

**LIBANK SAL
(LEVANT INVESTMENT BANK)**

FINANCIAL STATEMENTS

31 DECEMBER 2017



**Building a better
working world**

Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
P.O. Box: 11-1639, Riad El Solh
Beirut - 1107 2090, Lebanon
Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@lb.ey.com
ey.com/mena
C.R. 61



SEMAAN, GHOLAM & Co.

BDO, Semaan, Gholam & Co.
Gholam Building - Sioufi Street
Beirut
P.O.Box: 11-0558, Riad El Solh
Beirut - 1107 2050, Lebanon
Tel: (01) 323676
Fax: (01) 204142
siman@inco.com.lb
C.R. 570

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LIBANK SAL (LEVANT INVESTMENT BANK)

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank 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 (IFRSs).

Basis for opinion

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

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 year ended 31 December 2017. We have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Our description of how our audit addressed the matter is provided in that context.

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



Building a better
working world



SEMAAN, GHOLAM & Co.

Key audit matters (continued)

Key audit matter	How our audit addresses the key audit matter
Valuation of financial instruments	
<p>The fair value of financial instruments is determined through the application of valuation techniques and the use of assumptions and estimates. Due to the significance of financial instruments and the related estimation uncertainty, this is considered a key audit focus area.</p> <p>Of the financial instruments that are carried at fair value in the Bank's statement of financial position as at 31 December 2017, the significant majority qualified as Level 1 or 2 financial instruments. These instruments were valued using prices that were observable in the market or through models with market observable inputs, resulting in a lower valuation risk.</p> <p>The remaining financial instruments are classified as Level 3, where certain pricing inputs to value these instruments are unobservable. The valuation of these instruments involve the application of unobservable inputs such as future cash flow forecasts, discount rates and volatility, amongst others. As such, there is greater estimation uncertainty in the determination of these prices.</p> <p>Note 33 to the financial statements provides details relating to the valuation of financial instruments.</p>	<p>We assessed the controls over the identification and measurement of valuation risk. These controls include independent price verification, governance over valuation models, model validation and management reporting of valuation risk.</p> <p>For a sample of financial instruments, we checked that the pricing inputs used were externally sourced and accurately input into pricing models.</p> <p>For a sample of the Level 1 and 2 instruments, we critically assessed that the market prices and inputs are genuinely observable.</p> <p>In respect of a sample of Level 3 instruments, we assessed key inputs and assumptions, considering alternative valuation methods and assessing sensitivities to key factors.</p> <p>We assessed whether the disclosures in the financial statements appropriately reflected the Bank's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.</p>

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

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Auditors' responsibilities for the audit of the financial statements (continued)

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

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



Ernst & Young

24 May 2018
Beirut, Lebanon



BDO, Semaan, Gholam & Co.

LiBank SAL (LEVANT INVESTMENT BANK)

INCOME STATEMENT

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Interest and similar income	3	4,416,955	3,837,104
Interest and similar expense	4	(5,644,933)	(5,241,130)
Net interest expense		(1,227,978)	(1,404,026)
Fees and commission income	5	1,570,381	976,873
Fees and commission expense	5	(145,577)	(95,040)
Net fee and commission income	5	1,424,804	881,833
Net gain on financial assets at fair value through profit or loss	6	7,182,894	9,446,804
Dividend income on financial assets at fair value through other comprehensive income	13	31,096	26,521
Net loss from sale of financial assets at amortized cost	15	-	(612,092)
Share of profit from investments in associates	16	110,342	479,701
Total operating income		7,521,158	8,818,741
Provision for impairment of advance on an investment	19	-	(1,009,041)
Net operating income		7,521,158	7,809,700
Personnel expenses	7	(3,651,944)	(3,535,869)
Other operating expenses	8	(2,840,868)	(2,760,417)
Depreciation of property and equipment	17	(445,718)	(701,763)
Amortization of intangible assets	18	(131,606)	(106,751)
Total operating expenses		(7,070,136)	(7,104,800)
Operating profit		451,022	704,900
Provisions for risks and charges	25	-	(656,964)
PROFIT FOR THE YEAR		451,022	47,936

The accompanying notes 1 to 34 form part of these financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<i>Note</i>	2017 LL (000)	2016 LL (000)
PROFIT FOR THE YEAR		451,022	47,936
Other comprehensive income			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Net gain from financial assets at fair value through other comprehensive income	28	1,390,818	243,899
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,841,840	291,835

The accompanying notes 1 to 34 form part of these financial statements.


LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
ASSETS			
Cash and balances with the Central Bank	10	34,905,161	20,156,298
Deposits with banks and financial institutions	11	16,734,837	5,405,548
Financial assets at fair value through profit or loss	12	90,623,177	90,275,130
Financial assets at fair value through other comprehensive income	13	4,770,945	3,002,387
Loans and advances to customers at amortized cost	14	33,161,357	15,282,265
Loans and advances to related parties at amortized cost	30	963,457	1,980,926
Financial assets at amortized cost	15	36,302,147	27,708,270
Investments in associates	16	2,484,155	1,813,300
Property and equipment	17	9,920,124	9,226,549
Intangible assets	18	190,612	307,142
Other assets	19	7,426,035	5,976,088
TOTAL ASSETS		237,482,007	181,133,903
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Central Bank	20	16,671,231	6,783,751
Due to banks and financial institutions	21	49,959,816	38,239,794
Customers' deposits at amortized cost	22	101,348,544	63,816,605
Deposits from related parties at amortized cost	23	2,694,621	6,609,074
Other liabilities	24	732,257	1,652,201
Provisions for risks and charges	25	966,620	767,827
TOTAL LIABILITIES		172,373,089	117,869,252
EQUITY			
Share capital	26	60,000,000	60,000,000
Legal reserve	27	320,613	315,820
Reserve for general banking risks	27	933,614	890,471
Other reserves	27	541,978	539,551
Cumulative changes in fair value of financial assets at fair value through other comprehensive income	28	1,454,868	64,050
Retained earnings		1,406,823	1,406,823
Results for the year - profit		451,022	47,936
TOTAL EQUITY		65,108,918	63,264,651
TOTAL LIABILITIES AND EQUITY		237,482,007	181,133,903

The financial statements were authorized for issue in accordance with the resolution of the board of directors on 24 May 2018 by:


Antonios Hanna Ghorayeb
Chairman


George Tabet
General Manager

The accompanying notes 1 to 34 form part of these financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Non-distributable reserves			Distributable reserves		Cumulative changes in fair value of financial assets at fair value through other comprehensive income LL (000)	Retained earnings LL (000)	Results for the year - profit LL (000)	Total equity LL (000)
	Share capital LL (000)	Legal reserve LL (000)	Reserve for general banking risks LL (000)	Total LL (000)	Other reserves LL (000)				
Balance at 1 January 2016	60,000,000	158,585	531,331	689,916	454,834	(179,849)	441,090	1,572,350	62,978,341
Appropriation of 2015 profits	-	157,235	359,140	516,375	90,242	-	965,733	(1,572,350)	-
Total comprehensive income for the year	-	-	-	-	-	243,899	-	47,936	291,835
Translation difference	-	-	-	-	(5,525)	-	-	-	(5,525)
Balance at 31 December 2016	60,000,000	315,820	890,471	1,206,291	539,551	64,050	1,406,823	47,936	63,264,651
Appropriation of 2016 profits	-	4,793	43,143	47,936	-	-	-	(47,936)	-
Total comprehensive income for the year	-	-	-	-	-	1,390,818	-	451,022	1,841,840
Translation difference	-	-	-	-	2,427	-	-	-	2,427
Balance as at 31 December 2017	60,000,000	320,613	933,614	1,254,227	541,978	1,454,868	1,406,823	451,022	65,108,918

The accompanying notes 1 to 34 form part of these financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	<i>Notes</i>	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
OPERATING ACTIVITIES			
Profit for the year		451,022	47,936
Adjustments for:			
Depreciation of property and equipment	17	445,718	701,763
Amortization of intangible assets	18	131,606	106,751
Provision for risks and charges		199,457	718,657
Provision for impairment of advance on an investment	19	-	1,009,041
Share of profit from investments in associates	16	(110,342)	(479,701)
		<u>1,117,461</u>	<u>2,104,447</u>
Changes in operating assets and liabilities:			
Balances with banks and the Central Bank		(10,953,907)	6,945,389
Loans and advances to customers at amortized cost		(17,879,092)	(383,028)
Loans and advances to related parties at amortized cost		1,017,469	1,238,619
Financial assets at fair value		(725,787)	10,752,837
Customers' deposits at amortized cost		37,531,939	25,984,113
Deposits from related parties at amortized cost		(3,914,453)	(95,491,451)
Other assets		(1,449,947)	(133,859)
Other liabilities		(919,944)	869,448
Cash from (used in) operations		<u>3,823,739</u>	<u>(48,113,485)</u>
Provisions for risks and charges paid		(664)	-
Net cash from (used in) operating activities		<u>3,823,075</u>	<u>(48,113,485)</u>
INVESTING ACTIVITIES			
Acquisition of property and equipment	17	(1,139,293)	(8,597,461)
Acquisition of intangible assets	18	(15,076)	(149,062)
Investments in associates		(560,513)	418,926
Financial assets at amortized cost		(8,593,877)	38,903,857
Net cash (used in) from investing activities		<u>(10,308,759)</u>	<u>30,576,260</u>
DECREASE IN CASH AND CASH EQUIVALENTS		<u>(6,485,684)</u>	<u>(17,537,225)</u>
Net effect of foreign exchange		2,427	(5,525)
Cash and cash equivalents at 1 January		(25,079,830)	(7,537,080)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31	<u>(31,563,087)</u>	<u>(25,079,830)</u>

The accompanying notes 1 to 34 form part of these financial statements.

1 CORPORATE INFORMATION

LiBank SAL (the “Bank”) is a Lebanese joint stock company which was incorporated in 2012 and registered under No. 1015811 at the commercial registry of Beirut and under No. 139 on the banks’ list published by the Central Bank of Lebanon. The headquarters of the Bank are located in Ashrafieh, Sofil Center, Beirut, Lebanon.

The Bank provides a wide range of medium and long term banking services and is governed by the Lebanese laws especially the Commercial Law, the Money and Credit Act and the Legislative Decree No. 50 dated 15 July 1983 related to investment banks and to medium and long term credit banks in addition to the regulations of Central Bank of Lebanon and the Banking Control Commission.

The Bank is exempt from income taxes on profits as per the provisions of Legislative Decree No. 50 dated 15 July 1983 for a period of 7 years extending from the date of its establishment.

The Bank obtained the permit for commencement of activities from the Central Bank of Lebanon on 14 January 2013.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified for the restatement of financial assets designated at fair value through profit or loss and financial assets at fair value through other comprehensive income which are measured at fair value.

The financial statements and the relevant disclosures are presented in thousands of Lebanese Lira (LL (000)) except when otherwise indicated.

Statement of compliance

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

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in the risk management note.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations

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

Although these new standards and amendments have been applied for the first time in 2017, they did not have a material impact on the financial statements of the Bank but may affect the accounting for future transactions or arrangements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Changes in accounting policies and disclosures (continued)****New and amended standards and interpretations (continued)**

The nature and the impact of each new standard or amendment are described below:

Standard	Description	Effective date (early adoption permitted)
Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative	The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The adoption of this amendment had no significant impact on the amounts reported in these financial statements.	1 January 2017
Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses	The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Bank applied amendments retrospectively. However, their application has no effect on the Bank's financial position and performance.	1 January 2017
Annual Improvements Cycle - 2014-2016 Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12	The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments did not affect the Bank's financial statements.	1 January 2017

2.3 Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 Standards issued but not yet effective (continued)*****IFRS 9 Financial Instruments (continued)***

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

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

Based on assessments undertaken to date, the expected increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model (see II below) compared to IAS 39 incurred loss model is estimated at approximately LL 705 million, which is already covered by the Bank's excess provisions disclosed in note 25. Accordingly, there will be no impact on the Bank's equity from the adoption of the IFRS 9 impairment requirements.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 Standards issued but not yet effective (continued)*****IFRS 9 Financial Instruments (continued)***

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

II. Impairment (continued)	<p>PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.</p> <p>Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.</p> <p>Our base case scenario will be based on macroeconomic forecasts published by our internal economics group. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.</p> <p>Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.</p> <p><i>Definition of default</i></p> <p>The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.</p> <p><i>Expected Life</i></p> <p>When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.</p> <p><i>Governance</i></p> <p>In addition to the existing risk management framework, we have established an internal committee to provide oversight to the IFRS 9 implementation. The committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for Expected Credit Losses.</p> <p>The expected impact on the Bank's statement of financial position and equity is discussed above.</p>
III. Hedge accounting	<p>IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Bank, however, has elected to adopt the new hedge accounting provisions of IFRS 9. The Bank does not have hedging relationships.</p>
IV. Financial instruments: disclosures (IFRS 7)	<p>The Bank will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.</p>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 Standards issued but not yet effective (continued)**

Standard	Description	Effective date (early adoption permitted)
IFRS 15, 'Revenue from contracts with Customers'	This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018
IFRS 16, 'Leases'	<p>The IASB issued the new standard for accounting for leases in January 2016.</p> <p>(a) The new standard does not significantly change the accounting for leases for lessors. However, it does require most leases on their balance sheets as lease liabilities, with the lessees to recognise corresponding right-of-use assets.</p> <p>(b) Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets.</p> <p>(c) Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.</p> <p>Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.</p> <p>Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.</p>	1 January 2019

2.4 Summary of significant accounting policies**(1) Foreign currency translation**

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

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to "Other operating income or loss" in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment, at which time they are recognized in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities

(i) Recognition and initial measurement

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

(ii) Classification

At inception a financial asset is classified as measured at amortized cost or fair value.

Amortized cost

A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

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

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

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

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Bank considers:

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

Financial assets at fair value through profit or loss

Financial assets classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets designated at fair value through profit or loss". Interest earned or incurred using the effective interest rate, and dividend income is recorded in "Net trading income" when the right to the payment has been established.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets at fair value through other comprehensive income

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

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

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

(iii) Reclassification

Financial assets

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

The Bank shall not reclassify any financial liability.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortized cost.

(iv) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from, the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assume) is recognized in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(iv) Derecognition

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

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(v) Offsetting

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

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

(vi) Amortized cost measurement

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

(vii) Impairment of financial assets

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

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial restructuring and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognized in the income statement.

(i) Financial assets carried at amortized cost

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

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(vii) Impairment of financial assets (continued)

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

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Credit loss expense".

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. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 Bank's 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.

(viii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instruments is initially obtained from a valuation model subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(viii) Fair value measurement (continued)

Assets and long positions are measured at a bid price, liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate.

(3) Recognition of income and expenses

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

(i) Interest and similar income and expenses

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

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

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

(ii) Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period.

Fee income from providing transaction services

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

(4) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement cash flows comprise balances with original maturities of a period of three months or less.

(5) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Replacements or major inspection costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.4 Summary of significant accounting policies (continued)****(5) Property and equipment (continued)**

Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives are as follows:

Building	50 years
Computer hardware	5 years
Furniture and fixture	12.5 years
Equipment	12.5 years
Motor vehicles	10 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial period and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indications that the carrying value may not be recoverable. Impairment losses are recognized in the income statement as an expense.

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

(6) Intangible assets

The Bank's other intangible assets include the value of software license. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

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

Software	5 years
----------	---------

(7) Asset management

The bank provides asset management services to its clients. The related assets are not recorded on the Bank's statement of financial position but are recorded as off-balance sheet items.

(8) Investment in associates

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Bank's investments in its associate is accounted for using the equity method

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(9) Retirement benefits obligation

End-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

(10) Provision for risks and charges

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

2.5 Significant accounting judgments and estimates

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

Going concern

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

Business model

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

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

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

Contractual cash flows of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.5 Significant accounting judgments and estimates (continued)***Fair value of financial instruments*

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

Impairment losses on loans and advances

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

3 INTEREST AND SIMILAR INCOME

	2017 LL (000)	2016 LL (000)
Balances with the Central Bank	246,284	69,364
Financial assets at amortized cost	2,229,467	2,484,657
Deposits with banks and financial institutions	334,958	101,768
Loans and advances to customers at amortized cost	1,565,724	1,128,858
Loans and advances to related parties at amortized cost (note 30)	40,522	52,457
	<u>4,416,955</u>	<u>3,837,104</u>

4 INTEREST AND SIMILAR EXPENSE

	2017 LL (000)	2016 LL (000)
Due to Central Bank	28,042	-
Due to banks and financial institutions	1,893,687	1,484,505
Customers' deposits at amortized cost	3,573,302	2,170,068
Deposits from related parties at amortized cost (note 30)	149,902	1,586,557
	<u>5,644,933</u>	<u>5,241,130</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

5 NET FEE AND COMMISSION INCOME

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Fee and commission income	1,570,381	976,873
Fee and commission expense	(145,577)	(95,040)
	1,424,804	881,833

6 NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Interest and similar income from debt instruments at fair value through profit or loss	5,045,623	5,449,004
Net gain (loss) on foreign exchange	40,319	(370,044)
Net unrealized revaluation gain on financial assets at fair value through profit or loss	469,997	1,814,910
Net realized gain on financial assets at fair value through profit or loss	1,626,955	2,552,934
	7,182,894	9,446,804

7 PERSONNEL EXPENSES

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Salaries and wages	2,311,909	2,102,555
Social security contributions	312,531	272,785
Chairman and General Manager remunerations (note 30)	452,250	678,375
Committee members remunerations (note 30)	226,879	159,041
Transportation allowances	72,383	56,872
Insurance	118,396	102,991
Other employee benefits	157,596	110,220
Provision for employees' end of service indemnity (note 25)	-	53,030
	3,651,944	3,535,869

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

8 OTHER OPERATING EXPENSES

	<i>2017</i>	<i>2016</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Rent expenses	177,470	601,473
Taxes and charges	411,723	378,414
Travel expenses	331,486	267,193
Registration fees	294,124	258,795
Professional fees	384,505	408,445
Consultancy fees (note 30)	103,372	-
Telecommunication charges	33,347	29,518
Insurance expenses	36,987	48,551
Repair and maintenance	182,779	142,749
Advertising fees	362,112	83,832
Stationary and office supplies	41,665	30,076
Donations	46,329	18,290
Refreshments and entertainment	89,792	123,615
Other expenses	345,177	369,466
	<u>2,840,868</u>	<u>2,760,417</u>

9 INCOME TAX

As per the provisions of legislative decree no. 50 dated 15 July 1983, the Bank is exempt from income taxes stipulated in legislative decree no.144 dated 12 June 1959 for a period of 7 years.

10 CASH AND BALANCES WITH THE CENTRAL BANK

	<i>2017</i>	<i>2016</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Cash on hand	357,566	80,509
Central Bank of Lebanon:		
- Current accounts	10,308,727	7,673,907
- Term deposits	24,238,868	12,401,882
	<u>34,905,161</u>	<u>20,156,298</u>

Obligatory reserves:

In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Term deposits in coverage of the obligatory reserve requirements amounted to LL (000) 18,090,000 as at 31 December 2017 (2016: LL (000) 12,370,545).

LiBank SAL

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

11 DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	<i>2017</i>	<i>2016</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Banks - current accounts	7,730,436	5,405,548
Banks - term placements	9,004,401	-
	<u>16,734,837</u>	<u>5,405,548</u>

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2017</i>	<i>2016</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Quoted:		
Lebanese treasury bills - Eurobonds	1,620,642	2,622,642
Unquoted:		
Lebanese treasury bills – denominated in LL	21,278,552	21,932,687
Certificates of deposit issued by the Central Bank of Lebanon – denominated in LL	3,579,695	3,554,594
Certificates of deposit issued by the Central Bank of Lebanon – Euro CDs	48,827,296	48,862,206
LiBank Global Balanced Fund	3,254,391	2,746,363
Lebanon Income Fund	1,483,894	-
LF Fund – Total Return Bond Fund	764,057	731,907
Blom Dollar Money Market Fund	15,900	-
Blom Lira Money Market Fund	-	1,533,481
Investments in startup companies (*)	9,798,750	8,291,250
	<u>89,002,535</u>	<u>87,652,488</u>
	<u>90,623,177</u>	<u>90,275,130</u>

During 2016, the Bank entered into certain financial transactions with the Central Bank of Lebanon relating to treasury bills denominated in Lebanese Lira. These transactions were available to banks provided that they reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or Certificates of Deposit issued by the Central Bank of Lebanon and denominated in US Dollars. The Certificates of Deposit and Eurobonds are purchased at their fair values. The Bank's gain from these transactions amounting to LL (000) 3,406,470 was accounted for in accordance with the accounting treatment enacted through Central Bank of Lebanon's Intermediate Circular 446 dated 30 December 2016 (note 24). The net realized gain from these transactions amounted to LL (000) 628,904 for the year ended 31 December 2017 (2016: LL (000) 2,581,618) and was recorded under "Net gain on financial assets at fair value through profit or loss".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)*(*) Investments in startup companies:*

<i>Company</i>	<i>2017</i>		<i>2016</i>	
	<i>Total investment LL (000)</i>	<i>Portion of investment subsidized by BDL LL (000)</i>	<i>Total investment LL (000)</i>	<i>Portion of investment subsidized by BDL LL (000)</i>
Tourist Tube Holding SAL (1)	2,261,250	(1,695,938)	2,261,250	(1,695,938)
M Publishing SAL (2)	3,768,750	(2,826,563)	3,768,750	(2,826,563)
Torch SAL (3)	3,768,750	(3,768,750)	2,261,250	(2,261,250)
	9,798,750	(8,291,251)	8,291,250	(6,783,751)

(1) During the year 2016, the Bank acquired 1,153 shares in "Tourist Tube Holding SAL", a Lebanese company, for LL (000) 2,261,250 representing 5.45% of the Company's total shares. This investment is subsidized partially by the Central Bank of Lebanon in accordance with intermediary circular number 331 for an amount of LL (000) 1,695,938 (note 20) representing 75% of the Bank's total investment in the Company.

(2) During the year 2015, the Bank acquired 1,404 shares in "M Publishing SAL", a Lebanese company, for LL (000) 3,768,750 representing 12.5% of the Company's total shares. This investment is subsidized partially by the Central Bank of Lebanon in accordance with intermediary circular number 331 for an amount of LL (000) 2,826,563 (note 20) representing 75% of the Bank's total investment in the Company.

(3) During the year 2015, the Bank acquired 6,497 shares in "Torch SAL" for LL (000) 2,261,250 representing 68.4% of the Company's total shares. This investment is fully subsidized by the Central Bank of Lebanon in accordance with the Central Bank intermediary circular number 331 (note 20). During 2017, the Bank increased its investment by LL (000) 1,507,500 which was also fully subsidized by the Central Bank of Lebanon.

The Bank must dispose these investments after seven years.

Upon disposal:

- The Bank collects the amount invested by its own funds.
- The Bank settles to the Central Bank any remaining amount up to the value of the amount subsidized by the latter.
- The Bank settles to the Central Bank 50% of any remaining amount if any after withdrawing its share of the gain on disposal.

In case of any dividend distribution, the Bank must settle 50% of the remaining dividends to the Central Bank after withdrawing its share of the dividends distributed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Company	2017			2016		
	Carrying amount LL (000)	Cumulative change in fair value LL (000)	Dividend income LL (000)	Carrying amount LL (000)	Cumulative change in fair value LL (000)	Dividend income LL (000)
Ace Liberty & Stone PLC	4,083,250	1,407,417	31,096	2,966,216	668,123	26,521
Hill Investment London Ltd	687,695	47,451	-	36,171	(604,073)	-
	4,770,945	1,454,868	31,096	3,002,387	64,050	26,521

14 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2017 LL (000)	2016 LL (000)
Corporate loans	23,714,849	10,873,347
Consumer loans	9,244,164	4,229,090
Accrued interest receivable	202,344	179,828
	33,161,357	15,282,265

Term loans have maturities exceeding 6 months and generate interest at a rate ranging between 3.5% and 8.5% (2016: between 4% and 8.26%).

15 FINANCIAL ASSETS AT AMORTIZED COST

	2017 LL (000)	2016 LL (000)
Quoted:		
Lebanese treasury bills – Eurobonds	19,016,437	11,362,335
Unquoted:		
Lebanese treasury bills – denominated in LL	10,267,752	16,345,935
Lebanese treasury bills – denominated in LL given as collateral (*)	7,017,958	-
	17,285,710	16,345,935
	36,302,147	27,708,270

(*) This balance represents Lebanese treasury bills pledged as collateral against loans obtained from the Central Bank of Lebanon (note 20).

The Bank derecognized some debt instruments classified at amortized cost during 2016 due to liquidity gap and yield management. The total net loss from disposal amounted to LL (000) 612,092 for the year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

16 INVESTMENTS IN ASSOCIATES

<i>Company</i>	<i>Country of incorporation</i>	<i>% of ownership</i>		<i>Bank's share of equity</i>	
		<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
		<i>%</i>	<i>%</i>	<i>LL (000)</i>	<i>LL (000)</i>
Peterhouse Corporate Finance Limited	United Kingdom	33.88	21.29	2,119,031	1,696,149
Peterhouse Securities Limited	United Kingdom	91	-	203,558	-
LiBank Investment Management Company	Cayman Islands	100	100	161,566	117,151
				2,484,155	1,813,300

During the year 2014, the Bank acquired 286,504 shares in “Peterhouse Corporate Finance Limited”, a company based in the United Kingdom. During 2015, the Bank acquired 94,569 additional shares in “Peterhouse Corporated Finance Limited” and received stock dividends of 28,650 shares increasing the percentage ownership to 21.29% of the company's total shares. During 2016, the company exercised a shares buy-back of 188,092 shares at a price of GBP 1.2 per share for an amount of LL (000) 418,926. During 2017, the Bank acquired 146,511 additional shares in “Peterhouse Corporated Finance Limited” for an amount of LL (000) 356,955 increasing the percentage ownership to 33.88% of the company's total shares. The Bank's share of profits amounted to LL (000) 65,927 for the year ended 31 December 2017 (2016: LL (000) 362,551).

During the year 2017, the Bank acquired 100,000 shares in “Peterhouse Securities Limited”, a company based in the United Kingdom, for GBP 1 (equivalent to a total of LL (000) 203,558) representing 91% of the company's total shares.

During the year 2015, the Bank acquired one share in “LiBank Investment Management Company”, a company established in the Cayman Islands, for US\$ 1 representing 100% of the company's total shares. The Bank's share of profits amounted to LL (000) 44,415 for the year ended 31 December 2017 (2016: LL (000) 117,150).

17 PROPERTY AND EQUIPMENT

	<i>Building</i>	<i>Computer hardware</i>	<i>Motor vehicle</i>	<i>Furniture and fixture</i>	<i>Equipment</i>	<i>Advances on property and equipment</i>	<i>Total</i>
	<i>LL (000)</i>	<i>LL (000)</i>	<i>LL (000)</i>	<i>LL (000)</i>	<i>LL (000)</i>	<i>LL (000)</i>	<i>LL (000)</i>
Cost :							
At 1 January 2017	7,599,968	619,939	65,441	932,901	201,642	933,467	10,353,358
Additions	-	71,346	21,105	150,701	17,100	879,041	1,139,293
Transfers	-	-	-	1,701,845	-	(1,701,845)	-
At 31 December 2017	7,599,968	691,285	86,546	2,785,447	218,742	110,663	11,492,651
Depreciation:							
At 1 January 2017	(25,403)	(361,043)	(27,786)	(675,287)	(37,290)	-	(1,126,809)
Charge for the year	(152,000)	(133,191)	(8,134)	(135,653)	(16,740)	-	(445,718)
At 31 December 2017	(177,403)	(494,234)	(35,920)	(810,940)	(54,030)	-	(1,572,527)
Net carrying amount:							
At 31 December 2017	7,422,565	197,051	50,626	1,974,507	164,712	110,663	9,920,124

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

17 PROPERTY AND EQUIPMENT (continued)

	<i>Building LL (000)</i>	<i>Computer hardware LL (000)</i>	<i>Motor vehicle LL (000)</i>	<i>Furniture and fixture LL (000)</i>	<i>Equipment LL (000)</i>	<i>Advances on property and equipment LL (000)</i>	<i>Total LL (000)</i>
Cost :							
At 1 January 2016	-	553,433	65,441	892,207	196,694	48,122	1,755,897
Additions	7,599,968	37,487	-	40,694	4,948	914,364	8,597,461
Transfers	-	29,019	-	-	-	(29,019)	-
At 31 December 2016	7,599,968	619,939	65,441	932,901	201,642	933,467	10,353,358
Depreciation:							
At 1 January 2016	-	(242,789)	(21,224)	(139,825)	(21,208)	-	(425,046)
Charge for the year	(25,403)	(118,254)	(6,562)	(535,462)	(16,082)	-	(701,763)
At 31 December 2016	(25,403)	(361,043)	(27,786)	(675,287)	(37,290)	-	(1,126,809)
Net carrying amount:							
At 31 December 2016	7,574,565	258,896	37,655	257,614	164,352	933,467	9,226,549

During the year 2016, the Bank acquired sections 68, 69, 222 and 223 of Bloc B of Sofil Building located on real estate lot 39 Rmeil for an amount of USD 4,649,000 (equivalent to LL (000) 7,008,368). The remaining balance amounting to LL 591,600 represents capitalized expenses related to this acquisition. The Bank obtained the approval of the Central Bank of Lebanon on 14 June 2016.

18 INTANGIBLE ASSETS

	<i>Software</i>	
	<i>2017 LL (000)</i>	<i>2016 LL (000)</i>
Cost:		
Balance as at 1 January	656,568	507,506
Additions during the year	15,076	149,062
At 31 December	671,644	656,568
Amortization:		
Balance as at 1 January	(349,426)	(242,675)
Charge for the year	(131,606)	(106,751)
At 31 December	(481,032)	(349,426)
Net carrying amount:		
At 31 December	190,612	307,142

19 OTHER ASSETS

	<i>2017 LL (000)</i>	<i>2016 LL (000)</i>
Mandatory deposit with the Lebanese Treasury (a)	4,500,100	4,500,100
Advance on investment in Kingdom Bank Limited (b)	1,104,203	1,006,806
Advance on investment in Sola SAL (c)	1,056,154	-
Receivables from advisory services	1,036,113	425,484
Prepayments	410,622	350,379
Advances on wages and salaries	141,372	115,335
Others	281,674	584,790
Less: Provision for impairment of advance on an investment (b)	(1,104,203)	(1,006,806)
	7,426,035	5,976,088

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

19 OTHER ASSETS (continued)

- (a) This deposit represents a blocked amount with the Lebanese Treasury made by the Bank on its constitution date (according to paragraph b of Article 132 of the Code of Money and Credit) which will only be recovered upon the Bank's liquidation.
- (b) The Bank was in the process of acquiring a 35% stake in "Kingdom Bank Limited", located in UK, through the purchase of 1,475,990 ordinary shares. On 9 November 2015, the Bank paid an amount of GBP 327,000 (equivalent to LL (000) 730,014) representing a down payment on acquisition of this investment pending the approvals of the Central Bank of Lebanon and the Central Bank of England. The remaining balance represents capitalized expenses related to this acquisition. During 2016, the Bank decided to withdraw from the acquisition and accordingly fully provided for the unrecoverable balance related to this acquisition amounting to GBP 542,451 (equivalent to LL (000) 1,104,203) as at 31 December 2017.

The movement in the provision for impairment of advance on an investment is as follows:

	<i>2017</i>	<i>2016</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Balance at 1 January	1,006,806	-
Provided during the year	-	1,009,041
Exchange difference	97,397	(2,235)
Balance at 31 December	1,104,203	1,006,806

- (c) On 31 October 2017, the Bank paid an amount of LL (000) 1,056,154 representing a down payment on acquisition of Sola SAL which owns 2,400 shares of the title deed 39 Rmeil parts # 70, 71, 72, 224 block B (note 30).

20 DUE TO CENTRAL BANK

	<i>2017</i>	<i>2016</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Loans from the Central Bank of Lebanon (a)	6,656,000	-
Subsidies related to investments in start-up companies (12)	8,291,251	6,783,751
Advance obtained against investment in start-up company (b)	1,695,938	-
Accrued interest	28,042	-
	16,671,231	6,783,751

- (a) During 2017, the Bank obtained loans from the Central Bank of Lebanon amounting to LL (000) 6,656,000. These loans are secured by the pledge of Lebanese treasury bills included under "Financial assets at amortized cost" as of 31 December 2017 (note 15).
- (b) During the year 2017, the Bank obtained an amount of LL (000) 1,695,938 from the Central Bank of Lebanon to finance its subsequent additional investment in Tourist Tube Holding SAL in accordance with Central Bank intermediary circular number 331.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

21 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Current accounts	6,585,080	-
Sight deposits	43,374,736	38,239,794
	<u>49,959,816</u>	<u>38,239,794</u>

22 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Current accounts	24,383,728	11,197,953
Term deposits	76,107,907	51,983,642
Accrued interest	856,909	635,010
	<u>101,348,544</u>	<u>63,816,605</u>

23 DEPOSITS FROM RELATED PARTIES AT AMORTIZED COST

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Current accounts	1,113,344	1,340,542
Term deposits	1,572,104	5,159,329
Accrued interest	9,173	109,203
	<u>2,694,621</u>	<u>6,609,074</u>

24 OTHER LIABILITIES

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Deferred revenues (a)	-	824,852
Subscriptions and other payables	332,779	487,490
Other taxes payable	148,625	103,176
Accrued charges	98,233	98,190
Taxes on salaries and remunerations	71,622	81,127
Payable to committee members	46,733	30,150
Due to the National Social Security Fund	34,265	27,216
	<u>732,257</u>	<u>1,652,201</u>

- (a) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 defining the accounting treatment for the surplus realized by banks from the transactions made with the Central Bank of Lebanon, and disclosed in note 12 to these financial statements. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, capped to the extent of the losses recorded to comply with certain regulatory provisioning requirements, the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements, if any. Banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One. The remaining balance of the gain net of tax should be maintained within deferred revenues and qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

24 OTHER LIABILITIES (continued)

As a result of those operations with the Central Bank of Lebanon consisting of the sale of Treasury Bills denominated in Lebanese Lira with a nominal value of LL (000) 12,000,000 and the simultaneous purchase of Certificates of Deposit denominated in US Dollars with a nominal value of US\$ 8,000,000, the Bank received a surplus of LL (000) 3,406,470 which was credited to "Deferred revenues". The Bank then recognized an amount of LL (000) 2,581,618 in the income statement. The Bank recorded excess provisions under "provisions for risks and charges" amounting to LL (000) 656,964 as at 31 December 2016 (note 25) to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circulars numbers 439 dated 8 November 2016 and 446 dated 30 December 2016. During 2017, the Bank transferred an amount of LL (000) 195,948 from "Deferred revenues" to "Provisions for risks and charges" (note 25) and recorded the remaining balance amounting to LL (000) 628,904 under "Net gain on financial assets at fair value through profit or loss".

25 PROVISIONS FOR RISKS AND CHARGES

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Regulatory provisions (a)	852,912	656,964
Retirement benefit obligations (b)	85,489	86,153
Other provisions	28,219	24,710
	<u>966,620</u>	<u>767,827</u>

(a) During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective provisions equivalent to 2% of consolidated risk weighted loans and advances to customers. As such, provisions for risks and charges as at 31 December 2016 included an amount of LL (000) 656,964 in excess of the provisioning requirements of IAS 39. During 2017, the Bank transferred an amount of LL (000) 195,948 from "Deferred revenues" under "Other liabilities" to "Provisions for risks and charges" (note 24).

(b) The movement of the retirement benefit obligations is as follows:

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Balance at 1 January	86,153	33,123
Charge for the year (note 7)	-	53,030
Paid during the year	(664)	-
Balance at 31 December	<u>85,489</u>	<u>86,153</u>

26 SHARE CAPITAL

	<i>Authorized, issued and fully paid</i>	
	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
600,000 shares of a nominal value of LL (000) 100 each	60,000,000	60,000,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

27 RESERVES

- Non-distributable reserves

a) Reserve for general banking risks

According to the Central Bank of Lebanon regulations, banks in Lebanon are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off statement of financial position items based on rates specified by the Central Bank of Lebanon to cover general banking risks. The ratio should not be less than 1.25 percent of these risks at the end of year ten (2017). This reserve is part of the Bank's equity and cannot be distributed as dividends. This reserve amounted to LL (000) 933,614 as at 31 December 2017 (2016: LL (000) 890,471).

b) Legal reserve

As required by the Lebanese Code of Commerce and the Bank's articles of association, 10% of the net profit for the year has to be transferred to legal reserve. An amount of LL (000) 4,793 was transferred to legal reserve for the year ended 31 December 2017 (2016: LL (000) 157,235). This reserve is not available for distribution.

- Distributable reserve

c) General reserve

In accordance with the General Assembly decisions, the Bank appropriated general reserve from profits of previous years. This reserve amounting to LL (000) 541,978 as at 31 December 2017 (2016: LL (000) 539,551) is available for distribution.

28 CUMULATIVE CHANGES IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Balance at 1 January	64,050	(179,849)
Net unrealized gain on financial assets at fair value through other comprehensive income	1,390,818	243,899
Balance at 31 December	1,454,868	64,050

29 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Fiduciary deposits	29,179,876	15,644,401
Financial instruments under custody	74,059,417	87,006,535
	103,239,293	102,650,936

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

30 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled or significantly influenced by such parties.

Transactions with related parties included in the statement of comprehensive income are as follows:

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Chairman and General Manager remunerations (note 7)	(452,250)	(678,375)
Committee members remunerations (note 7)	(226,879)	(159,041)
Consultancy fees (note 8)	(103,372)	-
Interest expense on deposits from related parties (note 4)	(149,902)	(1,586,557)
Interest income on loans and advances to related parties (note 3)	40,522	52,457

Balances with related parties included in the statement of financial position are as follows:

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Deposits from related parties at amortized cost (note 23)	2,694,621	6,609,074
Loans and advances to related parties at amortized cost	963,457	1,980,926
Advance on investment in Sola SAL (note 19)	1,056,154	-

31 CASH AND CASH EQUIVALENTS

	<i>2017</i> <i>LL (000)</i>	<i>2016</i> <i>LL (000)</i>
Cash and balances with the Central Bank	10,666,293	7,754,416
Deposits with banks and financial institutions	7,730,436	5,405,548
Due to banks and financial institutions	(49,959,816)	(38,239,794)
	(31,563,087)	(25,079,830)

32 COMPARATIVE INFORMATION

- Subsidies related to investments in start-up companies have been reclassified from “Financial assets at fair value through other comprehensive income” to “Due to Central Bank” in the statement of financial position. Comparative amounts of LL (000) 6,783,751 have been reclassified accordingly.
- Investments in start-up companies have been reclassified from “Financial assets at fair value through other comprehensive income” to “Financial assets at fair value through profit or loss” in the statement of financial position. Comparative amounts of LL (000) 8,291,250 have been reclassified accordingly.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2017			
	Level 1 LL (000)	Level 2 LL (000)	Level 3 LL (000)	Total LL (000)
Financials assets at fair value through profit or loss:				
Lebanese treasury bills	1,620,642	21,278,552	-	22,899,194
Certificates of Deposit issued by the Central Bank of Lebanon	-	52,406,991	-	52,406,991
LiBank Global Balanced Fund	-	3,254,391	-	3,254,391
Lebanon Income Fund	-	1,483,894	-	1,483,894
LF Fund – Total Return Bond Fund	-	764,057	-	764,057
Blom Dollar Money Market Fund	-	15,900	-	15,900
Investments in start-up companies	-	-	9,798,750	9,798,750
Financials assets at fair value through other comprehensive income:	-	-	4,770,945	4,770,945
	<u>1,620,642</u>	<u>79,203,785</u>	<u>14,569,695</u>	<u>95,394,122</u>
	2016			
	Level 1 LL (000)	Level 2 LL (000)	Level 3 LL (000)	Total LL (000)
Financials assets at fair value through profit or loss:				
Lebanese treasury bills	2,622,642	21,932,687	-	24,555,329
Certificates of Deposit issued by the Central Bank of Lebanon	-	52,416,800	-	52,416,800
LiBank Global Balanced Fund	-	2,746,363	-	2,746,363
LF Fund – Total Return Bond Fund	-	731,907	-	731,907
Blom Lira Money Market Fund	-	1,533,481	-	1,533,481
Investments in start-up companies	-	-	8,291,250	8,291,250
Financials assets at fair value through other comprehensive income:	-	-	3,002,387	3,002,387
	<u>2,622,642</u>	<u>79,361,238</u>	<u>11,293,637</u>	<u>93,277,517</u>

The following table shows an analysis of financial instruments not carried at fair value by the level of fair value hierarchy:

	2017			
	Level 1 LL (000)	Level 2 LL (000)	Level 3 LL (000)	Total LL (000)
Assets for which fair values are disclosed				
Cash and balances with the Central Bank	357,566	34,547,595	-	34,905,161
Deposits with banks and financial institutions	-	16,734,837	-	16,734,837
Loans and advances to customers at amortized cost	-	-	33,161,357	33,161,357
Loans and advances to related parties at amortized cost	-	-	963,457	963,457
Financial assets at amortized cost	19,016,437	17,285,710	-	36,302,147
Investments in associates	-	2,484,155	-	2,484,155
Liabilities for which fair values are disclosed				
Due to Central Bank	-	16,671,231	-	16,671,231
Due to banks and financial institutions	-	49,959,816	-	49,959,816
Customers' deposits at amortized cost	-	101,348,544	-	101,348,544
Deposits from related parties at amortized cost	-	2,694,621	-	2,694,621

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	2016			
	<i>Level 1</i> <i>LL (000)</i>	<i>Level 2</i> <i>LL (000)</i>	<i>Level 3</i> <i>LL (000)</i>	<i>Total</i> <i>LL (000)</i>
Assets for which fair values are disclosed				
Cash and balances with the Central Bank	80,509	20,075,789	-	20,156,298
Deposits with banks and financial institutions	-	5,405,548	-	5,405,548
Loans and advances to customers at amortized cost	-	-	15,282,265	15,282,265
Loans and advances to related parties at amortized cost	-	-	1,980,926	1,980,926
Financial assets at amortized cost	11,362,335	16,345,935	-	27,708,270
Investments in associates	-	1,813,300	-	1,813,300
Liabilities for which fair values are disclosed				
Due to Central Bank	-	6,783,751	-	6,783,751
Due to banks and financial institutions	-	38,239,794	-	38,239,794
Customers' deposits at amortized cost	-	63,816,605	-	63,816,605
Deposits from related parties at amortized cost	-	6,609,074	-	6,609,074

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

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

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

This category includes liquid government and corporate bonds actively traded through an exchange or clearing house, and actively traded listed equities.

Valuation technique using observable inputs – Level 2

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

This category includes liquid government and corporate bonds and certificates of deposit, less actively traded through an exchange or clearing house, non-listed equities and foreign exchange swaps and forwards.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Assets and liabilities measured at fair value using a valuation technique with significant observable inputs (Level 2)**Lebanese government treasury bills**

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

Loans and advances to banks and financial institutions and customers

The fair value of loans and advances is determined using valuation models which incorporate a range of assumptions. Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of valuation outputs. This approach is used mainly in Retail Banking by applying derived market interest rates on expected cash flows. These valuation techniques also consider expected credit losses and changes to behavioral profiles. For Corporate Banking, the fair value is determined by applying a credit spread for the counterparty. Credit spreads are based on regional and industry segments and take the contractual maturity of the loan facilities into consideration. In the absence of counterparty rating, the average of regional and industry segmental credit spreads are applied to the contractual maturity of the loan.

Deposits by banks and customers' accounts

For the purpose of estimating fair value, deposits by banks and customers are grouped by remaining contractual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the financial position date.

Assets and liabilities not carried at fair value, for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

The following table shows the difference between the carrying values and fair values for the financial assets and liabilities in the statement of financial position. This table does not show the fair values of non-financial assets and liabilities.

	2017			2016		
	Carrying value LL (000)	Fair value LL (000)	Difference LL (000)	Carrying value LL (000)	Fair value LL (000)	Difference LL (000)
Financial assets						
Cash and balances with the Central Bank	34,905,161	34,905,161	-	20,156,298	20,156,298	-
Deposits with banks and financial institutions	16,734,837	16,734,837	-	5,405,548	5,405,548	-
Financial assets at fair value through profit or loss	90,623,177	90,623,177	-	90,275,130	90,275,130	-
Financial assets at fair value through other comprehensive income	4,770,945	4,770,945	-	3,002,387	3,002,387	-
Investment in associates	2,484,155	2,484,155	-	1,813,300	1,813,300	-
Loans and advances to customers at amortized cost	33,161,357	33,161,357	-	15,282,265	15,282,265	-
Loans and advances to related parties at amortized cost	963,457	963,457	-	1,980,926	1,980,926	-
Financial assets at amortized cost	36,302,147	35,180,690	(1,121,457)	27,708,270	27,510,131	(198,139)
Other assets	7,426,035	7,426,035	-	5,976,088	5,976,088	-
	<u>227,371,271</u>	<u>226,249,814</u>	<u>(1,121,457)</u>	<u>171,600,212</u>	<u>171,402,073</u>	<u>(198,139)</u>
Financial liabilities						
Due to Central Bank	16,671,231	16,671,231	-	6,783,751	6,783,751	-
Due to banks and financial institutions	49,959,816	49,959,816	-	38,239,794	38,239,794	-
Customers' deposits at amortized cost	101,348,544	101,348,544	-	63,816,605	63,816,605	-
Deposits from related parties at amortized cost	2,694,621	2,694,621	-	6,609,074	6,609,074	-
Other liabilities	732,257	732,257	-	1,652,201	1,652,201	-
Provision for risks and charges	966,620	966,620	-	767,827	767,827	-
	<u>172,373,089</u>	<u>172,373,089</u>	<u>-</u>	<u>117,869,252</u>	<u>117,869,252</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

34 RISK MANAGEMENT**34.1 Introduction**

Risk is inherent in the Bank's activities. The Bank is exposed to credit risk, liquidity risk, prepayment risk, operating risk and market risk. The Board of Directors is ultimately responsible for identifying and controlling risks.

34.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties.

Risk concentrations, maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The following table shows the maximum exposure to credit risk for the components of the statement of financial position by geography. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

	2017		
	<i>Resident LL (000)</i>	<i>Non resident LL (000)</i>	<i>Gross maximum exposure LL (000)</i>
Balances with the Central Bank	34,560,010	345,151	34,905,161
Deposits with banks and financial institutions	12,455,087	4,279,750	16,734,837
Financial assets at fair value through profit or loss	85,120,835	5,502,342	90,623,177
Loans and advances to customers at amortized cost	20,794,234	12,367,123	33,161,357
Loans and advances to related parties at amortized cost	207,446	756,011	963,457
Financial assets at amortized cost	36,302,147	-	36,302,147
Total credit exposure	189,439,759	23,250,377	212,690,136
	2016		
	<i>Resident LL (000)</i>	<i>Non resident LL (000)</i>	<i>Gross maximum exposure LL (000)</i>
Balances with the Central Bank	20,081,267	75,031	20,156,298
Deposits with banks and financial institutions	2,574,261	2,831,287	5,405,548
Financial assets at fair value through profit or loss	85,263,379	5,011,751	90,275,130
Loans and advances to customers at amortized cost	12,582,420	2,699,845	15,282,265
Loans and advances to related parties at amortized cost	-	1,980,926	1,980,926
Financial assets at amortized cost	27,708,270	-	27,708,270
Total credit exposure	148,209,597	12,598,840	160,808,437

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

34 RISK MANAGEMENT (continued)**34.4 MARKET RISK (continued)***Interest rate sensitivity*

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate financial assets and financial liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates, including the effect of hedging instruments.

<i>Currency</i>	<i>Increase in basis points</i>	<i>2017</i>	<i>2016</i>
		<i>Effect on net interest income LL (000)</i>	<i>Effect on net interest income LL (000)</i>
LBP	50 basis point	193,635	183,779
US Dollar	50 basis point	105,573	100,595
Other	50 basis point	37,880	(3,271)

(b) Currency risk

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

The Central Bank of Lebanon allows the Bank to maintain a net trading position, debit or credit, that does not exceed at any time 1% of net Tier 1 equity on condition that the global position does not exceed 40% of net Tier 1 equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required capital adequacy ratio.

The following represents the breakdown of assets and liabilities by currency as at 31 December:

	<i>2017</i>					
	<i>LL LL (000)</i>	<i>USD LL (000)</i>	<i>GBP LL (000)</i>	<i>EUR LL (000)</i>	<i>Others LL (000)</i>	<i>Total LL (000)</i>
Assets						
Cash and balances with the Central Bank	447,272	34,315,999	120,791	21,099	-	34,905,161
Deposits with banks and financial institutions	9,666,418	2,074,770	2,516,983	2,065,566	411,100	16,734,837
Financial assets at fair value through profit or loss	31,641,999	58,981,178	-	-	-	90,623,177
Financial assets at fair value through other comprehensive income	-	-	4,770,945	-	-	4,770,945
Investments in associates	-	2,484,155	-	-	-	2,484,155
Loans and advances to customers at amortized cost	1,534,277	26,819,991	3,308,704	1,498,385	-	33,161,357
Loans and advances to related parties at amortized cost	-	963,457	-	-	-	963,457
Financial assets at amortized cost	17,285,710	19,016,437	-	-	-	36,302,147
Property and equipment	9,906,195	13,929	-	-	-	9,920,124
Intangible assets	190,612	-	-	-	-	190,612
Other assets	6,213,171	402,256	804,274	6,334	-	7,426,035
Total assets	76,885,654	145,072,172	11,521,697	3,591,384	411,100	237,482,007
Liabilities						
Due to Central Bank	12,525,606	4,145,625	-	-	-	16,671,231
Due to banks and financial institutions	10,187,723	39,643,360	128,733	-	-	49,959,816
Customers' deposits at amortized cost	8,139,673	84,776,834	4,204,977	4,227,060	-	101,348,544
Deposits from related parties at amortized cost	197,034	2,321,891	175,694	2	-	2,694,621
Other liabilities	613,870	84,001	25,276	9,110	-	732,257
Provision for risks and charges	281,549	651,679	28,776	4,616	-	966,620
Total liabilities	31,945,455	131,623,390	4,563,456	4,240,788	-	172,373,089
Net exposure	44,940,199	13,448,782	6,958,241	(649,404)	411,100	65,108,918

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

34 RISK MANAGEMENT (continued)**34.4 MARKET RISK (continued)****(b) Currency risk (continued)**

	2016				
	LL LL (000)	USD LL (000)	GBP LL (000)	EUR LL (000)	Total LL (000)
Assets					
Cash and balances with the Central Bank	6,424	19,426,971	688,300	34,603	20,156,298
Deposits with banks and financial institutions	315,392	1,792,631	2,201,456	1,096,069	5,405,548
Financial assets at fair value through profit or loss	33,050,762	57,224,368	-	-	90,275,130
Financial assets at fair value through other comprehensive income	942,188	601,484	1,458,715	-	3,002,387
Investments in associates	-	117,151	1,696,149	-	1,813,300
Loans and advances to customers at amortized cost	-	13,498,889	1,783,376	-	15,282,265
Loans and advances to related parties at amortized cost	-	1,980,926	-	-	1,980,926
Financial assets at amortized cost	16,345,935	11,362,335	-	-	27,708,270
Property and equipment	9,212,620	13,929	-	-	9,226,549
Intangible assets	307,142	-	-	-	307,142
Other assets	5,189,641	366,912	419,535	-	5,976,088
Total assets	65,370,104	106,385,596	8,247,531	1,130,672	181,133,903
Liabilities					
Due to Central Bank	5,087,813	1,695,938	-	-	6,783,751
Due to banks and financial institutions	15,047,260	23,192,534	-	-	38,239,794
Customers' deposits at amortized cost	5,501,023	54,287,365	3,172,604	855,613	63,816,605
Deposits from related parties at amortized cost	254,659	797,874	5,556,541	-	6,609,074
Other liabilities	1,291,415	126,912	233,874	-	1,652,201
Provision for risks and charges	276,357	466,382	25,088	-	767,827
Total liabilities	27,458,527	80,567,005	8,988,107	855,613	117,869,252
Net exposure	37,911,577	25,818,591	(740,576)	275,059	63,264,651

The Bank's exposure to currency risk

Balances denominated in US Dollars are not considered to constitute a significant currency risk as the exchange rate of the Lebanese Lira against the US Dollar has remained stable in recent years.

As at 31 December 2017, the Bank's exposure to major currencies comprise the Sterling Pound in the amount equivalent to LL (000) 7,392,533 (2016: LL (000) 4,551,836).

A 5% change in the foreign exchange rate of the Sterling pound against the Lebanese Lira would not have a significant impact on the bank's profit or loss.

34.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

34 RISK MANAGEMENT (continued)**34.6 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

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

The maturity profile of the Bank's assets and liabilities as at 31 December 2017 was as follows:

<i>As at 31 December 2017</i>	<i>Less than 12 months LL (000)</i>	<i>Over 12 months LL (000)</i>	<i>Total LL (000)</i>
Assets			
Cash and balances with the Central bank	28,875,161	6,030,000	34,905,161
Deposits with banks and financial institutions	16,734,837	-	16,734,837
Financial assets at fair value through profit or loss	-	90,623,177	90,623,177
Financial assets at fair value through other comprehensive income	4,770,945	-	4,770,945
Investments in associates	2,484,155	-	2,484,155
Loans and advances to customers at amortized cost	8,765,731	24,395,626	33,161,357
Loans and advances to related parties at amortized cost	918,083	45,374	963,457
Financial assets at amortized cost	3,680,177	32,621,970	36,302,147
Property and equipment	9,920,124	-	9,920,124
Intangible assets	190,612	-	190,612
Other assets	7,426,035	-	7,426,035
Total assets	83,765,860	153,716,147	237,482,007
Liabilities			
Due to Central Bank	-	16,671,231	16,671,231
Due to banks and financial institutions	49,959,816	-	49,959,816
Customers' deposits at amortized cost	98,973,544	2,375,000	101,348,544
Deposits from related parties at amortized cost	2,694,621	-	2,694,621
Other liabilities	732,257	-	732,257
Provision for risks and charges	-	966,620	966,620
Total liabilities	152,360,238	20,012,851	172,373,089
Net	(68,594,378)	133,703,296	65,108,918

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

34 RISK MANAGEMENT (continued)**34.6 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

<i>As at 31 December 2016</i>	<i>Less than 12 months LL (000)</i>	<i>Over 12 months LL (000)</i>	<i>Total LL (000)</i>
Assets			
Cash and balances with the Central bank	20,156,298	-	20,156,298
Deposits with banks and financial institutions	5,405,548	-	5,405,548
Financial assets at fair value through profit or loss	6,307,300	83,967,830	90,275,130
Financial assets at fair value through other comprehensive income	-	3,002,387	3,002,387
Investments in associates	-	1,813,300	1,813,300
Loans and advances to customers at amortized cost	2,179,280	13,102,985	15,282,265
Loans and advances to related parties at amortized cost	1,980,926	-	1,980,926
Financial assets at amortized cost	3,466,007	24,242,263	27,708,270
Property and equipment	-	9,226,549	9,226,549
Intangible assets	-	307,142	307,142
Other assets	1,475,988	4,500,100	5,976,088
Total assets	40,971,347	140,162,556	181,133,903
Liabilities			
Due to Central Bank	-	6,783,751	6,783,751
Due to banks and financial institutions	38,239,794	-	38,239,794
Customers' deposits at amortized cost	62,463,605	1,353,000	63,816,605
Deposits from related parties at amortized cost	6,609,074	-	6,609,074
Other liabilities	827,349	824,852	1,652,201
Provision for risks and charges	-	767,827	767,827
Total liabilities	108,139,822	9,729,430	117,869,252
Net	(67,168,475)	130,433,126	63,264,651

34.7 PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because counterparties repay or request repayment earlier than expected. Market conditions causing prepayment is not significant in the markets in which the Bank operates. Therefore, the Bank considers the effect of prepayment on net interest income not material after taking into account the effect of any prepayment penalties.

34.8 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.