NATIONAL BANK OF KUWAIT (LEBANON) SAL

FINANCIAL STATEMENTS

31 DECEMBER 2017

EY
Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT (LEBANON) SAL

Qualified Opinion

We have audited the financial statements of National Bank of Kuwait (Lebanon) 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, except for the effects of the matter described in the "Basis for Qualified Opinion" section of our report, 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 Qualified Opinion

As disclosed in note 23 to the financial statements, the Bank recorded excess provisions amounting to LL million 1,670 under "Provisions for risks and charges" during the year ended 31 December 2016, in order to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016. The Bank's accounting for this provision constitutes a departure from International Accounting Standard 37 *"Provisions, Contingent Liabilities and Contingent Assets"* (IAS 37). This caused us to qualify our audit opinion on the financial statements relating to the year ended 31 December 2016. Had the Bank properly accounted for this provision in accordance with International Financial Reporting Standards, "net loss" for the year ended 31 December 2016 would have decreased by LL million 1,670; "provision for risks and charges" would have decreased by LL million 1,670 as at 31 December 2017 and 2016; equity as at 31 December 2017 and 2016 would have increased by LL million 1,670 through a decrease in "accumulated losses" as at 31 December 2017 and "Net results of the financial year – profit (loss)" as at 31 December 2016.

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 qualified 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. These matters were 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 an opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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Key audit matters (continued)

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 these matters. 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 matters below, provide the basis for our qualified audit opinion on the accompanying financial statements.

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

Responsibilities of Management and the Audit Committee 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.

The Audit Committee is 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The partner in charge of the audit resulting in this independent auditors' report is Ramzi Ackawi.

Ernst & Young

25 April 2018
Beirut, Lebanon

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	*2017* *LL million*	*2016* *LL million*
Interest and similar income	3	**15,507**	13,657
Interest and similar expense	4	**(1,823)**	(1,429)
Net interest income		**13,684**	12,228
Fee and commission income		**2,168**	2,069
Fee and commission expenses		**(255)**	(234)
Net fee and commission income	5	**1,913**	1,835
Net gain from foreign exchange	6	**748**	735
Other operating income	7	**494**	524
Total operating income		**16,839**	15,322
Net credit losses	14	**(41)**	(81)
Net operating income		**16,798**	15,241
Personnel expenses	8	**(8,330)**	(13,772)
Administrative and other operating expenses	9	**(4,433)**	(6,603)
Depreciation of property and equipment	16	**(660)**	(653)
Total operating expenses		**(13,423)**	(21,028)
Profit (loss) before tax		**3,375**	(5,787)
Income tax expense	10	**(274)**	(228)
Net profit (loss) for the year		**3,101**	(6,015)
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**3,101**	(6,015)

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	*2017* **LL million**	*2016* *LL million*
Assets			
Cash and balances with the Central Bank	11	**107,375**	108,428
Due from banks and financial institutions	12	**29,682**	19,895
Due from head office, branches and affiliates	13	**5,634**	7,090
Loans and advances to customers at amortized cost	14	**113,330**	100,410
Loans and advances to related parties at amortized cost	28	**941**	1,093
Debtors by acceptances		**-**	230
Financial assets at amortized cost	15	**162,582**	134,210
Property and equipment	16	**11,670**	12,139
Derivative financial instruments	20	**303**	244
Other assets	18	**1,253**	1,188
Total assets		**432,770**	384,927
Liabilities and shareholders' equity			
Liabilities			
Due to banks and financial institutions	19	**6**	12
Due to head office, branches and affiliates	13	**22,620**	28
Customers' deposits at amortized cost	21	**311,041**	287,458
Related parties' deposits at amortized cost	28	**673**	846
Engagements by acceptances		**-**	230
Other liabilities	22	**7,631**	4,944
Provisions for risks and charges	23	**6,645**	10,356
Total liabilities		**348,616**	303,874
Shareholders' equity			
Share capital – common shares	24	**40,020**	40,020
Non-distributable reserves (legal and obligatory)	25	**15,103**	15,075
Distributable reserves	26	**31,945**	31,973
Accumulated losses		**(6,015)**	-
Net results of the financial year – profit (loss)		**3,101**	(6,015)
Total shareholders' equity		**84,154**	81,053
Total liabilities and shareholders' equity		**432,770**	384,927

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 25 April 2018 by Mr Habib Karabet, General Manager and Mr Joseph Salloum, Head of Finance.

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

		Non-distributable reserves (legal and obligatory)				*Distributable free reserve*			
	Share capital – common shares LL million	*Statutory reserve LL million*	*Reserve for capital increase LL million*	*Reserve for general banking risks LL million*	*Total LL million*	*General reserve LL million*	*Accumulated losses LL million*	*Results of the financial year -profit LL million*	*Total LL million*
Balance at 1 January 2017	40,020	4,989	3,419	6,667	15,075	31,973	-	(6,015)	81,053
Results of the financial year – profit	-	-	-	-	-	-	-	3,101	3,101
Total comprehensive profit for the year	-	-	-	-	-	-	-	3,101	3,101
Transfer to accumulated losses	-	-	-	-	-	-	(6,015)	6,015	-
Appropriation from general reserve (note 25)	-	-	-	28	28	(28)	-	-	-
Balance at 31 December 2017	**40,020**	**4,989**	**3,419**	**6,695**	**15,103**	**31,945**	**(6,015)**	**3,101**	**84,154**
Balance at 1 January 2016	40,020	4,772	3,421	6,214	14,407	30,484	-	2,171	87,082
Results of the financial year – loss	-	-	-	-	-	-	-	(6,015)	(6,015)
Total comprehensive loss for the year	-	-	-	-	-	-	-	(6,015)	(6,015)
Appropriation of 2015 profit (Notes 25 and 26)	-	217	-	464	681	1,490	-	(2,171)	-
Adjustments	-	-	(2)	(11)	(13)	(1)	-	-	(14)
Balance at 31 December 2016	40,020	4,989	3,419	6,667	15,075	31,973	-	(6,015)	81,053

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	*2017 LL million*	*2016 LL million*
OPERATING ACTIVITIES			
Net profit (loss) before income tax		**3,375**	(5,787)
Adjustments for:			
Depreciation of property and equipment	16	**660**	653
Gain on sale of property and equipment		**(17)**	(2)
Provision for retirement benefits obligations	23	**15**	4,362
Provision for credit losses	14	**41**	81
Net provisions for risks and charges	23	**449**	1,899
		4,523	1,206
Working capital changes:			
Cash and balances with the Central Bank – Maturities of more than 3 months		**(15,000)**	15,950
Loans and advances to customers at amortized cost		**(12,961)**	20,006
Loans and advances to related parties at amortized cost		**152**	(51)
Other assets		**(65)**	275
Customers' deposits at amortized cost		**23,583**	(24,047)
Related parties' deposits at amortized cost		**(173)**	276
Other liabilities		**2,413**	605
Cash from in operations		**2,472**	14,220
Retirement benefits obligations paid	23	**(4,175)**	(226)
Allocation of reserve risk charge		**-**	(43)
Taxes paid	10	**-**	(169)
Net cash (used in) from operating activities		**(1,703)**	13,782
INVESTING ACTIVITIES			
Purchase of financial assets at amortized cost		**(129,434)**	(81,470)
Purchase of property and equipment	16	**(237)**	(483)
Proceeds from redemption of financial assets at amortized cost		**101,003**	85,393
Proceeds from sale of property and equipment		**63**	2
Net cash (used in) from investing activities		**(28,605)**	3,442
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(30,308)**	17,224
Cash and cash equivalents at 1 January		**105,223**	87,999
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27	**74,915**	105,223
OPERATING CASH FLOWS			
Interest received		**13,897**	13,820
Interest paid		**1,251**	1,428

The attached notes 1 to 35 form part of these financial statements.

1 CORPORATE INFORMATION

The Bank is a shareholding company registered in Beirut, Lebanon. It was registered during 1963 under the name of RIF Bank SAL under commercial registration number 13188 and number 73 on the list of banks published by the Central Bank of Lebanon. In 1996, the name of the Bank was changed to National Bank of Kuwait (Lebanon) SAL. The Bank provides a full range of commercial banking activities. Its main branch is at Sanayeh and it operates through three branches.

National Bank of Kuwait S.A.K. owns directly and indirectly 72.66% of the Bank's shares. The main address of National Bank of Kuwait S.A.K. is P.O.Box 95 Safat 13001, Kuwait.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivative financial instruments.

The financial statements have been presented in millions of Lebanese Lira (LL million).

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 ("BCC").

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 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 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 are not offset in the statement of comprehensive income 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

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

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

2.3 Standards issued but not yet effective

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

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

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

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

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

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

- Based on assessments undertaken to date, the expected increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model (see II below) compared to IAS 39 incurred loss model is estimated at approximately LL million 1,787 which is mostly covered by the Bank's excess provisions. Accordingly, there will be no material impact on the Bank's equity from the adoption of the IFRS 9 impairment requirements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

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

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

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

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

Assessment of Significant Increase in Credit Risk
The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the 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.

Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:
(1) We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition.
(2) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
(3) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.
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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

III. Hedge accounting	IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Bank, however, has elected to adopt the new hedge accounting provisions of IFRS 9. The existing hedging relationships will continue to qualify and be effective under the IFRS 9 hedge accounting provisions and will not have any transition impact on the Bank's financial statements.
IV. Financial instruments: disclosures (IFRS 7)	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.

2.3 Summary of significant accounting policies

(1) Foreign currency translation

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

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 are taken to "Net gain (loss) from financial instruments at fair value through profit or loss" in the income statement.

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

(A) Date of recognition

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

(B) Classification and measurement of financial instruments

1. Financial assets

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(1) Foreign currency translation (continued)

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

1. Financial assets (continued)

Debt instruments at amortized cost

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

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

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

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

Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "net gain (loss) on derecognition of debt instruments at amortized cost" in the income statement.

Debt instruments and other financial assets at fair value through profit or loss

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

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

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

Equity instruments at fair value through profit or loss

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

These financial assets are recorded in the statement of financial position at fair value. Changes in fair value and dividend income are recorded under "net gain on financial assets at fair value through profit or loss" in the income statement. Gains and losses arising from derecognition of equity instruments at fair value through profit or loss are also reflected under "net gain from financial assets at fair value through profit or loss" in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(1) Foreign currency translation (continued)

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

1. Financial assets (continued)

Due from banks and financial institutions and loans and advances to customers and related parties – at amortized cost

After initial measurement, amounts "Due from banks and financial institutions", "Loans and advances to customers at amortized cost and loans and advances to related parties at amortized cost" are subsequently measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement in "Credit loss expense"

2. Financial liabilities

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

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

Financial liabilities consist of due to banks and financial institutions, and customers' and related parties' deposits at amortized cost.

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

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

3. Derivatives recorded at fair value through profit or loss

The Bank uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in "net gain on financial assets at fair value through profit and loss" in the income statement.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(1) Foreign currency translation (continued)

(C) Reclassification of financial assets

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

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

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

(2) De-recognition of financial assets and financial liabilities

(a) Financial assets

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

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

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

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

(b) Financial liabilities

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(3) Fair values

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments, fair value is determined by reference to the market value of similar investments, or is based on the expected discounted cash flows, or by using other techniques.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

(4) Impairment of financial assets

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

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

(a) Financial assets carried at amortized cost

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

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

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(4) Impairment of financial assets (continued)

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Renegotiated loans

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

(5) Derivatives

Derivatives are stated at fair value.

For the purposes of hedge accounting, hedges are classified into two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and
(b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction.

In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the income statement.

In relation to cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity to the extent that the hedge is effective and either transferred to the income statement in the period in which the hedged transaction impacts the income statement, or included as part of the cost of the related asset or liability.

For those derivatives which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortized over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in shareholders' equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in shareholders' equity is transferred to the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(6) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(7) Revenue recognition

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.

(a) Interest and similar income and expense

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

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying value is recognized as interest income or interest expense in the income statement.

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.

(b) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

(8) Cash and cash equivalents

Cash and cash equivalents comprise of those balances whose original maturities are three months or less from the date of acquisition: cash and balances with the Central Bank, due from banks and other financial institutions, deposits with head office, branches and affiliates, deposits due to banks and other financial institutions, deposits due to head office, branches and affiliates, and treasury bills.

(9) Property and equipment

Property and equipment are stated at cost. 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:

Buildings	50 years
Furniture, fixtures and equipments	From 4 to 12.5 years
Leasehold improvements and decorations	5 years
Vehicles	4 years
Computer equipment	5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(9) Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

(10) Fixed assets taken in recovery of debt

The Bank occasionally acquires real estate in settlement of certain loans and advances. Such real estate is stated at the lower of the amount of the related loans and advances and the current fair value of such assets based on the instructions of the Control Authorities. Gains or losses on disposal, and revaluation losses, are recognized in the income statement for the year.

(11) Customers' deposits

All customer deposits are carried at the fair value of the consideration received, less amounts repaid.

(12) Impairment of non-financial assets

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

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

(13) Taxation

(a) Current tax

Taxation is provided for in accordance with the fiscal regulations in Lebanon.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(13) Taxation (continued)

(b) Deferred tax
Deferred tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

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

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

(14) Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

(15) Operating lease agreements
Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating leases are recorded in the statement of comprehensive income on a straight line basis over the lease term.

(16) Retirement benefits obligations
The retirement benefits obligations are provided for based on 8.5% of the employees' salaries. The benefits are calculated upon completion of 20 years of services, or when the employee reaches retirement age, or resigns permanently, on the basis of the last salary multiplied by years of service. The Bank is obliged to pay the difference between the paid contribution (calculated at 8% basis) and the provisions for retirements benefits payable to the National Social Security Fund. The Bank provides for employees' retirement benefit obligations on this basis.

(17) Fiduciary assets
Assets held in a fiduciary capacity are not treated as assets of the Bank and are recorded as off financial position items.

2.4 Significant accounting judgments and estimates
In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

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 on 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 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 valuation of financial instruments is described in more detail in note 34.

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 income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. 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 levels of arrears, credit utilization, loan to collateral ratios, etc.) and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in note 14.

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

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 amortized cost measurement. In making the assessment the Bank considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

3 INTEREST AND SIMILAR INCOME

	2017 LL million	2016 LL million
Deposits and similar accounts with banks and financial institutions	**2,034**	882
Deposits with head office, branches and affiliates	**22**	7
Loans and advances to customers at amortized cost	**5,727**	5,280
Loans and advances to related parties at amortized cost	**55**	44
Financial assets at amortized cost	**7,669**	7,444
	15,507	13,657

4 INTEREST AND SIMILAR EXPENSE

	2017 LL million	2016 LL million
Deposits from customers and other credit balances at amortized cost	**1,823**	1,426
Deposits from related parties at amortized cost	-	3
	1,823	1,429

5 NET FEE AND COMMISSION INCOME

	2017 LL million	2016 LL million
Commission income		
Letters of credit, guarantees and acceptances	**216**	246
Loans and advances to customers	**156**	172
Credit cards	**180**	169
Commissions on real estate	**76**	94
Special banking services	**1**	2
Other services	**1,539**	1,386
	2,168	2,069
Commission expenses		
Commission of clearance room and accounts management	**(200)**	(167)
Credit cards	**(29)**	(37)
Commissions and other fees	**(26)**	(30)
	(255)	(234)
Net commission income	**1,913**	1,835

6 NET GAIN FROM FOREIGN EXCHANGE

This account represents the profit generated from exchange operations that are mainly in Euros, Kuwaiti Dinars and US Dollars.

7 OTHER OPERATING INCOME

	2017 LL million	*2016* LL million
Income recognized from operating leases	**231**	170
Net gain on sale of property and equipment	**17**	2
Write back of provisions	**110**	248
Other income	**136**	104
	494	524

8 PERSONNEL EXPENSES

	2017 LL million	*2016* LL million
Salaries and wages	**5,378**	6,557
Social security contribution	**684**	750
Provision for retirement benefits obligations (note 23)	**15**	4,362
Other employees' benefits	**1,428**	1,502
Contractual employees' salaries	**825**	601
	8,330	13,772

9 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2017 LL million	*2016* LL million
Taxes and fees	**802**	954
Expenses and computer services	**773**	852
Professional fees	**457**	368
Net provision for risks and charges (note 23)	**449**	1,899
Maintenance and repairs	**376**	345
Electricity, fuel and telecommunication expenses	**326**	356
Cleaning	**215**	262
Guarding fees	**181**	238
Guarantee of deposits fee	**176**	176
Building expenses	**108**	140
Insurance fees	**96**	87
Rent	**85**	378
Subscriptions	**82**	87
Travel, transport and similar expenses	**80**	66
Office supplies	**68**	82
Other expenses	**159**	313
	4,433	6,603

10 INCOME TAX EXPENSE

	2017 **LL million**	*2016* *LL million*
Profit before tax	**3,375**	(5,787)
5% tax on interest income received from banks	**(221)**	(228)
	3,154	(6,015)

The relationship between income tax expense and the accounting profit is as follows:

	2017 **LL million**	*2016* *LL million*
Net profit (loss) before income tax	**3,154**	(6,015)
Non-deductible expenses and non-taxable income in determining taxable profit:		
Net provision for risks and charges non deductible	**75**	1,871
Provision for retirement benefits obligations non deductible	**271**	672
Other non deductible taxes	**53**	144
Additional general provisions	**578**	51
Other expenses non- tax deductible	**192**	423
Write back of provisions previously taxable	**(110)**	(248)
Income tax deductible	**-**	(54)
5% tax on interest income received from banks	**178**	228
	4,391	(2,928)
Loss available for carry forward	**(2,971)**	-
Taxable income (loss)	**1,420**	(2,928)
Effective income tax rate*	**16.26%**	15%
Income tax expense	**231**	-
5% tax on interest income received from banks	**(178)**	(228)
	53	-

* Effective October 2017, the applicable tax rate increased from 15% to 17%. Furthermore tax on interest increased from 5% to 7% and is no longer allowed as a tax credit. Instead it became a deductible for the purpose of calculation of taxable profit.

The movement of income tax expense is as follows:

	2017 **LL million**	*2016* *LL million*
Balance at 1 January	**35**	139
Tax paid during the year	**-**	(169)
Write back of provisions from previous years	**-**	(163)
Provisions for the year	**53**	228
Balance at 31 December	**88**	35

11 CASH AND BALANCES WITH THE CENTRAL BANK

	2017 LL million	2016 LL million
Cash on hand	**6,932**	5,954
Central Bank		
Current accounts	**36,372**	46,174
Time deposits	**64,071**	56,300
	107,375	108,428

Current accounts at the Central Bank include an amount of LL million 9,627 (2016: LL million 9,711) to cover the monetary regulatory reserve requirement on Lebanese Lira deposits, according to Lebanese banking laws and regulations.

Time deposits at the Central Bank include two placements of US$ 8 million and US$ 20 million (2016: US$ 8 million and US$ 20 million) with interest rates of 1.344% and 2.292% respectively to cover the regulatory reserve of 15% on foreign currency deposits and amounting to LL million 38,589 (2016: LL million 35,504). The placements mature on 29 January 2018 and on 4 February 2018 respectively.

12 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2017 LL million	2016 LL million
Current accounts	**11,590**	7,835
Time deposits	**18,092**	12,060
	29,682	19,895

13 HEAD OFFICE, BRANCHES AND AFFILIATES

	2017 LL million	2016 LL million
Due from head office, branches and affiliates		
Current accounts	**5,634**	7,090
Due to head office, branches and affiliates		
Current accounts	**22,620**	28

14 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2017 LL million	2016 LL million
Gross commercial loans	**75,073**	62,277
Gross consumer loans	**39,555**	39,300
	114,628	101,577
Unrealized interest	**(142)**	(52)
Provision for doubtful loans	**(1,156)**	(1,115)
	113,330	100,410

14 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

The movement of provision for loans and advances to customers during the year was as follows:

	2017 *LL million*	*2016* *LL million*
Provision at 1 January	**1,115**	1,034
Charge for the year	**41**	81
Provision at 31 December	**1,156**	1,115
Individual impairment	**122**	81
Collective impairment	**1,034**	1,034
	1,156	1,115

According to the Central bank instructions, the Bank transferred to off-financial position all bad debts satisfying certain criteria and their related provision and interest in suspense. The gross balance of these loans amounted to LL million 266 as of 31 December 2017 (2016: same).

15 FINANCIAL ASSETS AT AMORTIZED COST

	2017 *LL million*	*2016* *LL million*
Quoted:		
US treasury bills	**2,880**	2,869
Lebanese Euro Bonds	**91,429**	55,196
	94,309	58,065
Unquoted:		
Lebanese treasury bills	**68,576**	76,389
Effect of hedging interest rate risk (note 31)	**(303)**	(244)
	162,582	134,210

16 PROPERTY AND EQUIPMENT

	Advances on purchase of fixed assets LL million	*Land LL million*	*Buildings LL million*	*Furniture, fixtures and equipment LL million*	*Leasehold improvements and decorations LL million*	*Vehicles LL million*	*Computer equipment LL million*	*Total LL million*
Cost:								
At 1 January 2017	8	1,478	15,394	2,674	1,542	409	2,512	24,017
Additions	-	-	-	42	14	-	181	237
Write-offs	-	-	-	(126)	(656)	-	(90)	(872)
Disposals	(8)	-	-	(14)	-	(199)	-	(221)
At 31 December 2017	-	1,478	15,394	2,576	900	210	2,603	23,161
Depreciation:								
At 1 January 2017	-	-	5,844	2,519	1,382	219	1,914	11,878
Charge for the year	-	-	308	50	48	50	204	660
Relating to write-offs	-	-	-	(133)	(649)	-	(90)	(872)
Relating to disposals	-	-	-	-	-	(175)	-	(175)
At 31 December 2017	-	-	6,152	2,436	781	94	2,028	11,491
Net carrying amount:								
At 31 December 2017	-	**1,478**	**9,242**	**140**	**119**	**116**	**575**	**11,670**

16 PROPERTY AND EQUIPMENT (continued)

	Advances on purchase of fixed assets LL million	Land LL million	Buildings LL million	Furniture, fixtures and equipment LL million	Leasehold improvements and decorations LL million	Vehicles LL million	Computer equipment LL million	Total LL million
Cost:								
At 1 January 2016	-	1,478	15,394	2,918	1,460	312	2,621	24,183
Additions	8	-	-	20	98	97	260	483
Write-offs	-	-	-	(264)	(16)	-	(362)	(642)
Disposals	-	-	-	-	-	-	(7)	(7)
At 31 December 2016	8	1,478	15,394	2,674	1,542	409	2,512	24,017
Depreciation:								
At 1 January 2016	-	-	5,536	2,723	1,353	171	2,091	11,874
Charge for the year	-	-	308	60	45	48	192	653
Relating to write-offs	-	-	-	(264)	(16)	-	(362)	(642)
Relating to disposals	-	-	-	-	-	-	(7)	(7)
At 31 December 2016	-	-	5,844	2,519	1,382	219	1,914	11,878
Net carrying amount:								
At 31 December 2016	8	1,478	9,550	155	160	190	598	12,139

17 NON CURRENT ASSETS HELD FOR SALE

	2017 LL million	2016 LL million
Cost	**121**	121
Provision for impairment	**(121)**	(121)
	-	-

18 OTHER ASSETS

	2017 LL million	2016 LL million
Deferred expenses	**302**	363
Prepaid expenses	**298**	204
Staff receivables	**228**	289
Sundry debtors	**341**	242
Exchange difference on structural foreign exchange position	**74**	74
Stamps	**10**	16
	1,253	1,188

The Bank has accounted for an amount of LL million 17,345 in prior years as structural foreign exchange position with the approval of the Banking Control Commission. The exchange difference arising on this position amounting to LL million 74 was recorded in the income statement, in prior years.

19 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2017 LL million	2016 LL million
Current accounts	**6**	12

20 DERIVATIVE FINANCIAL INSTRUMENTS

	2017	*2016*
	LL million	*LL million*
Positive fair value on swap contracts (note 31)	**303**	244

21 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2017	*2016*
	LL million	*LL million*
Current accounts	**224,414**	216,246
Time deposits	**7,064**	3,942
Saving accounts	**79,046**	66,932
Accrued interest payable	**517**	338
	311,041	287,458

Customers' deposits include coded deposits amounting to LL million 261 (2016: LL million 259). These accounts were opened under the provisions of Article 3 of the Banking Secrecy Law dated 3 September 1956.

Customers' deposit accounts include blocked accounts amounting to LL million 6,750 (2016: LL million 3,649) representing cash collateral pledged in favor of the Bank as a guarantee for the credit facilities and guarantees issued in favor of the customers.

22 OTHER LIABILITIES

	2017	*2016*
	LL million	*LL million*
Income tax liability	**88**	35
Other taxes	**207**	218
Margin against documentary credits	**-**	50
Sundry creditors	**5,815**	3,193
National Social Security Fund	**89**	88
Accrued expenses	**1,432**	1,360
	7,631	4,944

23 PROVISIONS FOR RISKS AND CHARGES

	2017	*2016*
	LL million	*LL million*
Retirement benefits obligation	**3,140**	7,300
Provision for risks and charges	**3,505**	3,056
	6,645	10,356

23 PROVISIONS FOR RISKS AND CHARGES (continued)

The movement in the provision of retirement benefits obligations included in the statement of financial position is as follows:

	2017	*2016*
	LL million	*LL million*
Provision at 1 January	**7,300**	3,186
Provided during the year (note 8) (a)	**15**	4,362
Provision paid during the year	**(4,175)**	(226)
Difference of exchange	-	(22)
Provision at 31 December	**3,140**	7,300

The movement of the provisions for risks and charges during the year was as follows:

	2017	*2016*
	LL million	*LL million*
Balance at 1 January	**3,056**	1,164
Additional provisions during the year	**449**	555
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circulars number 439 dated 8 November 2016 (b)	-	1,670
Write-off of provision during the year	-	(7)
Write back of provision during the year	-	(326)
Balance at 31 December	**3,505**	3,056

(a) The Board of Directors decided on 19 February 2016 to close 4 branches (Achrafieh, Jounieh, Dora and Shiah). Accordingly, a number of employees became redundant. During the year ended 31 December 2016, the Bank provided for the amount of LL million 4,362 as final settlements for those employees. During the year ended 31 December 2017, the Bank settled part of the provision for the amount of LL million 3,851.

(b) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 dated 8 November 2016 requesting banks operating in Lebanon to book a 2% provision on risk-weighted loans in preparation for the implementation of the impairment of International Financial Reporting Standards (IFRS 9) effective 1 January 2018. In order to comply with the regulatory requirement, the Bank recorded excess provisions under "provisions for risks and charges" amounting to LL million 1,670 as at 31 December 2016.

24 SHARE CAPITAL – COMMON SHARES

The authorized, issued and fully paid share capital as of 31 December 2017 comprised of 5,800,000 shares of nominal value LL 6,900 per share (2016: the same).

25 NON DISTRIBUTABLE RESERVES

1. Statutory reserve

As required by Article 132 of the Lebanese Code of Money and Credit, 10% of the net profit after tax should be transferred to a statutory reserve. This reserve is not distributable. The Bank did not appropriate any amount to this reserve as the Bank incurred losses during the year ended 31 December 2016. (2016: the Bank appropriated LL million 217 of year 2015 net profit to this reserve).

2. Reserve for capital increase

In compliance with circular 167 issued by the Banking Control Commission on 24 January 1994 which states the requirement to transfer the recovery of provisions for doubtful debts to a special free reserve for capital increase limited by the net income. The Bank did not appropriate any amount from prior year net profit to this reserve during the current year (2016: same).

3. Reserve for general banking risks

In compliance with main circular no. 50 issued by the Central Bank dated 15 October 1998, the Bank should transfer from net profit for the year a minimum amount of 2 per thousand and a maximum of 3 per thousand from the total risk weighted assets and off financial position items based on rates specified by the Central Bank as a reserve for general banking risks. The accumulated balance of this reserve should not be less than 1.25% of the total risks at the end of the financial year ten (year 2017) and 2% at the end of the financial year twenty (year 2027). This reserve is used to cover the losses of the annual financial cycle or any unforeseen losses around is compatibility with the Banking Control Commission and be fully configured, priority, from the profits realized in subsequent fiscal years. The Bank appropriated LL million 28 to this reserve from the general reserves (2016: the Bank appropriated LL million 464 of year 2015 net profit to this reserve).

26 DISTRIBUTALBE RESERVES

General reserve

After all transfers to other reserves, the remaining profits are transferred to the general reserve. This reserve can be distributed. The Bank did not appropriate any amount to this reserve during the current year (2016: the Bank appropriated LL million 1,490 of year 2015 net profit to this reserve).

The appropriation to the above reserves for the year ending 31 December 2017 has been made in accordance with the resolution of the ordinary general assembly of shareholders dated 9 June 2017 (2016: 5 April 2016).

27 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows consist of the following:

	2017	*2016*
	LL million	*LL million*
Cash and balances with the Central Bank	**62,225**	78,278
Due from banks and financial institutions	**29,682**	19,895
Due to banks and financial institutions	**(6)**	(12)
Due from head office, branches and affiliates	**5,634**	7,090
Due to head office, branches and affiliates	**(22,620)**	(28)
	74,915	105,223

28 RELATED PARTY TRANSACTIONS

Related parties of the Bank include subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

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

Entities under common directorship are defined as those entities over which the Bank's key management personnel have similar authority and responsibility to those they have in the Bank.

Terms and conditions of transactions with related parties
The Bank enters into transactions with related parties in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions and the amount of outstanding balances (including commitments) with related parties for the relevant financial year.

	2017	
	Outstanding balance LL million	***Interest income (expense) LL million***
Key Management Personnel and their Family members		
Net loans and advances	**941**	**33**
Deposits	**185**	-
Banks under common directorships		
Debit balances	**2,595**	**19**
Credit balances	**22,619**	-
Shareholders		
Deposits	**3,038**	**3**
Guarantees received	**24,184**	-
Other related parties		
Deposits	**365**	-
Board Members		
Deposit	**123**	-

	2016	
	Outstanding balance LL million	*Interest income (expense) LL million*
Key Management Personnel and their Family members		
Net loans and advances	1,093	37
Deposits	304	(3)
Banks under common directorships		
Debit balances	4,689	5
Credit balances	28	-
Shareholders		
Deposits	2,401	2
Guarantees received	21,825	-
Other related parties		
Deposits	510	-
Board Members		
Deposit	32	-

28 RELATED PARTY TRANSACTIONS (continued)

The Bank entered into swap deals with NBK Kuwait, and as result the Bank paid the received fixed interest and earned the floating interest amounting to LL million 1,864 and LL million 1,475 respectively for year ended 31 December 2017 (2016: LL million 1,103 and LL million 861 respectively). The notional amount for the interest rate swap with National Bank of Kuwait SAK as at 31 December 2017 amounted to LL million 55,778 (2016: LL million 19,974).

29 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. The letters of credit and guarantees (including the enhanced credits) and acceptances commit the Bank payments on behalf of customers if the customer fails to meet its obligations in accordance with the terms of the contract. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities.

	2017		
	Banks LL million	***Customers LL million***	***Total LL million***
Guarantees and contingent liabilities	-	**8,658**	**8,658**
Financial guarantees			
Commitments	-	-	-
Documentary credits	-	**15,691**	**15,691**
Undrawn credit lines (revocable)	-	**30**	**30**
Other commitments			
	-	**15,721**	**15,721**
	-	**24,379**	**24,379**

	2016		
	Banks LL million	*Customers LL million*	*Total LL million*
Guarantees and contingent liabilities	-	10,617	10,617
Financial guarantees			
Commitments	101	-	101
Documentary credits	-	14,834	14,834
Undrawn credit lines (revocable)	-	30	30
Other commitments			
	101	14,864	14,965
	101	25,481	25,582

The engagements by acceptances were listed in the statement of financial position.

29 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Credit-related commitments and contingent liabilities (continued)

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

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

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

Undrawn credit lines
Undrawn credit lines are agreements to lend a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

Legal claims
Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Based on advice from legal counsel, management believes that legal claims will not result in any financial loss to the Bank.

Claims resulting from Judicial disputes are detailed as follows:

	2017	*2016*
	LL million	*LL million*
Claims' value raised against the Bank	**5,725**	192

Lease arrangements

Future minimum lease payments are as follows:

	2017	*2016*
	LL million	*LL million*
Within one year	**85**	62
After one year but not more than five years	**37**	-
	122	62

Other contingencies
The Bank's books are still subject to review by the Department of Income Tax for the years 2013 to 2017 (inclusive).

The Bank's books are still subject to review by the National Social Security Fund for the years 2002 to 2017 (inclusive).

Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

30 ASSETS UNDER MANAGEMENT

The Bank has fiduciary assets as follows:

	2017 ***LL million***	*2016* *LL million*
Lebanese Treasury bills denominated in LL	**5,349**	6,948
Lebanese Eurobonds	**10,478**	9,880
Financial notes	**7,277**	7,317
	23,104	24,145

The above Lebanese treasury bills, Eurobonds and financial notes are stated at nominal value.

31 DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

	2017			*2016*		
	Positive fair values LL million	***Negative fair value LL million***	***Total Notional amount LL million***	*Positive fair values LL million*	*Negative fair value LL million*	*Total Notional amount LL million*
Derivatives used for hedging purposes:						
Interest rate swaps	**303**	**-**	**55,778**	244	-	19,974

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency.

The Bank has entered into the above interest rate swaps to hedge the treasury bills in US Dollars (Eurobonds) at amortized cost and revalued at fair value to hedge interest rate risk. These hedges are effective fair value hedges, accordingly losses that resulted from the change of the fair value of the interest rate swaps have been directly charged to the income statement.

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Bank as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

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

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation technique using observable inputs – Level 2
Financial instruments classified as Level 2 have been valued using models whose most significant inputs are derived directly or indirectly from observable market data. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads.

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).

32.1 FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

	2017	*2016*
	Level 2	*Level 2*
Financial liabilities	***LL million***	*LL million*
Derivative financial instruments		
Interest rate swaps	**(303)**	(244)

No transfers between levels were made during the years 2017 and 2016.

Valuation techniques used for material classes of financial assets and liabilities categorized within Level 2:

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

32.2 FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

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

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

32.2 FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE (continued)

Fair value measurement hierarchy of the Bank's financial assets and liabilities for which fair value is disclosed:

31 December 2017

	Nominal Amount	*Fair Value*			
		Level 1	*Level 2*	*Level 3*	*Total*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*
Financial Assets					
Cash and balances with central banks	**107,375**	**6,933**	**100,442**	-	**107,375**
Due from banks and financial institutions	**29,682**	-	**29,682**	-	**29,682**
Due from Head Office, branches and affiliates	**5,634**	-	**5,634**	-	**5,634**
Loans & advances to customers at amortized cost	**113,330**	-	-	**108,706**	**108,706**
Loans & advances to related parties at amortized cost	**941**	-	-	**844**	**844**
Debtors by acceptances	-	-	-	-	-
Financial assets at amortized cost	**162,582**	**3,897**	**158,775**	-	**162,672**
	419,544	**10,830**	**294,533**	**109,550**	**414,913**
Financial liabilities					
Due to banks and financial institutions	**6**	-	**6**	-	**6**
Due to head offices, branches and affiliates	**22,620**	-	**22,620**	-	**22,620**
Customers' deposits at amortized cost	**311,041**	-	**311,237**	-	**311,237**
Related parties deposits at amortized cost	**673**	-	**673**	-	**673**
Engagement by acceptances	-	-	-	-	-
	334,340	-	**334,536**	-	**334,536**

31 December 2016

	Nominal Amount	*Fair Value*			
		Level 1	*Level 2*	*Level 3*	*Total*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*
Financial Assets					
Cash and balances with central banks	108,428	5,954	102,474	-	108,428
Due from banks and financial institutions	19,895	-	19,895	-	19,895
Due from Head Office, branches and affiliates	7,090	-	7,090	-	7,090
Loans & advances to customers at amortized cost	100,410	-	-	97,110	97,110
Loans & advances to related parties at amortized cost	1,093	-	-	1,049	1,049
Debtors by acceptances	230	-	-	230	230
Financial assets at amortized cost	134,210	3,840	128,846	-	132,686
	371,356	9,794	258,305	98,389	366,488
Financial liabilities					
Due to banks and financial institutions	12	-	12	-	12
Due to head offices, branches and affiliates	28	-	28	-	28
Customers' deposits at amortized cost	287,458	-	287,458	-	287,458
Related parties deposits at amortized cost	846	-	846	-	846
Engagement by acceptances	230	-	230	-	230
	288,574	-	288,574	-	288,574

Valuation techniques used for material classes of financial assets and liabilities categorized within Level 2 and Level 3:

Deposits with banks, the Central Bank, and with the Head office, branches and affiliates

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

Government bonds, certificates of deposits and other debt securities

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

Loans and advances to customers

For the purpose of this disclosure, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for new loans granted during 2017 with similar remaining maturities and to counterparties with similar credit quality.

Deposits from banks and customers

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

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

Deposits from banks and customers (continued)

33 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarizes the maturity profile of the Bank's assets and liabilities based on contractual arrangements. The contractual maturities of the effective maturities relating to current customer deposits accounts amounting to LL million 225,253 (2016: LL million 217,694) could differ.

33 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continue)

31 December 2017

	Less than One year LL million	*More than One year LL million*	*Total LL million*
ASSETS			
Cash and balances with the Central Bank	**61,867**	**45,508**	**107,375**
Due from banks and financial institutions	**29,682**	-	**29,682**
Due from head office, branches and affiliates	**5,634**	-	**5,634**
Loans and advances to customers at amortized cost	**82,500**	**30,830**	**113,330**
Loans and advances to related parties at amortized cost	**70**	871	**941**
Debtors by acceptances	-	-	-
Financial assets at amortized cost	**51,866**	**110,716**	**162,582**
Property and equipment	-	**11,670**	**11,670**
Derivative financial Instruments	**303**	-	**303**
Other assets	**1,253**	-	**1,253**
TOTAL ASSETS	**233,175**	**199,595**	**432,770**
LIABILITIES			
Due to banks and financial institutions	**6**	-	**6**
Due to head office, branches and affiliates	**72**	22,548	**22,620**
Customers' deposits at amortized cost	**310,755**	**286**	**311,041**
Related parties' deposits at amortized cost	**673**	-	**673**
Engagements by acceptances	-	-	-
Other liabilities	**7,631**	-	**7,631**
Provisions for risks and charges	**6,645**	-	**6,645**
TOTAL LIABILITIES	325,782	22,834	**348,616**
NET	**(92,607)**	**176,761**	84,154

31 December 2016

	Less than One year LL million	*More than One year LL million*	*Total LL million*
ASSETS			
Cash and balances with the Central Bank	78,191	30,237	108,428
Due from banks and financial institutions	19,895	-	19,895
Due from head office, branches and affiliates	7,090	-	7,090
Loans and advances to customers at amortized cost	50,890	49,520	100,410
Loans and advances to related parties at amortized cost	50	1,043	1,093
Debtors by acceptances	230	-	230
Financial assets at amortized cost	64,076	70,134	134,210
Property and equipment	-	12,139	12,139
Derivative financial Instruments	244	-	244
Other assets	1,188	-	1,188
TOTAL ASSETS	221,854	163,073	384,927
LIABILITIES			
Due to banks and financial institutions	12	-	12
Due to head office, branches and affiliates	28	-	28
Customers' deposits at amortized cost	287,280	178	287,458
Related parties' deposits at amortized cost	846	-	846
Engagements by acceptances	230	-	230
Other liabilities	4,944	-	4,944
Provisions for risks and charges	-	10,356	10,356
TOTAL LIABILITIES	293,340	10,534	303,874
NET	(71,486)	152,539	81,053

34 RISK MANAGEMENT

34.1 INTRODUCTION

The Bank manages its business activities within risk management guidelines as set by the board of directors. The Bank recognizes the role of the board of directors and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that the ultimate responsibility for establishment of an effective risk management culture and practices lies within the Board of Directors as does the setting up of Bank's risk appetite and tolerance levels. The Board of Directors delegates through its risk management committee the day–to–day responsibility for establishment and monitoring of risk management process across the Bank to the head of risk management, who is directly appointed by the board of directors, in coordination with executive management at the Bank.

The Bank is exposed to credit risk, liquidity risk, market risk and operating risks.

The risk management committee has the mission to periodically (1) review and assess the risk management function of the Bank, (2) review the adequacy of the Bank's capital and its allocation and (3) review risk limits and reports and make recommendations to the board of directors.

The risk management committee undertakes its responsibilities and helps executive management in controlling and actively managing the Bank overall risk. The department mainly ensures that:

- Risk policies and methodologies are consistent with Bank's risk appetite.
- Limits and risk across banking activities are monitored throughout the Bank.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Bank "Risk Management Policy". Any discrepancies, breaches or deviations are escalated to executive management in a timely manner for appropriate action.

In respect of Basel 2 capital adequacy ratio calculations, risk management started, since December 2004, to issue internal reports to executive management and the board revealing multiple scenarios of capital adequacy calculations for credit and market risks under the standardized approaches and for operational risk under the basic indicator approach.

34.2 CREDIT RISK

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

Origination of loans and maintenance

There are consistent standards across the Bank for the origination, documentation and maintenance of extensions of credit. For customers whose loans were extended, there is a standard approach used by the Bank to determine the debt's position, credit rating exposure, and adoption of the corrective procedure.

Loan portfolio management

The Bank has a large portfolio of assets subject to risk due to the amount of capital funds that supports this portfolio. Limits to credit risk are set and distributed over the various business sectors.
In order to control its risk exposure, the Bank reviews its credit risk reports in a precise and complete manner at the appropriate time, which is taken into consideration in the review process.

Credit quality per class of financial assets

The Bank's credit risk rating processes are designed in a manner to highlight those cases that require special attention by management in case of defaults and incurring losses. Risk ratings are reviewed on a regular basis and amended when necessary. Unimpaired loans are assessed based on the Bank's credit rating system consisting of five grades. Credit exposures classified as "Grade 1" quality are those facilities with good financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as "Grade 2" comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not "impaired" and do not require a provision. Credit exposures classified as "Grade 3" are related to loans that require special attention and follow up. Credit exposures classified as "Grade 4" and "Grade 5" represent doubtful and bad loans.

34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

The Bank attempts to control credit risk by monitoring credit risk exposures, limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties. The Bank's risk management policies were designed to set appropriate risk limits, to monitor risks, and to abide by the specified ceilings. Actual risk exposures are monitored regularly against ceilings. In addition, the Bank prepares reports that show possible credit risk exposures in each of corporate loans, commercial loans, and consumer loans. The Bank also monitors its concentration level with respect to loans' type, clients' distribution among different segments and economic sectors and the percentage of loans' guarantees coverage. The Bank also monitors non-performing loans and books required provisions when necessary.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout in case of bankruptcy, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collective assessed allowances

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

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, such as the market turmoil in 2007/2008, the Bank would include macro-economic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriated to adjust the impairment allowances. Allowances are evaluated separately at each reporting date with each portfolio.

Based on the Banking Control Commission No. 280 dated 02/01/2015, the collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence but the effect of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. With gross–settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honors its obligation but the counterparty fails to deliver the counter–value.

Credit–related commitments and financial guarantee risks

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

34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

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

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

	2017						
	Maximum exposure LL million	*Cash collateral and margins LL million*	*Letters of guarantees LL million*	*Real estate guarantees LL million*	*Personal guarantees LL million*	*Other guarantees LL million*	*Net credit exposure LL million*
Balances with the central banks	107,376	-	-	-	-		107,376
Due from banks and financial institutions	29,682	-	-	-	-		29,682
Due from head office, branches and affiliates	5,634	-	-	-	-		5,634
Loans and advances to customers at amortized cost:	113,330	2,891	8,844	32,126	12,195	24,687	32,587
Commercial loans	74,039	29	7,560	2,825	9,101	22,657	31,867
Consumer loans	39,291	2,862	1,284	29,301	3,094	2,030	720
Loans and advances to related parties at amortized cost	941	13	-	695	-	75	158
Debtors by acceptances	-	-	-	-	-	-	-
Financial assets at amortized cost	162,647	-	-	-	-	-	162,647
Financial guarantees	8,658	716	-	-	-	-	7,942
Documentary credits	-	-	-	-	-	-	-
Undrawn credit lines	15,962	-	-	-	-	-	15,962
Other commitments	30	-	-	-	-	-	30
Total	**444,260**	**3,620**	**8,844**	**32,821**	**12,195**	**24,762**	**362,018**
Utilized collateral		3,620	8,844	32,821	12,195	24,762	82,242
Surplus of collateral before undrawn credit lines		3,130	16,153	16,701	129,074	61,731	226,789
Total collateral		**6,750**	**24,997**	**49,522**	**141,269**	**86,493**	**309,031**

	2016						
	Maximum exposure LL million	*Cash collateral and margins LL million*	*Letters of guarantees LL million*	*Real estate guarantees LL million*	*Personal guarantees LL million*	*Other guarantees LL million*	*Net credit exposure LL million*
Balances with the central banks	102,474	-	-	-	-	-	102,474
Due from banks and financial institutions	19,895	-	-	-	-	-	19,895
Due from head office, branches and affiliates	7,090	-	-	-	-	-	7,090
Loans and advances to customers at amortized cost:	100,410	681	13,080	36,914	8,609	24,096	17,030
Commercial loans	62,277	78	13,080	4,094	8,457	20,439	16,129
Consumer loans	38,133	603	-	32,820	152	3,657	901
Loans and advances to related parties at amortized cost	1,093	10	-	981	-	-	102
Debtors by acceptances	230	-	-	-	-	-	230
Financial assets at amortized cost	134,210	-	-	-	-	-	134,210
Financial guarantees	10,617	35	-	-	-	-	10,582
Documentary credits	101	-	-	-	-	-	101
Undrawn credit lines	14,834	-	-	-	-	-	14,834
Other commitments	30	-	-	-	-	-	30
Total	390,984	726	13,080	37,895	8,609	24,096	306,578
Utilized collateral		726	13,080	37,895	8,609	24,096	84,406
Surplus of collateral before undrawn credit lines		2,923	11,291	45,485	132,987	58,845	251,531
Total collateral		3,649	24,371	83,380	141,596	82,941	335,937

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL million 15,962 as of 31 December 2017 (2016: LL million 14,834).

34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral in order to request additional collateral in case of a decline in market value and to estimate the recoverable amount during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

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

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

34.2.1 Credit quality by class of financial assets
In managing its portfolio, the Bank utilizes ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not "impaired". The ultimate risk of possible financial loss on "Standard" quality is assessed to be higher than that for the exposures classified within the "High" quality range.

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system.

	2017				
	Neither past due nor impaired				
	High grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Past due and impaired LL million*	*Total LL million*
Balances with the Central Bank	-	100,442	-	-	100,442
Due from banks and financial institutions	29,682	-	-	-	29,682
Loans and advances to customers at amortized cost:					
Commercial loans	70,580	3,459	-	-	74,039
Consumer loans	38,115	-	648	528	39,291
	108,695	3,459	648	528	113,330
Loans and advances to related parties at amortized cost	941	-	-	-	941
Financial assets at amortized cost:					
Government debt securities	2,881	159,701	-	-	162,582
Total	142,199	263,602	648	528	406,977
Moody's equivalent	Aaa – Baa3*	Ba1 – B1*	Not rated	Not rated	

34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

	2016				
	Neither past due nor impaired				
	High grade LL million	Standard grade LL million	Past due but not impaired LL million	Past due and impaired LL million	Total LL million
Balances with the Central Bank	-	102,474	-	-	102,474
Due from banks and financial institutions	19,895	-	-	-	19,895
Loans and advances to customers at amortized cost:					
Commercial loans	33,079	25,028	4,170	-	62,277
Consumer loans	37,371	1,092	-	837	39,300
	70,450	26,120	4,170	837	101,577
Loans and advances to related parties at amortized cost	1,093	-	-	-	1,093
Financial assets at amortized cost:					
Government debt securities	2,869	131,341	-	-	134,210
Total	94,307	259,935	4,170	837	359,249
Moody's equivalent	Aaa – Baa3*	Ba1 – B1*	Not rated	Not rated	

* The high and standard grades include commercial loans, consumer loans and banks which are not rated by Moody's.

34.2.2 Aging analysis of past due but not impaired financial assets by class of financial asset

	2017				
	Less than 30 days LL million	**31 to 60 days LL million**	**61 to 90 days LL million**	**More than 90 days LL million**	**Total LL million**
Commercial loans	-	-	-	-	-
Consumer loans	-	-	-	**648**	**648**
	-	-	-	**648**	**648**

	2016				
	Less than 30 days LL million	31 to 60 days LL million	61 to 90 days LL million	More than 90 days LL million	Total LL million
Commercial loans	-	-	-	4,170	4,170
Consumer loans	-	-	-	-	-
	-	-	-	4,170	4,170

The provision for loans and advances to customers were disclosed under note 14.

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

	2017			
	Gross balance LL million	**Unrealized interest LL million**	**Impairment allowances LL million**	**Net balance LL million**
Good	**111,215**	-	-	**111,215**
Watch	**3,436**	-	-	**3,436**
Substandard	**652**	**89**	-	**563**
Doubtful	**258**	**53**	**114**	**91**
Bad	**8**	-	**8**	-
	115,569	**142**	**122**	**115,305**
Collective impairment				**(1,034)**
				114,271

34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

34.2.2 Aging analysis of past due but not impaired financial assets by class of financial asset (continued)

	2016			
	Gross balance LL million	*Unrealized interest LL million*	*Impairment allowances LL million*	*Net balance LL million*
Good	97,663	-	-	97,663
Watch	4,170	-	-	4,170
Substandard	589	29	-	560
Doubtful	240	23	73	144
Bad	8	-	8	-
	102,670	52	81	102,537
Collective impairment				(1,034)
				101,503

34.2.3 Renegotiated Loans

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

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

The table below shows the renegotiated loans by type:

	2017 LL million	*2016 LL million*
Commercial loans	**162**	556

34.2.4 Concentrations of assets and liabilities and off financial position items

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The distribution of assets, liabilities, and off-financial position items by geographic region and industry sector was as follows:

	2017		*2016*	
	Assets LL million	***Liabilities LL million***	*Assets LL million*	*Liabilities LL million*
Geographic region:				
Domestic (Lebanon)	**374,668**	**201,370**	333,103	172,051
Middle East countries	**18,616**	**133,786**	23,301	119,935
Europe	**19,486**	**2,998**	14,306	2,946
North America	**20,000**	**5,766**	14,214	6,989
Other	**-**	**4,696**	3	1,953
	432,770	**348,616**	384,927	303,874
Industry sector:				
Trading and manufacturing	**54,986**	**39,599**	38,380	41,039
Banks and financial institutions	**142,691**	**35,646**	135,413	15,465
Construction and real estate	**8,989**	**24,574**	11,515	16,517
Other	**226,104**	**248,797**	199,619	230,853
	432,770	**348,616**	384,927	303,874

34 RISK MANAGEMENT (continued)

34.2.5 Analysis of risk concentration (Geographic Analysis)

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography before the effect of mitigation through the use of master netting and collateral agreements. 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		
	Domestic LL million	***International LL million***	***Total LL million***
Cash and balances with the Central Bank	**102,007**	**5,368**	**107,375**
Due from banks and financial institutions	**-**	**29,682**	**29,682**
Due from head office, branches and affiliates	**-**	**5,634**	**5,634**
Loans and advances to customers at amortized cost	**72,718**	**40,612**	**113,330**
Loans and advances to related parties at amortized cost	**941**	**-**	**941**
Financial assets at amortized cost	**159,701**	**2,881**	**162,582**
Total credit exposure	**335,367**	**84,177**	**419,544**

	2016		
	Domestic LL million	*International LL million*	*Total LL million*
Cash and balances with the Central Bank	104,256	4,172	108,428
Due from banks and financial institutions	-	19,895	19,895
Due from head office, branches and affiliates	-	7,090	7,090
Loans and advances to customers at amortized cost	58,180	42,230	100,410
Loans and advances to related parties at amortized cost	1,093	-	1,093
Financial assets at amortized cost	131,341	2,869	134,210
Total credit exposure	294,870	76,256	371,126

34.3 LIQUIDITY RISK

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

As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

34 RISK MANAGEMENT (continued)

34.3 LIQUIDITY RISK (continued)

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The Bank maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10% and the ratio of liquid assets to net tier 1 Capital and in Lebanese Lira should not be less than 40%. The liquid assets consist of cash and balances with the Central Bank of Lebanon, due from banks and financial institutions, due from Head Office, affiliates and branches, Certificates of deposits issued by the Central Bank of Lebanon and treasury bills less due from banks and financial institutions and due from Head Office, affiliates and branches that mature within one year. Deposits and commitments comprise of total customer deposits in addition to acceptances and loans that mature within one year.

34.3.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations. As the special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities.

Repayments which are subject to notice are treated as if notice were being given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2017					
	Up to 1 month LL million	*1 to 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with the Central bank	61,867	161	1,612	36,430	16,124	116,194
Due from banks and financial institutions	29,682	-	-	-	-	29,682
Due from head office, branches, and affiliates	5,634	-	-	-	-	5,634
Loans and advances to customers at amortized cost	58,045	5,546	25,793	19,792	12,993	122,169
Loans and advances to related parties at amortized cost	114	18	74	387	400	993
Financial assets at amortized cost	11,427	12,607	33,536	118,302	4,617	180,489
Other assets	1,253	-	-	-	-	1,253
Total undiscounted financial assets	168,022	18,332	61,015	174,911	34,134	456,414
Financial liabilities						
Due to banks and financial institutions	6	-	-	-	-	6
Due to head office, branches and affiliates	8	137	411	23,709	-	24,265
Customer's deposits at amortized cost	265,814	15,940	29,719	307	-	311,780
Related parties' deposits at amortized cost	673	-	-	-	-	673
Total undiscounted financial liabilities	266,501	16,077	30,130	24,016	-	336,724

	2016					
	Up to 1 month LL million	*1 to 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with the Central bank	78,191	88	410	31,152	-	109,841
Due from banks and financial institutions	19,895	-	-	-	-	19,895
Due from head office, branches, and affiliates	7,090	-	-	-	-	7,090
Loans and advances to customers at amortized cost	27,548	3,163	30,899	33,573	15,133	110,316
Loans and advances to related parties at amortized cost	182	25	114	525	407	1,253
Financial assets at amortized cost	15,182	7,103	41,852	73,034	4,901	142,072
Other assets	1,188	-	-	-	-	1,188
Total undiscounted financial assets	149,276	10,379	73,275	138,284	20,441	391,655
Financial liabilities						
Due to banks and financial institutions	12	-	-	-	-	12
Due to head office, branches and affiliates	28	-	-	-	-	28
Customer's deposits at amortized cost	255,621	10,973	21,078	198	-	287,870
Related parties' deposits at amortized cost	846	-	-	-	-	846
Total undiscounted financial liabilities	256,507	10,973	21,078	198	-	288,756

34 RISK MANAGEMENT (continued)

34.3 LIQUIDITY RISK (continued)

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

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments:

	2017						
	On demand LL million	*Up to 1 month LL million*	*1 to 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financing commitments given to banks and financial institutions	-	-	-	-	-	-	-
Guarantees given to customers	61	25	917	7,617	38	-	8,658
Foreign currencies to deliver	-	530	-	-	-	-	530
Undrawn credit lines	15,961	-	-	-	-	-	15,961
Total	16,022	555	917	7,617	38	-	25,149

	2016						
	On demand LL million	*Up to 1 month LL million*	*1 to 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financing commitments given to banks and financial institutions	-	20	81	-	-	-	101
Guarantees given to customers	9	113	119	10,287	119	-	10,647
Foreign currencies to deliver	-	757	-	-	-	-	757
Undrawn credit lines	14,834	-	-	-	-	-	14,834
Total	14,843	890	200	10,287	119	-	26,339

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

34.4 MARKET RISK

Market risk arises from fluctuations in interest rates, foreign exchanges rates and equity prices. The board of directors has set limits on the value of risk that may be accepted. This is monitored on a monthly basis by the Assets and Liabilities Committee in Kuwait.

34.5 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets, liabilities and financial instruments presented as off-financial position items. The Bank has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The fluctuation of 10 basis points with all other variables held constant has the following effect on the income statement:

Currency	***Changes in basis points***	***2017 Net (loss) profit LL million***	*2016 Net (loss) profit LL million*
Lebanese Lira	**+10**	**(3)**	25
US Dollars	**+10**	**(53)**	(46)

34 RISK MANAGEMENT (continued)

34.5 INTEREST RATE RISK (continued)

The table below analyses the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing maturity dates.

31 December 2017

	Up to 3 months LL million	*3 to 6 Months LL million*	*6 months to 1 year LL million*	*1 to 3 years LL million*	*Over 3 years LL million*	*Non interest bearing items LL million*	*Total LL million*
ASSETS							
Cash and balances with the Central Bank	**28,748**	-	-	**30,254**	**15,241**	**33,132**	**107,375**
Due from banks and financial institutions	**18,092**	-	-	-	-	**11,590**	**29,682**
Due from head office, branches and affiliates	**1,018**	-	-	-	-	**4,616**	**5,634**
Loans and advances to customers at amortized cost	**37,285**	**40,344**	**2,928**	**4,495**	**28,278**		**113,330**
Loans and advances to related parties at amortized cost	-	-	**1**	**112**	**828**		**941**
Debtors by acceptances	-	-	-	-	-		
Financial assets at amortized cost	**22,793**	**15,386**	**14,053**	**75,031**	**34,672**	**647**	**162,582**
Property and equipment	-	-	-	-	-	**11,670**	**11,670**
Derivative financial instruments	-	-	-	-	-	**303**	**303**
Other assets	-	-	-	-	-	**1,253**	**1,253**
TOTAL	**107,936**	**55,730**	**16,982**	**109,892**	**79,019**	**63,211**	**432,770**
LIABILITIES							
Due to banks and financial institutions	-	-	-	-	-	**6**	**6**
Due to head office, branches and affiliates	-	-	-	**22,549**	-	**71**	**22,620**
Customers' deposits at amortized cost	**48,243**	**13,322**	**16,352**	**286**	-	**232,838**	**311,041**
Related parties' deposits at amortized cost	**286**	-	-	-	-	**387**	**673**
Engagements by acceptances	-	-	-	-	-	-	
Other liabilities	-	-	-	-	-	**7,631**	**7,631**
Provisions for risks and charges	-	-	-	-	-	**6,645**	**6,645**
Equity	-	-	-	-	-	**84,154**	**84,154**
TOTAL	**48,529**	**13,322**	**16,352**	**22,835**	-	**331,732**	**432,770**
Total interest rate sensitivity gap	**59,407**	**42,408**	**630**	**87,057**	**79,019**	**(268,521)**	-
Accumulated total interest rate sensitivity gap	**59,407**	**101,815**	**102,445**	**189,502**	**268,521**	-	

31 December 2016

	Up to 3 months LL million	*3 to 6 Months LL million*	*6 months to 1 year LL million*	*1 to 3 years LL million*	*Over 3 years LL million*	*Non interest bearing items LL million*	*Total LL million*
ASSETS							
Cash and balances with the Central Bank	20,064	-	-	-	30,237	58,127	108,428
Due from banks and financial institutions	12,060	-	-	-	-	7,835	19,895
Due from head office, branches and affiliates	1,392	-	-	-	-	5,698	7,090
Loans and advances to customers at amortized cost	17,684	20,049	11,359	21,823	29,108	387	100,410
Loans and advances to related parties at amortized cost	-	-	8	64	975	46	1,093
Debtors by acceptances	-	-	-	-	-	230	230
Financial assets at amortized cost	21,908	11,275	30,378	35,139	34,673	837	134,210
Property and equipment	-	-	-	-	-	12,139	12,139
Derivative financial instruments	-	-	-	-	-	244	244
Other assets	-	-	-	-	-	1,188	1,188
TOTAL	73,108	31,324	41,745	57,026	94,993	86,731	384,927
LIABILITIES							
Due to banks and financial institutions	-	-	-	-	-	12	12
Due to head office, branches and affiliates	-	-	-	-	-	28	28
Customers' deposits at amortized cost	45,987	8,964	12,098	176	-	220,233	287,458
Related parties' deposits at amortized cost	-	-	-	-	-	846	846
Engagements by acceptances	-	-	-	-	-	230	230
Other liabilities	-	-	-	-	-	4,944	4,944
Provisions for risks and charges	-	-	-	-	-	10,356	10,356
Equity	-	-	-	-	-	81,053	81,053
TOTAL	45,987	8,964	12,098	176	-	317,702	384,927
Total interest rate sensitivity gap	27,121	22,360	29,647	56,850	94,993	(230,971)	-
Accumulated total interest rate sensitivity gap	27,121	49,481	79,128	135,978	230,971	-	

34 RISK MANAGEMENT (continued)

34.6 CURRENCY RISK

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Banks are allowed to maintain a net trading position, debit or credit, of less than 1% of shareholders' equity provided that the total foreign currencies position should not exceed 40% of the equity (Central Bank of Lebanon main circular 32).

The Bank views itself as a Lebanese entity with the Lebanese Lira as its functional currency.

The table below analyses the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant on the income statement and equity.

A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase:

	Change in currency rate in %	2017 Effect on statement of comprehensive income LL million	2016 Effect on statement of comprehensive income LL million
Currency			
US Dollars	5%	717	731
Euros	5%	1	2

The following statement of financial position as of 31 December 2017 is detailed in Lebanese Lira (LL) and foreign currencies (mainly in US dollars):

	Lebanese Lira	Foreign currencies		
	LL million	In US Dollars (000)	Equivalent to LL million	Total in LL million
ASSETS				
Cash and balances with the Central Bank	36,463	47,039	70,912	107,375
Due from banks and financial institutions	-	19,690	29,682	29,682
Due from head office, branches and affiliates	-	3,737	5,634	5634
Loans and advances to customers at amortized cost	687	74,722	112,643	113,330
Loans and advances to related parties at amortized cost	-	624	941	941
Debtors by acceptances	-	-	-	-
Financial assets at amortized cost	68,511	62,402	94,071	162,582
Property and equipment	11,549	80	121	11,670
Derivative financial instruments	-	201	303	303
Other assets	956	197	297	1,253
TOTAL ASSETS	118,166	208,692	314,604	432,770
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to banks and financial institutions	-	4	6	6
Due to head office, branches and affiliates	-	15,048	22,620	22,620
Customers' deposits at amortized cost	50,768	172,652	260,273	311,041
Related parties' deposits at amortized cost	97	382	576	673
Engagements by acceptances	-	-	-	
Other liabilities	1,812	3,860	5,819	7,631
Provisions for risks and charges	5,322	878	1,323	6,645
Share capital – common shares	40,020	-	-	40,020
Non-distributable reserves (legal and obligatory)	4,989	-	-	4,989
Distributable reserves	36,139	3,927	5,920	42,059
Results of the financial year - profit	(2,914)	-	-	(2,914)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	136,233	196,751	296,537	432,770

34 RISK MANAGEMENT (continued)

34.6 CURRENCY RISK (continued)

The following statement of financial position as of 31 December 2016 is detailed in Lebanese Lira (LL) and foreign currencies (mainly in US dollars):

	Lebanese Lira	*Foreign currencies*		
	LL million	*In US Dollars (000)*	*Equivalent to LL million*	*Total in LL million*
ASSETS				
Cash and balances with the Central Bank	27,811	53,477	80,617	108,428
Due from banks and financial institutions	-	13,197	19,895	19,895
Due from head office, branches and affiliates	-	4,703	7,090	7,090
Loans and advances to customers at amortized cost	300	66,408	100,110	100,410
Loans and advances to related parties at amortized cost	-	725	1,093	1,093
Debtors by acceptances	-	153	230	230
Financial assets at amortized cost	76,389	38,356	57,821	134,210
Property and equipment	12,139	-	-	12,139
Derivative financial instruments	-	162	244	244
Other assets	1,019	112	169	1,188
TOTAL ASSETS	117,658	177,293	267,269	384,927
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to banks and financial institutions	-	8	12	12
Due to head office, branches and affiliates	-	19	28	28
Customers' deposits at amortized cost	52,095	156,128	235,363	287,458
Related parties' deposits at amortized cost	409	290	437	846
Engagements by acceptances	-	153	230	230
Other liabilities	2,906	1,352	2,038	4,944
Provisions for risks and charges	5,208	3,415	5,148	10,356
Share capital – common shares	40,020	-	-	40,020
Non-distributable reserves (legal and obligatory)	15,075	-	-	15,075
Distributable reserves	26,053	3,927	5,920	31,973
Results of the financial year - profit	(6,015)	-	-	(6,015)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	135,751	165,292	249,176	384,927

34.7 PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rate falls. The fixed rate assets of the Bank are not significant compared to the total assets. Moreover, other 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 is not material after taking into account the effect of any prepayment penalties.

34.8 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 through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

35 CAPITAL MANAGEMENT

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the Central Bank of Lebanon and the Banking Control Commission.

The primary objectives of the Bank's capital management policy 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 shareholder value.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 capital ratio	*Tier 1 capital ratio*	*Total capital ratio*
For the year ended 31 December 2018*	10	13	15
For the year ended 31 December 2017*	9	12	14.5
For the year ended 31 December 2016*	8.5	11	14

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

At 31 December 2017 and 2016, the capital consists of only Common Equity Tier 1 as follows:

	2017 ***LL million***	*2016* *LL million*
Total capital	**81,054**	81,053

	2017 ***LL million***	*2016* *LL million*
Risk weighted assets		
Credit risk	**238,115**	192,839
Market risk	**211**	251
Operational risk	**29,488**	28,761
Total risk weighted assets	**267,814**	221,851

The capital adequacy ratio as of 31 December is as follows:

	2017	*2016*
Capital adequacy ratio – Common Tier 1	**30,27%**	36,54%
Capital adequacy ratio – Tier 1	**30,27%**	36,54%
Capital adequacy ratio – Total capital	**30,27%**	36,54%

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes during the years ended 31 December 2017 and 2016.