**	**122,435**
At 1 January 2017	75,090	3,362	17,000	703	650	20,463	5,129	122,397	38	122,435
Total comprehensive income for the year	-	-	-	-	-	-	7,699	7,699	2	7,701
Dividends declared (note 20)	-	-	-	-	-	-	(1,288)	(1,288)	-	(1,288)
Appropriations (note 20)	-	822	3,160	54	-	2,580	(6,616)	-	-	-
At 31 December 2017	**75,090**	**4,184**	**20,160**	**757**	**650**	**23,043**	**4,924**	**128,808**	**40**	**128,848**

The notes on pages 11 to 75 are an integral part of these consolidated financial statements.

JAMMAL TRUST BANK S.A.L.

Consolidated statement of cash flows
for the year ended 31 December 2017

	Note	2017 LL Million	2016 LL Million
Cash flows from operating activities			
Profit before income tax		**9,308**	7,046
Adjustments for non-cash items:			
Depreciation charge	11, 28	**2,206**	2,065
Amortisation charge	12, 28	**756**	654
(Gain) loss on disposal of assets classified as held for sale	24	**(40)**	113
Loss on disposal of property and equipment	24	**16**	-
Loan impairment charges	25	**881**	11,560
Dividend income	22	**(245)**	(246)
Unrealised loss on debt securities at fair value through profit or loss		**-**	807
Interest and similar income	21	**(93,425)**	(91,055)
Interest and similar expenses	21	**54,941**	52,037
Change in operating assets and liabilities			
Balances with the Central Bank of Lebanon	5	**(36,867)**	(66,642)
Due from banks and financial institutions	6	**152**	152
Debt securities at amortised cost	10	**(10,975)**	79,364
Equity securities at fair value through profit or loss	10	**(182)**	(319)
Debt securities at fair value through profit or loss	10	**(10,874)**	(25,969)
Loans and advances to customers	8	**(28,244)**	(26,905)
Other assets		**(1,001)**	313
Due to the Central Bank of Lebanon	15	**27,851**	3,316
Deposits from banks	16	**16,919**	2,218
Deposits from customers	17	**49,927**	44,023
Other liabilities	18	**(3,584)**	6,743
Net transfer (from) to retirement benefit obligations	19	**(72)**	337
Net transfer from provision for liabilities and charges		**(43)**	(498)
Cash used in operating activities		**(22,595)**	(886)
Interest received		**90,575**	89,157
Interest paid		**(55,127)**	(51,409)
Dividends received	22	**245**	246
Income taxes paid	29	**(3,157)**	(2,083)
Net cash generated from operating activities		**9,941**	35,025

JAMMAL TRUST BANK S.A.L.

Consolidated statement of cash flows (continued) for the year ended 31 December 2017

	Note	**2017 LL Million**	2016 LL Million
Cash flows from investing activities			
Purchase of property and equipment	11	**(18,073)**	(38,558)
Purchase of intangible assets	12	**(318)**	(338)
Proceeds from sale of assets classified as held for sale		**67**	367
Net cash used in investing activities		**(18,324)**	(38,529)
Cash flows from financing activities			
Dividends paid	20	**(1,288)**	(2,532)
Net decrease in cash and cash equivalents		**(9,671)**	(6,036)
Cash and cash equivalents at beginning of year	7	**126,086**	132,122
Cash and cash equivalents at end of year	7	**116,415**	126,086

The notes on pages 11 to 75 are an integral part of these financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2017

1 General information

Jammal Trust Bank S.A.L. ("the Bank") together with its subsidiaries, ("the Group"), offer a full range of retail, private and commercial banking activities, in addition to insurance services and real estate management. The Group's operations cover all Lebanese provinces.

The Bank was incorporated in Lebanon in 1963 and registered at the Commercial Court in Beirut under number 13578. It appears under number 80 in the list of Lebanese banks. The address of its registered office is as follows: P.O. Box: 11-5640, Verdun, Beirut, Lebanon.

Below is a list of all subsidiaries related to the Group as at 31 December 2016:

	Country of origin	Year of establishment or acquisition	Percentage of ownership	
			2017	2016
Trust Insurance S.A.L.	Lebanon	1996	**99.4%**	99.4%
Trust Life Insurance Company S.A.L.	Lebanon	2001	**99.6%**	99.6%
Trust Insurance Services S.A.L.	Lebanon	2012	**90.0%**	90.0%

Trust Insurance S.A.L. was established in 1996, and its main activity includes providing general insurance services.

Trust Life Insurance Company S.A.L was established in 2001, and its main activity includes providing life insurance services.

Trust Insurance Services S.A.L. was established in 2012, and its main activity includes performing all kind of insurance brokerage services.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of the financial statements to the extent they have not been disclosed in other notes. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to entities reporting under IFRS. The consolidated financial statements comply with the IFRS as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets held at fair value through profit or loss.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in note 3.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.1.1 Changes in accounting policies and disclosures

(a) New standards, amendments and interpretations adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2017:

- Recognition of deferred tax assets for unrealised losses - amendments to IAS 12;
- Disclosure initiative - amendments to IAS 7, 'Statement of Cash Flows';
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle; and

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 January 2017 and not early adopted by the Group:

- **IFRS 9, 'Financial instruments'**
  In July 2014, the International Accounting Standards Board (IASB) issued the updated version of IFRS 9 - 'Financial Instruments'. This new standard includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The Group is currently applying the requirements of IFRS 9 as issued in November 2009 (which addressed specifically the classification and measurement of financial assets). The Group will adopt the updated IFRS 9 version on its mandatory application date that is from 1 January 2018. As permitted by the transitional provisions of IFRS 9, the Group is not planning to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at 31 December 2017 will be recognised in the opening retained earnings and other reserves on 1 January 2018.

  (i) Classification and measurement

  The financial assets held by the Group include (i) debt instruments classified and measured at amortised cost, and (ii) equity instruments classified and measured at fair value through profit or loss. The Group does not foresee a change in its current business model, consequently, a change in the classification and measurement of its financial assets upon its implementation of IFRS 9.

  As for the Group's financial liabilities, there will be no financial impact, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

  The derecognition rules have been taken without modification from IAS 39 Financial Instruments: Recognition and Measurement.

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2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies and disclosures (continued)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 January 2017 and not early adopted by the Group (continued):

- **IFRS 9, 'Financial instruments' (continued)**

(ii) Expected credit losses

IFRS 9 replaces the 'incurred loss' model under IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income which mainly include cash and balances with the Central Bank, loans and advances to banks, advances to parent and fellow banks, loans and advances to customers as well as financial guarantees and credit commitments. A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:
- determining quantitative and qualitative criteria for significant increase in credit risk (SICR);
- choosing appropriate models and assumptions for the measurement of ECL; and
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Financial assets will be categorised into the following three stages in accordance with the IFRS 9 methodology:
- Stage 1 Performing assets: financial assets that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months Probability of Default (PD);
- Stage 2 Underperforming assets: financial assets that have significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on lifetime PD; and
- Stage 3 Impaired assets: For financial assets that are impaired, for which the Group will recognise the impairment allowance based on lifetime PD.

(iii) Transitional impact on loss allowance

The Group will implement IFRS 9 retrospectively with effect from 1 January 2018, with the practical expedients permitted under the Standard. To that effect management has developed a financial model to be able to determine the required provisions under the new IFRS 9 methodology. These are being continually reviewed, refined and updated as necessary in light of actual experience.

Management believes, based upon its detailed assessment of the impact of IFRS 9, that its existing provisions (see below) are more than adequate to cover the requirements of the IFRS 9.

	LL Million
IFRS 9 provision required	
Corporate and SME loans and advances to customers	**39,520**
Investment securities at amortised cost	**1,199**
Cash and balances with the Central Bank of Lebanon	**882**
Due from banks	**397**
Other loans and advances to customers	**4,928**
Existing provisions:	
Specific allowance (note 8)	**28,521**
Collective allowance (note 8)	**18,405**
Increase in provision required	**-**

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies and disclosures (continued)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 January 2017 but not early adopted by the Group (continued):

- **IFRS 9, 'Financial instruments' (continued)**

  (iii) Transitional impact on loss allowance (continued)

  Accordingly, it is not expected that there will be an impact on the Group's equity from the adoption of the new IFRS 9 impairment model on 1 January 2018. Comparative figures for 2017 will not be restated.

  (iv) Disclosures

  The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

- IFRS 16, 'Leases', was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The new standard is mandatory for financial years commencing on or after 1 January 2019. Management is still assessing the impact of IFRS 16, however it is not expected to be significant on the Group's financial statements.

- IFRS 15 'Revenue from contracts with customers' was issued in May 2014 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group does not expect that IFRS 15 will have a significant impact on the Group's financial statements.

There are no other IFRS's or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group's financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which each group entity operates ('the functional currency'). The consolidated financial statements are presented in Lebanese Pounds ("LL"), which is the Group's functional and presentation currency. All figures are presented in LL million, unless specifically otherwise stated.

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss.

All foreign exchange gains and losses recognised in the profit and loss are presented net within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2.4 Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities

2.5.1 Financial assets

The Group classifies its financial assets in the following categories: those to be measured subsequently at fair value, and those to be measured at amortised cost. This classification depends on whether the financial asset is a debt or equity investment.

(a) Financial assets at amortised cost

A debt investment is classified as "amortised cost" only if both of the following criteria are met: the objective of the Group's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in the debt investment are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

(b) Financial assets at fair value

If either of the two criteria above are not met, the debt instrument is classified as "fair value through profit or loss". The Group has not designated any debt investment as measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch.

All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the Group can make an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

(c) Recognition, measurement and reclassification

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value though profit or loss are expensed in the profit and loss.

A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss in the period in which they arise.

A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present unrealised and realised fair value gains and losses on equity investments in other comprehensive income, there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

2.5.1 Financial assets (continued)

(c) Recognition, measurement and reclassification (continued)

The Group is required to reclassify all affected debt investments when and only when its business model for managing those assets changes. The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category
(as defined by IFRS 9)</th><th>Class
(as determined by the Group)</th><th>Subclass</th></tr>
<tr><td rowspan="4">Financial assets</td><td rowspan="3">At amortised cost</td><td colspan="2">Due from banks and financial institutions</td></tr>
<tr><td>Loans and advances to customers</td><td>- Retail
- SME
- Corporate
- Housing
- Secured by commercial real estate</td></tr>
<tr><td>Investment securities - debt instruments</td><td>Unlisted and listed</td></tr>
<tr><td>At fair value through profit or loss</td><td>Investment securities - equity instruments
Investment securities - debt instruments</td><td>Unlisted and listed</td></tr>
<tr><td rowspan="3">Financial liabilities</td><td rowspan="3">Financial liabilities at amortised cost</td><td colspan="2">Due to the Central Bank of Lebanon</td></tr>
<tr><td colspan="2">Deposits from banks and financial institutions</td></tr>
<tr><td colspan="2">Deposits from customers</td></tr>
<tr><td rowspan="2">Off balance sheet</td><td colspan="3">Credit commitments</td></tr>
<tr><td colspan="3">Guarantees, letters of credit and other financial facilities</td></tr>
</table>

2.5.2 Financial liabilities

The Group holds financial liabilities at amortised cost. Financial liabilities measured at amortised cost are due to the Central Bank of Lebanon, deposits from banks and deposits from customers.

2.5.3 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets traded in active markets (such as publicly traded equity securities on a stock exchange) are based on quoted market prices at the close of trading on the reporting date.

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

2.5.3 Fair value estimation (continued)

Fair values for unlisted equity securities are determined by the Group using valuation techniques. Such valuation techniques may include earnings multiples and discounted cash flows. The valuation techniques also consider the original transaction price and take into account the relevant developments since the acquisition of the investments and other factors pertinent to the valuation of the investments, with reference to such rights in connection with realisation, recent third-party transactions of comparable types of instruments, and reliable indicative offers from potential buyers.

The Group's valuation technique for unlisted debt instruments is the net present value of estimated future cash flows based on a discounted cash flow model. The discount rate used by the Group is based on the yield of similar instruments having same credit risk and maturity. This valuation technique maximises the use of observable market data where it is available and rely as little as possible on entity specific estimates.

2.5.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a portion of the risks.

2.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

2.7 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest and similar income" and "interest and similar expenses" in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

2 Summary of significant accounting policies (continued)

2.7 Interest income and expense (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.8 Fee and commission income

Fees and commissions are recognised on an accrual basis when the service has been provided and mainly comprise commissions on client transactions such as the processing fees for opening and executing letters of credit and letters of guarantees.

2.9 Dividend income

Dividends are recognised in the statement of comprehensive income when the Group's right to receive payment is established. Usually, this is the ex-dividend date for quoted equity securities.

2.10 Impairment of financial assets

(a) Assets carried at amortised cost

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

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 statement of comprehensive income.

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 recognised 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 loan impairment charges' in the statement of comprehensive income.

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.

2 Summary of significant accounting policies (continued)

2.10 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

The calculation of the present value of the estimated future cash flows of a collateralised 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.

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, 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.

(b) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible not ready for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2 Summary of significant accounting policies (continued)

2.13 Leases

The leases entered into by the Group, are principally operating leases. Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight-line basis over the period of the lease. The total payments made under operating leases are charged to other operating expenses in the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.14 Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment are stated at historical cost less depreciation and impairment if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their carrying amounts to their residual values over their estimated useful lives, as follows:

	Years
Property and buildings	50
Computer equipment	5
Equipment and furniture	10 - 12
Vehicles	8
Leasehold improvements	5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other operating income" in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.15 Intangible assets

Intangible assets are recognised at cost. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 5 years. Intangible assets with an indefinite useful life are not amortised. At each date of the balance sheet, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

The Group chooses to use the cost model for the measurement after recognition.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These intangible assets have a definite useful life and are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 5 years.

2.16 Non-current assets held for sale

Non-current assets held for sale include assets acquired from customers in settlement of their debt. The Group exercises its ownership rights over the real estate collateral or acquires the customer's real estate property when it exhausts all other reasonable means for collecting non-performing loans.

These assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.17 Reserves against assets held for sale

At each balance sheet date, an appropriation of retained earnings is made in respect of non-current assets classified as held for sale. The amount of this appropriation is determined by applying the percentages specified in the relevant Banking Control Commission ("BCC") circulars (5% or 20% as applicable) to the carrying amounts of those assets.

2.18 Income tax

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies (continued)

2.18 Income tax (continued)

(b) Deferred income tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.19 Employee benefits

The Group is subscribed to the compulsory defined benefit plan of the national social security fund regulations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the fund. The defined benefit obligation is calculated annually by the Group using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

2.20 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Group recognises no provisions for future operating losses.

Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

2 Summary of significant accounting policies (continued)

2.22 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the date of the balance sheet are dealt with in the subsequent events note.

3 Financial risk management

The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by the Group's risk management department under policies approved by the Board of Directors. The Board of Directors provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Group is exposed are financial risks, which include credit risk, liquidity risk, market risk (which are discussed below) and operational risk.

3 Financial risk management (continued)

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and credit commitments arising from such lending activities, financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks mainly arising from investments in debt securities.

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

3.1.1 Credit risk measurement

(a) Loans and advances to customers

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

Performing loans:

- Normal – the loan is expected to be repaid on a timely and consistent basis;
- Follow-up – the loan is expected to be repaid but the client's file is not complete;
- Special mention – the client is still able to fulfil its obligations with the presence of some weaknesses that may lead to a lower probability of repayment if not addressed;

Non-performing loans:

- Substandard – the client has a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful – there is no movement in the clients' balance; and
- Bad – the probability of repayment is low and almost nil.

These credit risk measurements reflect the impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model').

(b) Debt securities

For debt securities and other bills, external ratings are used by the Group's treasury department for managing credit risk exposure.

3.1.2 Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and banks, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to a quarterly or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are set by the Board of Directors (in compliance with BDL basic circulars no. 48, 62 and 81).

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

The exposure to any one borrower including banks and financial institutions is further restricted by sub-limits covering on and off-balance sheet exposures.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:
- Real Estate Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory, machinery and vehicles;
- Personal, bank and public sector guarantees;
- Salary domiciliation;
- Letters of Credit and Documentary collections; and
- Cash collaterals.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(c) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate in addition to a required cash margin set by the credit committee based on the credit rating of each customer and therefore carry less risk than a direct loan.

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

(c) Financial covenants (for credit related commitments and loan books) (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see note 2.10).

The impairment provision shown in the balance sheet at year-end is derived from each of the six internal rating grades described in note 3.1.1. However, the majority of the impairment provision comes from the bottom two gradings shown under 3 below. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Group's internal rating categories:

Group's rating (based on the Supervisory Grading System)

	2017 Credit risk exposure (%)	**2017 Impairment provision (%)**	2016 Credit risk exposure (%)	2016 Impairment provision (%)
1. Normal, follow up and special mention	**89**	**3**	89	3
2. Substandard	**7**	**7**	6	4
3. Doubtful and bad	**4**	**87**	5	90
	100		100	

The total impairment constitutes 5.94 % (2016 – 7.27 %) of the total gross loans portfolio.

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Maximum credit risk exposures relating to on-balance sheet assets are as follows:

	Maximum exposure	
	2017	2016
	LL Million	LL Million
Assets		
Balances with the Central Bank of Lebanon	**308,315**	265,926
Due from banks and financial institutions	**49,819**	66,384
Loans and advances to customers:		
- Retail loans	**55,113**	65,418
- Small and medium size enterprises (SMEs)	**294,414**	171,837
- Corporate loans	**219,906**	313,511
- Housing loans	**102,148**	102,035
- Loans secured by commercial real estate	**71,611**	60,997
Debtors by acceptances	**4,032**	2,306
Debt securities at amortised cost	**388,228**	340,005
Debt securities designated at fair value through profit or loss	**-**	25,574
Other assets	**5,600**	4,483
At 31 December	**1,499,186**	1,418,476

Maximum credit risk exposures relating to off-balance sheet items are as follows:

	2017	2016
	LL Million	LL Million
Loan commitments	**29,529**	18,358
Letters of guarantee	**37,191**	29,229
Letters of credit import	**23,109**	13,244
Letters of credit export – confirmed	**1,381**	377
	91,210	61,208
At 31 December	**1,590,396**	1,479,684

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2017 and 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 47% of the total maximum exposure is derived from loans and advances to customers (2016 – 48%) and 24% is derived from investment securities (2016 – 25%).

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Management is confident of its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loans and advances portfolio and debt securities based on the following:

- 89% of the loans and advances portfolio is categorised in the top three grades of the supervisory grading system (2016 – 89%);
- 92% of the net loans and advances portfolio are considered to be neither past due nor impaired (2016 – 93%); and
- Approximately all investments securities (99%) are Lebanese government securities: Treasury bills, Eurobonds and Certificates of deposit.

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as at 31 December 2017 and 2016. For this table, the Group has allocated exposures to regions based on the destination of use of funds.

	Lebanon LL Million	Arab countries LL Million	Africa LL Million	European countries LL Million	Other LL Million	Total LL Million
Assets						
Balances with the Central Bank of Lebanon	308,315	-	-	-	-	308,315
Due from banks and financial institutions	33,298	289	-	8,515	7,717	49,819
Loans and advances to customers:						
-Retail loans	54,838	-	275	-	-	55,113
-Small and medium sized enterprises (SMEs)	203,473	15,173	61,043	14,725	-	294,414
-Corporate loans	106,265	4,993	95,951	12,697	-	219,906
-Housing loans	102,148	-	-	-	-	102,148
-Loans secured by commercial real estate	62,063	9,548	-	-	-	71,611
Debtors by acceptances	-	-	4,032	-	-	4,032
Debt securities at amortised cost	388,228	-	-	-	-	388,228
Other assets	5,585	15	-	-	-	5,600
At 31 December 2017	**1,264,213**	**30,018**	**161,301**	**35,937**	**7,717**	**1,499,186**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors (continued)

	Lebanon LL Million	Arab countries LL Million	Africa LL Million	European countries LL Million	Other LL Million	Total LL Million
Assets						
Balances with the Central Bank of Lebanon	265,926	-	-	-	-	265,926
Due from banks and financial institutions	49,781	308	-	8,468	7,827	66,384
Loans and advances to customers:						
- Retail loans	65,000	332	86	-	-	65,418
- Small and medium sized enterprises (SMEs)	148,805	5,356	9,896	5,550	2,230	171,837
- Corporate loans	134,548	20,527	142,625	15,811	-	313,511
- Housing loans	100,505	-	1,530	-	-	102,035
- Loans secured by commercial real estate	60,997	-	-	-	-	60,997
Debtors by acceptances	-	-	2,306	-	-	2,306
Debt securities at amortised cost	340,005	-	-	-	-	340,005
Debt securities at fair value through profit and loss	25,574	-	-	-	-	25,574
Other assets	4,483	-	-	-	-	4,483
At 31 December 2016	**1,195,624**	**26,523**	**156,443**	**29,829**	**10,057**	**1,418,476**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors (continued)

Credit risk exposures relating to off-balance sheet items are as follows:

	Lebanon LL Million	Arab countries LL Million	Africa LL Million	European countries LL Million	Other LL Million	Total LL Million
Loan commitment	20,027	606	8,808	88	-	29,529
Letters of guarantee	31,924	3,561	1,598	108	-	37,191
Letters of credit import	517	-	22,592	-	-	23,109
Letters of credit export – confirmed	121	-	-	1,260	-	1,381
At 31 December 2017	**52,589**	**4,167**	**32,998**	**1,456**	**-**	**91,210**
Loan commitments	11,656	-	6,420	282	-	18,358
Letters of guarantee	22,227	5,000	1,906	96	-	29,229
Letters of credit import	669	-	12,575	-	-	13,244
Letters of credit export – confirmed	377	-	-	-	-	377
At 31 December 2016	**34,929**	**5,000**	**20,901**	**378**	**-**	**61,208**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors

The following table breaks down the Group's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Group's counterparties.

	Agriculture LL Million	Manufacturing LL Million	Construction LL Million	Commercial LL Million	Financial institutions LL Million	Other LL Million	Individual LL Million	Total LL Million
Assets								
Balances with the Central Bank of Lebanon	-	-	-	-	308,315	-	-	308,315
Due from banks and financial institutions	-	-	-	-	49,819	-	-	49,819
Loans and advances to customers:								
-Retail loans	1,153	793	211	1,455	47	94	51,360	55,113
-Small and medium sized enterprises (SMEs)	35,868	65,461	62,685	109,661	13,155	5,790	1,794	294,414
-Corporate loans	15,666	79,767	18,838	104,512	-	-	1,123	219,906
-Housing loans	765	-	-	132	-	-	101,251	102,148
-Loans secured by commercial real estate	3,741	610	66,437	66	-	3	754	71,611
Debtors by acceptances	-	257	-	3,775	-	-	-	4,032
Debt securities at amortised cost	-	-	-	-	388,228	-	-	388,228
Other assets	-	-	-	-	-	5,600	-	5,600
At 31 December 2017	**57,193**	**146,888**	**148,171**	**219,601**	**759,564**	**11,487**	**156,282**	**1,499,186**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors (continued)

	Agriculture LL Million	Manufacturing LL Million	Construction LL Million	Commercial LL Million	Financial institutions LL Million	Other LL Million	Individual LL Million	Total LL Million
Assets								
Balances with the Central Bank of Lebanon	-	-	-	-	265,926	-	-	265,926
Due from banks and financial institutions	-	-	-	-	66,384	-	-	66,384
Loans and advances to customers:								
- Retail loans	3,373	222	982	782	74	19	59,966	65,418
- Small and medium sized enterprises (SMEs)	13,728	34,673	23,128	75,860	16,247	6,104	2,097	171,837
- Corporate loans	35,115	69,082	41,530	134,323	30,436	-	3,025	313,511
- Housing loans	1,531	4,223	-	67	-	647	95,567	102,035
- Loans secured by commercial real estate	3,224	4,794	52,252	-	-	-	727	60,997
Debtors by acceptances	-	1,365	-	941	-	-	-	2,306
Debt securities at amortised cost	-	-	-	-	340,005	-	-	340,005
Debt securities at fair value through profit and loss	-	-	-	-	25,574	-	-	25,574
Other assets	-	-	-	-	-	4,483	-	4,483
At 31 December 2016	**56,971**	**114,359**	**117,892**	**211,973**	**744,646**	**11,253**	**161,382**	**1,418,476**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors (continued)

Credit risk exposures relating to off-balance sheet items are as follows:

	Agriculture LL Million	Manufacturing LL Million	Construction LL Million	Commercial LL Million	Financial institutions LL Million	Other LL Million	Individual LL Million	Total LL Million
Loan commitment	132	7,637	8,780	11,712	1	332	935	29,529
Letters of guarantee	4	482	10,436	19,853	4,484	1,005	927	37,191
Letters of credit import	1,809	358	1,019	19,522	-	401	-	23,109
Letters of credit export – confirmed	-	-	-	-	-	120	1,261	1,381
At 31 December 2017	**1,945**	**8,477**	**20,235**	**51,087**	**4,485**	**1,858**	**3,123**	**91,210**
Loan commitments	743	2,775	1,600	12,186	5	2	1,047	18,358
Letters of guarantee	4	2,719	8,827	10,858	4,486	961	1,374	29,229
Letters of credit import	1,969	2,915	798	6,894	-	632	36	13,244
Letters of credit export – confirmed	-	-	-	-	-	377	-	377
At 31 December 2016	**2,716**	**8,409**	**11,225**	**29,938**	**4,491**	**1,972**	**2,457**	**61,208**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances

Loans and advances to customers, due from banks and financial institutions and balances with the Central Bank of Lebanon are summarised as follows:

	2017 Loans and advances to customers LL Million	**2017 Due from banks and Central Bank LL Million**	2016 Loans and advances to customers LL Million	2016 Due from banks and Central Bank LL Million
Neither past due nor impaired	**685,326**	**358,133**	667,386	332,310
Past due but not impaired	**18,659**	**-**	15,995	-
Individually impaired	**86,133**	**-**	86,362	-
Gross amount	**790,118**	**358,133**	769,743	332,310
Less: allowance for impairment	**(46,926)**	**-**	(55,945)	-
Net amount	**743,192**	**358,133**	713,798	332,310
Individually impaired	**28,521**	**-**	38,340	-
Portfolio allowance	**18,405**	**-**	17,605	-
Total	**46,926**	**-**	55,945	-

During the year ended 31 December 2017, the Group's total loans and advances to customers increased by 4% (2016 - 2%) as a result of the expansion of the lending business, especially in Lebanon. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Group focused more on the business with large corporate enterprises or banks with good credit rating or retail customers providing sufficient collateral.

(a) Loans and advances neither past due nor impaired

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

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(a) Loans and advances neither past due nor impaired (continued)

	Retail LL Million	SME LL Million	Corporate LL Million	Housing LL Million	Secured by commercial real estate LL Million	Total LL Million
At 31 December 2017						
1. Normal and follow-up	55,069	246,357	204,348	102,818	37,473	646,065
2. Special mention	454	25,329	-	274	13,204	39,261
Total	**55,523**	**271,686**	**204,348**	**103,092**	**50,677**	**685,326**
At 31 December 2016						
1. Normal and follow-up	65,747	140,550	265,091	102,416	42,303	616,107
2. Special mention	339	16,203	31,553	670	2,514	51,279
Total	**66,086**	**156,753**	**296,644**	**103,086**	**44,817**	**667,386**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Retail LL Million	SME LL Million	Corporate LL Million	Housing LL Million	Secured by commercial real estate LL Million	Total LL Million
At 31 December 2017						
Past due up to 30 days	96	839	93	58	336	1,422
Past due 30-60 days	33	1,846	1,334	25	-	3,238
Past due 60-90 days	16	1,566	112	13	871	2,578
Past due above 90 days	5	4,215	3,668	43	3,490	11,421
Total	**150**	**8,466**	**5,207**	**139**	**4,697**	**18,659**
Fair value of collateral	**1,216**	**32,107**	**9,540**	**7,030**	**1,143**	**51,036**
At 31 December 2016						
Past due up to 30 days	296	304	277	62	-	939
Past due 30-60 days	59	107	1,088	18	-	1,272
Past due 60-90 days	11	227	500	7	211	956
Past due above 90 days	31	8,136	4,507	16	138	12,828
Total	**397**	**8,774**	**6,372**	**103**	**349**	**15,995**
Fair value of collateral	**1,498**	**21,862**	**36,866**	**6,382**	**6,030**	**72,638**

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(c) Loans and advances individually impaired

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

	Retail LL Million	SME LL Million	Corporate LL Million	Housing LL Million	Secured by commercial real estate LL Million	Total LL Million
At 31 December 2017						
Individually impaired loans	**8,882**	**34,901**	**15,949**	**575**	**25,826**	**86,133**
Provision on individually impaired loans	**(7,690)**	**(13,503)**	**(104)**	**(57)**	**(7,167)**	**(28,521)**
Fair value of collateral	**2,913**	**28,904**	**25,600**	**1,241**	**19,098**	**77,756**
At 31 December 2016						
Individually impaired loans	7,396	26,426	17,389	502	34,649	86,362
Provision on individually impaired loans	(6,420)	(15,242)	(29)	(55)	(16,594)	(38,340)
Fair value of collateral	4,277	17,277	23,864	691	19,098	65,207

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(d) Due from banks and financial institutions and balances with the Central Bank of Lebanon

The total amount of individually impaired balances with banks and financial institutions and the Central Bank of Lebanon as at 31 December 2017 and 2016 is nil. No collateral is held by the Group, and no impairment provision has been recorded.

(e) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. Renegotiated loans that would otherwise be past due or impaired amounted to LL 38 billion at 31 December 2017 (2016 – LL 31 billion).

3.1.6 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2017 and 2016, based on Standard & Poor's ratings:

	At fair value through profit or loss LL Million	**At amortised cost LL Million**
At 31 December 2017		
B+ to B-	**-**	**385,551**
Not rated	**-**	**2,677**
	-	**388,228**
At 31 December 2016		
B+ to B-	25,574	337,729
Not rated	-	2,276
	25,574	340,005

3.1.7 Repossessed collateral

The Group obtained assets by taking possession of collateral held as security, as follows:

	2017 LL Million	2016 LL Million
Nature of assets		
Residential property- carrying amount	**2,197**	2,194

Repossessed property is classified in the balance sheet within non-current assets held for sale (note 14).

3 Financial risk management (continued)

3.2 Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

3.2.1 Market risk measurement techniques

Effective identification and monitoring of market risk is essential for maintaining stable profit. This is carried out by the Group's risk management department. The Group's treasury is responsible for managing the market exposure within the limits as approved by ALCO and as stipulated by the circulars of Central Bank of Lebanon no. 32 and 81. The major measurement technique used to measure and control market risk is outlined below.

Sensitivity analysis

A technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price. Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different compared to the key predictions. The Group performs this analysis for each type of market risk to which the Group is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

At the reporting date, the result of the sensitivity analysis is not material to the Group's financial performance.

3.2.2 Foreign exchange risk

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

As the Group does not actively seek foreign exchange exposures, the limit placed on this risk is small in relation to the Group's other risk exposures. This exposure limit is related to and is set out in compliance with the limits set by the Central Bank of Lebanon as approved by the board of directors and closely monitored by the Group's treasury management on a daily basis.

The tables below summarise the Group's exposure to foreign currency exchange rate risk at 31 December 2017 and 2016. The table includes the Group's financial instruments at carrying amounts, categorised by currency.

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.2 Foreign exchange risk (continued)

At 31 December 2017	LBP LL Million	USD LL Million	GBP LL Million	EUR LL Million	YEN LL Million	Others LL Million	Total LL Million
Assets							
Cash and balances with the Central Bank of Lebanon	155,321	165,052	179	549	-	-	321,101
Due from banks and financial institutions	2	48,553	270	709	121	164	49,819
Loans and advances to customers	304,696	365,197	10,013	55,078	8,208	-	743,192
Debtors by acceptances	-	4,032	-	-	-	-	4,032
Equity securities at fair value through profit or loss	1,603	1,492	-	31	-	-	3,126
Debt securities at amortised cost	265,567	122,661	-	-	-	-	388,228
Other assets	8,489	706	22	-	-	-	9,217
Total financial assets	**735,678**	**707,693**	**10,484**	**56,367**	**8,329**	**164**	**1,518,715**
Liabilities							
Due to the Central Bank of Lebanon	62,705	-	-	-	-	-	62,705
Deposits from banks and financial institutions	34	9,405	2,216	20,694	8,290	-	40,639
Deposits from customers	681,632	614,479	8,148	35,254	-	4	1,339,517
Engagements by acceptances	-	4,032	-	-	-	-	4,032
Other liabilities	15,115	3,130	15	79	-	2	18,341
Total financial liabilities	**759,486**	**631,046**	**10,379**	**56,027**	**8,290**	**6**	**1,465,234**
Net on-balance sheet financial position	**(23,807)**	**76,647**	**105**	**339**	**39**	**158**	**53,481**
Loan commitments	**2,078**	**26,144**	**-**	**1,307**	**-**	**-**	**29,529**

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.2 Foreign exchange risk (continued)

At 31 December 2016	LBP LL Million	USD LL Million	GBP LL Million	EUR LL Million	YEN LL Million	Others LL Million	Total LL Million
Assets							
Cash and balances with the Central Bank of Lebanon	144,005	131,444	123	1,931	-	-	277,503
Due from banks and financial institutions	4,158	59,294	211	2,234	230	257	66,384
Loans and advances to customers	286,755	355,007	12,224	51,930	7,882	-	713,798
Debtors by acceptances	-	291	-	2,015	-	-	2,306
Equity securities at fair value through profit or loss	1,603	1,314	-	27	-	-	2,944
Debt securities at amortised cost	259,700	80,305			-	-	340,005
Debt securities at fair value through profit or loss	-	25,574	-	-	-	-	25,574
Other assets	6,606	734	21	-	-	-	7,361
Total financial assets	**702,827**	**653,963**	**12,579**	**58,137**	**8,112**	**257**	**1,435,875**
Liabilities							
Due to the Central Bank of Lebanon	34,762	-	-	-	-	-	34,762
Deposits from banks	61	186	3,181	12,007	8,107	-	23,542
Deposits from customers	663,292	569,809	9,163	47,655	1	126	1,290,046
Engagements by acceptances	-	291	-	2,015	-	-	2,306
Other liabilities	13,576	8,083	91	173	-	2	21,925
Total financial liabilities	**711,691**	**578,369**	**12,435**	**61,850**	**8,108**	**128**	**1,372,581**
Net on-balance sheet financial position	**(8,864)**	**75,594**	**144**	**(3,713)**	**4**	**129**	**63,294**
Loan commitments	**3,252**	**13,708**	**249**	**1,149**	**-**	**-**	**18,358**

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.
Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by the Treasury Department.

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk (continued)

At 31 December 2017

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
Assets							
Cash and balances with the Central Bank of Lebanon	49,957	64,823	21,468	19,045	61,404	104,404	321,101
Due from banks and financial institutions	7,699	-	-	-	-	42,120	49,819
Loans and advances to customers	22,582	20,406	185,596	406,274	64,844	43,490	743,192
Debtors by acceptances	-	-	-	-	-	4,032	4,032
Equity securities at fair value through profit or loss	-	-	-	-	-	3,126	3,126
Debt securities at amortised cost	-	10,020	50,801	60,028	260,241	7,138	388,228
Other assets	-	-	-	-	-	9,217	9,217
Total financial assets	**80,238**	**95,249**	**257,865**	**485,347**	**386,489**	**213,527**	**1,518,715**
Liabilities							
Due to the Central Bank of Lebanon	1,168	1,235	10,829	38,298	10,772	403	62,705
Deposits from banks	176	-	-	9,045	-	31,418	40,639
Deposits from customers	650,745	174,486	261,102	25,159	-	228,025	1,339,517
Engagements by acceptances	-	-	-	-	-	4,032	4,032
Other liabilities	-	-	-	-	-	18,341	18,341
Total financial liabilities	**652,089**	**175,721**	**271,931**	**72,502**	**10,772**	**282,219**	**1,465,234**
Total interest repricing gap	**(571,851)**	**(80,472)**	**(14,066)**	**412,845**	**375,717**	**(68,692)**	**53,481**

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk (continued)

At 31 December 2016

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
Assets							
Cash and balances with the Central Bank of Lebanon	47,196	62,109	-	5,000	60,000	103,198	277,503
Due from banks and financial institutions	32,993	-	-	-	-	33,391	66,384
Loans and advances to customers	19,486	18,329	209,040	374,253	61,960	30,730	713,798
Debtors by acceptances	-	-	-	-	-	2,306	2,306
Equity securities at fair value through profit or loss	-	-	-	-	-	2,944	2,944
Debt securities at amortised cost	47	14,198	17,036	94,102	208,094	6,528	340,005
Debt securities at fair value through profit or loss	25,574	-	-	-	-	-	25,574
Other assets	-	-	-	-	-	7,361	7,361
Total financial assets	**125,296**	**94,636**	**226,076**	**473,355**	**330,054**	**186,458**	**1,435,875**
Liabilities							
Due to the Central Bank of Lebanon	264	360	3,204	22,113	8,491	330	34,762
Deposits from banks	174	-	-	-	-	23,368	23,542
Deposits from customers	602,928	167,226	269,178	17,275	-	233,439	1,290,046
Engagements by acceptances	-	-	-	-	-	2,306	2,306
Other liabilities	-	-	-	-	-	21,925	21,925
Total financial liabilities	**603,366**	**167,586**	**272,382**	**39,388**	**8,491**	**281,368**	**1,372,581**
Total interest repricing gap	**(478,070)**	**(72,950)**	**(46,306)**	**433,967**	**321,563**	**(94,910)**	**63,294**

3 Financial risk management (continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfill lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

3.3.1 Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by the Treasury department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements (BDL basic circulars number 72, 73, 84, 86 and 87); and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (note 3.3.3).

3.3.2 Funding approach

Sources of liquidity are regularly set by the Treasury department, while the risk management department and the Assets and Liabilities Committee ("ALCO") monitor those sources to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the balance sheet. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the liquidity risk based on a different basis (see note 3.3.1), not resulting in a significantly different analysis.

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3 Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

At 31 December 2017

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Total LL Million
Liabilities						
Due to the Central Bank of Lebanon	1,507	1,235	10,893	38,298	10,772	62,705
Deposits from banks and financial institutions	31,416	178	-	9,045	-	40,639
Deposits from customers	878,770	174,486	261,102	25,159	-	1,339,517
Engagements by acceptances	-	3,888	144	-	-	4,032
Other liabilities	18,341	-	-	-	-	18,341
Total liabilities (contractual maturity dates)	**930,034**	**179,787**	**272,139**	**72,502**	**10,772**	**1,465,234**
Assets held for managing liquidity risk (contractual maturity dates)	**265,489**	**37,645**	**270,235**	**580,475**	**364,871**	**1,518,715**

At 31 December 2016

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Total LL Million
Liabilities						
Due to the Central Bank of Lebanon	594	360	3,204	22,113	8,491	34,762
Deposits from banks and financial institutions	23,542	-	-	-	-	23,542
Deposits from customers	836,367	167,226	269,178	17,275	-	1,290,046
Engagements by acceptances	-	1,074	1,232	-	-	2,306
Other liabilities	21,925	-	-	-	-	21,925
Total liabilities (contractual maturity dates)	**882,428**	**168,660**	**273,614**	**39,388**	**8,491**	**1,372,581**
Assets held for managing liquidity risk (contractual maturity dates)	**273,388**	**54,715**	**262,592**	**535,283**	**309,897**	**1,435,875**