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Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
P.O. Box: 11-1639, Riad El Solh
Beirut - 1107 2090, Lebanon

Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@lb.ey.com
ey.com/mena

26 November 2018

PRIVATE AND CONFIDENTIAL

Mr Habib Karabet
General Manager
National Bank of Kuwait (Lebanon) SAL
Beirut
Lebanon

Dear Mr Karabet

NATIONAL BANK OF KUWAIT (LEBANON) SAL
INTERIM CONDENSED FINANCIAL STATEMENTS
SIX MONTHS PERIOD ENDED 30 JUNE 2018

Please find enclosed four copies of the Arabic interim condensed financial statements for the six-month period ended 30 June 2018, together with our review report thereon duly signed.

Yours sincerely
for Ernst & Young

Ramzi Ackawi
Partner

Enclosures: As stated above.

NATIONAL BANK OF KUWAIT (LEBANON) SAL
INTERIM CONDENSED FINANCIAL STATEMENTS

30 JUNE 2018
(UNAUDITED)

NATIONAL BANK OF KUWAIT (LEBANON) SAL
INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1) Report on review of interim condensed financial statements to the Board of Directors of National Bank of Kuwait (Lebanon) SAL

2) Interim condensed income statement for the periods ended 30 June 2018 and 30 June 2017;

3) Interim condensed statement of comprehensive income for the periods ended 30 June 2018 and 30 June 2017;

4) Interim condensed statement of financial position for the periods ended 30 June 2018 and 31 December 2017;

5) Interim condensed statement of cash flows for the periods ended 30 June 2018 and 30 June 2017;

6) Interim condensed statement of changes in equity for the periods ended 30 June 2018 and 30 June 2017; and

7) Notes to the interim condensed financial statements.

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Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@lb.ey.com
ey.com/mena

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REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF KUWAIT (LEBANON) SAL

Introduction

We have reviewed the accompanying interim condensed statement of financial position of National Bank of Kuwait (Lebanon) SAL ("the Bank") as at 30 June 2018, and the related interim condensed statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting ("IAS 34")*. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As disclosed in note 18 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 the requirements of International Financial Reporting Standards (IFRS). This caused us to qualify our audit opinion on the financial statements relating to the years ended 31 December 2017 and 2016. Had the Bank properly accounted for this provision in accordance with International Financial Reporting Standards, "provision for risks and charges" would have decreased by LL million 918 as at 30 June 2018 and LL million 1,670 as at 31 December 2017; equity would have increased by LL million 918 as at 30 June 2018 and LL million 1,670 as at 31 December 2017 through a decrease in "accumulated losses" as at 30 June 2018 and 31 December 2017 for the same amounts respectively.

Qualified Conclusion

Based on our review, with the exception of the matter described under the "Basis for Qualified Conclusion" above, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Ernst & Young

8 October 2018
Beirut, Lebanon

REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF KUWAIT (LEBANON) SAL

Introduction

We have reviewed the accompanying interim condensed statement of financial position of National Bank of Kuwait (Lebanon) SAL ("the Bank") as at 30 June 2018, and the related interim condensed statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting ("IAS 34")*. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

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Qualified Conclusion

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Ernst & Young

8 October 2018
Beirut, Lebanon

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2018 (Unaudited)

	Notes	***For the period from 1 January to 30 June 2018 LL million***	*For the period from 1 January to 30 June 2017 LL million*
Interest and similar income	3	**9,300**	6,937
Interest and similar expense	4	**(1,532)**	(774)
Net interest income		**7,768**	6,163
Fee and commission income		**1,073**	1,107
Fee and commission expenses		**(138)**	(117)
Net fee and commission income	5	**935**	990
Net gain from foreign exchange	6	**381**	339
Other operating income	7	**228**	275
Total operating income		**9,312**	7,767
Net impairment loss on financial assets	21	**(44)**	(39)
Net operating income		**9,268**	7,728
Personnel expenses		**(4,127)**	(4,360)
Administrative and other operating expenses		**(1,801)**	(1,810)
Depreciation of property and equipment		**(352)**	(298)
Total operating expenses		**(6,280)**	(6,468)
Profit before tax		**2,988**	1,260
Income tax expense		**(706)**	(160)
Net profit for the year		**2,282**	1,100
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,282**	1,100

The attached notes 1 to 25 form part of these condensed financial statements.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	*Unaudited 30 June 2018 LL million*	*Audited 31 December 2017 LL million*
Assets			
Cash and balances with the Central Bank	8	**126,091**	107,375
Due from banks and financial institutions	9	**52,135**	29,682
Due from head office, branches and affiliates	10	**5,055**	5,634
Loans and advances to customers at amortized cost	11	**118,515**	113,330
Loans and advances to related parties at amortized cost	22	**877**	941
Financial assets at amortized cost	12	**158,035**	162,582
Property and equipment		**11,585**	11,670
Derivative financial instruments	14	**-**	303
Other assets	15	**1,237**	1,253
Total assets		**473,530**	432,770
Liabilities and shareholders' equity			
Liabilities			
Due to banks and financial institutions		**-**	6
Due to head office, branches and affiliates	10	**23,693**	22,620
Customers' deposits at amortized cost	16	**346,531**	311,041
Related parties' deposits at amortized cost	22	**1,252**	673
Derivative financial instruments	14	**827**	-
Other liabilities	17	**9,984**	7,631
Provisions for risks and charges	18	**5,837**	6,645
Total liabilities		**388,124**	348,616
Shareholders' equity			
Share capital – common shares		**40,020**	40,020
Non-distributable reserves (legal and obligatory)		**14,073**	15,103
Distributable reserves		**31,945**	31,945
Accumulated losses		**(2,914)**	(6,015)
Net results of the financial year – profit		**2,282**	3,101
Total shareholders' equity		**85,406**	84,154
Total liabilities and shareholders' equity		**473,530**	432,770

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 8 October 2018 by Mr Habib Karabet, General Manager and Mr Joseph Salloum, Head of Finance.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2018 (Unaudited)

		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 2018	40,020	4,989	3,419	6,695	15,103	31,945	(6,015)	3,101	84,154
Impact of adopting IFRS 9 at 1 January	-	-	-	-	-	-	(1,030)	-	(1,030)
Transfer from general banking risks reserves *	-	-	-	(1,030)	(1,030)	-	1,030	-	-
Restated balance at 1 January 2018	40,020	4,989	3,419	5,665	14,073	31,945	(6,015)	3,101	83,124
Results of the financial year – profit	-	-	-	-	-	-	-	2,282	2,282
Total comprehensive income for the year	-	-	-	-	-	-	-	2,282	2,282
Transfer to accumulated losses	-	-	-	-	-	-	3,101	(3,101)	85,406
Balance at 30 June 2018 (unaudited)	**40,020**	**4,989**	**3,419**	**5,665**	**14,073**	**31,945**	**(2,914)**	**2,282**	**85,406**
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	-	-	-	-	-	-	-	1,100	1,100
Total comprehensive income for the year	-	-	-	-	-	-	-	1,100	1,100
Transfer to accumulated losses	-	-	-	-	-	-	(6,015)	6,015	-
Balance at 30 June 2017 (unaudited)	40,020	4,989	3,419	6,667	15,075	31,973	(6,015)	1,100	82,153

*The Central Bank of Lebanon issued circular No 143 dated 7 October 2017 in which it allowed the use of general equity reserves to offset the effect of IFRS 9 in the opening balance of the retained earnings (accumulated losses) account as of 1 January 2018, in case the specific, collective and general provisions were not enough to cover the ECL balance as at 1 January 2018. The Bank transferred reserve for general banking risks to accumulated losses amounting to LL million 1,030 as at 1 January 2018.

The attached notes 1 to 25 form part of these condensed financial statements.

INTERIM CONDENSED CASH FLOW STATEMENT

For the six-month period ended 30 June 2018 (Unaudited)

	Note	***For the period From 1 January to 30 June 2018 LL million***	*For the period From 1 January to 30 June 2017 LL million*
OPERATING ACTIVITIES			
Net profit before income tax		**2,988**	1,260
Adjustments for:			
Depreciation of property and equipment		**352**	298
Provision for net impairment loss on financial assets	21	**44**	39
Provision for retirement benefits obligations	18	**80**	117
(Write-back of provisions) provisions for risks and charges, net	18	**(144)**	21
Gain on sale of non-current asset held for sale	7	**(105)**	-
Gain on sale of property and equipment		**-**	(11)
		3,215	1,724
Working capital changes:			
Cash and balances with the Central Bank – Maturities of more than 3 months		**(45,076)**	-
Loans and advances to customers at amortized cost*		**(6,163)**	(10,599)
Loans and advances to related parties at amortized cost		**64**	73
Other assets		**16**	(359)
Customers' deposits at amortized cost		**35,490**	14,257
Related parties' deposits at amortized cost		**579**	(158)
Other liabilities		**1,926**	4,484
Cash (used in) from operations		**(9,949)**	9,422
Retirement benefits obligations paid		**-**	(4,335)
Taxes paid		**(274)**	(228)
Net cash (used in) from operating activities		**(10,223)**	4,859
INVESTING ACTIVITIES			
Derivative financial instruments		**1,130**	(611)
Purchase of financial assets at amortized cost**		**(36,330)**	(56,662)
Proceeds from sale of property and equipment		**-**	36
Purchase of property and equipment		**(267)**	(131)
Proceeds from sale of non-current assets held for sale	13	**105**	-
Proceeds from redemption of financial assets at amortized cost		**39,988**	40,397
Net cash from (used in) investing activities		**4,626**	(16,971)
DECREASE IN CASH AND CASH EQUIVALENTS		**(5,597)**	(12,112)
Cash and cash equivalents at 1 January		**74,915**	105,223
CASH AND CASH EQUIVALENTS AT 30 JUNE	19	**69,318**	93,111

* Non-cash transactions represent a decrease in provision for risk and charges amounting to LL million 744 against a decrease in loans and advances to customers and related parties at amortized cost for the same amount for the six-month period ended 30 June 2018.

** Non-cash transactions represent a decrease in non-distributable reserves (legal and obligatory) amounting to LL million 1,030 against a decrease in financial assets at amortized cost for the same amount for the six-month period ended 30 June 2018.

The attached notes 1 to 25 form part of these condensed 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 interim condensed financial statements of National Bank of Kuwait (Lebanon) SAL for the six-month period ended 30 June 2018 are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements. In addition, results for the six months ended 30 June 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

The financial statements and the related disclosures are presented in million of Lebanese Pounds (LL million) and all values are rounded to the nearest million, except when otherwise indicated.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2017 except for the adoption of new standards and interpretations effective as of 1 January 2018:

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 adopted the new standard on the required effective date, along with the provisions of the Central Bank of Lebanon basic circular No. 143 and the Banking Control Commission circular No. 293.

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 amortised cost information, as well as fair value information is relevant and useful. A debt financial asset is measured at fair value through OCI if:

- it is held in a business model whose objective is achieved by both holding assets to collect contractual cash flows and selling the assets, and
- it satisfies the contractual cash flow characteristics (SPPI test).

Debt financial assets measured at fair value through OCI are measured at fair value with unrealized gains and losses reported in other comprehensive income, net of applicable income taxes, until such instruments are derecognized (when sold, collected or otherwise disposed). Upon de-recognition, any accumulated balances in other comprehensive income are reclassified to the income statement and reported within other income.

The following items are recognized in the income statement:

- Interest income
- ECL and reversals
- Foreign exchange translation gains and losses.

The amounts recognized in the income statement are determined on the same basis as for financial assets measured at amortized cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

IFRS 9 Financial Instruments (continued)

I. Classification and measurement (continued)

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 impact on the classification of the Bank's financial assets and their carrying values and equity is discussed in V below.

II. Expected Credit Losses

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

Expected credit losses (ECL) are recognized for financial assets measured at amortized cost, financial assets measured at fair value through OCI, financial guarantees and loan commitments. ECL are also recognized on the undrawn portion of revolving revocable credit lines. Though these credit lines are revocable, the Bank is exposed to credit risk because the client has the ability to draw down funds before the Bank can take credit risk mitigation actions.

ECL is measured as the present value of all cash shortfalls (i.e the difference between contractual cash flows and the cash flows expected to be received). For loan commitments and other credit facilities in scope of ECL, expected cash shortfalls are determined by considering expected future draw downs.

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

Stage 1

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

Stage 2

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

Stage 3

Under 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.

ECL are recognized in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortized cost on the balance sheet. For financial assets measured at fair value through OCI, the carrying value is not reduced, but an accumulated amount is recognized in OCI. For off-balance sheet financial instruments and other credit lines, provisions for ECL are reported in "Provisions for risks and charges". ECL are recognized within the income statement in "Net impairment losses on financial assets".

The impact of the adoption of IFRS 9 impairment provisions on the Bank's financial assets and their carrying values and equity is discussed in V below.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

III. Hedge accounting

The Bank has early adopted hedge accounting requirements as issued in IFRS 9 (2013). These requirements were first published in November 2013 and remain unchanged in the July 2014 publication of IFRS 9, except to reflect the addition of the FVOCI measurement category to IFRS 9.

There is no impact on the financial statements as the Bank does not have hedged items measured at FVOCI.

IV. IFRS 7 disclosures

IFRS 7 Financial Instruments: Disclosures, which was updated to reflect the differences between IFRS 9 and IAS 39, was also adopted by the Bank together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in V below, detailed qualitative and quantitative information about the ECL calculations. The assumptions and inputs used are set out in Note 2.5.

Reconciliations from opening to closing ECL allowances are presented in Note 21.

V. Transition

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

Impact of change in classification and measurement
Expect for the financial statement captions listed in the below table, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 (2014) as at 1 January 2018.

	Classification under IFRS 9 (2010) (31 December 2017) Category LL million	*Amount LL million*	*Re-measurement ECL LL million*	*Classification under IFRS 9 (2014) (1 January 2018) Category LL million*	*Amount LL million*
Financial assets					
Cash and balances with the central banks	**Amortized cost**	**107,375**	**349**	**Amortized cost**	**107,026**
Loans and advances to customers at amortised cost	**Amortized cost**	**113,330**	**84**	**Amortized cost**	**113,414**
Loans and advances to related parties at amortized cost	**Amortized cost**	**941**	**9**	**Amortized cost**	**932**
Financial assets at amortised cost	**Amortized cost**	**162,582**	**1,329**	**Amortized cost**	**161,253**
			1,771		
Non financial liabilities					
Provision for risks and charges – off balance sheet exposure			**11**		
Provision for risk and charges			**(752)**		
Net impact on equity			**(1,030)**		

The increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model compared to IAS 39 incurred loss model amounts to LL 1,640 million, and was covered by the Company's provision for risks and charges amounting to LL million 752, and the Company's equity reserves amounting to LL million 1,030.

Total adjustments related to classification and measurements other than impairment will not have any impact on the opening retained earnings and other components of equity.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provision Contingent Liabilities and Contingent Assets* to the ECL allowance under IFRS 9.

	Impairment Allowance under IAS 39/IAS 37 at 31 December 2017 LL million	*Re-measurement LL million*	*ECLs under IFRS 9 at 1 January 2018 LL million*
Impairment allowance for			
Cash and balances with the Central Bank	-	349	349
Loans and advances to customers at amortised cost	1,156	84	1,240
Loans and advances to related parties at amortized cost	-	9	9
Financial assets at amortised cost	-	1,329	1,329
	1,156	1,771	2,927
Financial guarantees and other commitments	-	11	11
	1,156	1,782	2,938

IFRS 15 *Revenue from contracts with customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Bank assessed that the impact of IFRS 15 is not material on the interim condensed financial statements of the Bank.

Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. If applicable - The Bank's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Bank has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. These amendments do not have any impact on the Bank's interim condensed financial statements.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Bank's interim condensed financial statements.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Judgments and Estimates

The preparation of interim condensed financial statements requires management to make judgment, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Bank has consistently applied the estimates and judgement as applied by the Bank in the annual financial statements for the year ended 31 December 2017, except the following estimates and judgements which are applicable from 1 January 2018.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgement, 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's 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:

(a) We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition.
(b) 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.
(c) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios
The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

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

Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

Our base case scenario will be based on macroeconomic forecasts published by our internal economist 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 a quarterly basis and more frequently if conditions warrant.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Judgments and Estimates (continued)

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology (continued)

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.

3 INTEREST AND SIMILAR INCOME

	Unaudited For the period From 1 January to 30 June 2018 LL million	*Unaudited For the period From1 January to 30 June 2017 LL million*
Deposits and similar accounts with banks and financial institutions	**1,650**	513
Deposits with head office, branches and affiliates	**43**	9
Loans and advances to customers at amortized cost	**3,105**	2,749
Loans and advances to related parties at amortized cost	**16**	17
Financial assets at amortized cost	**4,486**	3,649
	9,300	6,937

4 INTEREST AND SIMILAR EXPENSE

	Unaudited For the period From 1 January to 30 June 2018 LL million	*Unaudited For the period From1 January to 30 June 2017 LL million*
Deposits from customers and other credit balances at amortized cost	**1,532**	774

5 NET FEE AND COMMISSION INCOME

	Unaudited For the period From 1 January to 30 June 2018 LL million	*Unaudited For the period From1 January to 30 June 2017 LL million*
Commission income		
Letters of credit, guarantees and acceptances	**21**	76
Loans and advances to customers	**53**	82
Credit cards	**78**	81
Commissions on real estate	**25**	40
Other services	**896**	828
	1,073	1,107
Commission expenses		
Commission of clearance room and accounts management	**(113)**	(94)
Credit cards	**(22)**	(14)
Commissions and other fees	**(3)**	(9)
	(138)	(117)
Net commission income	**935**	990

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

	Unaudited For the period From 1 January to 30 June 2018 LL million	*Unaudited For the period From1 January to 30 June 2017 LL million*
Gain on sale of non-current asset held for sale (note 13)	**105**	-
Write back of provision for risks and charges (note 18)	**64**	-
Other income	**59**	44
Income recognized from operating leases	**-**	231
	228	275

8 CASH AND BALANCES WITH THE CENTRAL BANK

	Unaudited 30 June 2018 LL million	*Audited 31 December 2017 LL million*
Cash on hand	**8,702**	6,932
Current accounts	**45,629**	36,372
Time deposits	**72,147**	64,071
	126,478	107,375
Less: Allowance for ECL/Impairment allowance (note 21)	**(387)**	-
	126,091	107,375

9 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	Unaudited 30 June 2018 LL million	*Audited 31 December 2017 LL million*
Current accounts	**9,919**	11,590
Time deposits	**42,216**	18,092
	52,135	29,682

10 HEAD OFFICE, BRANCHES AND AFFILIATES

	Unaudited 30 June 2018 LL million	*Audited 31 December 2017 LL million*
Due from head office, branches and affiliates		
Current accounts	**5,055**	5,634
Due to head office, branches and affiliates		
Term loan	**22,612**	22,612
Current accounts	**1,081**	8
	23,693	22,620

11 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	Unaudited 30 June 2018 LL million	*Audited 31 December 2017 LL million*
Gross commercial loans	**74,555**	75,073
Gross consumer loans	**45,434**	39,555
	119,989	114,628
Less: Allowance for ECL/Impairment allowance (note 21)	**(1,474)**	(1,298)
	118,515	113,330

12 FINANCIAL ASSETS AT AMORTIZED COST

	Unaudited 30 June 2018 LL million	Audited 31 December 2017 LL million
Quoted:		
US treasury bills	**2,887**	2,880
Lebanese Euro Bonds	**92,167**	91,429
	95,054	94,309
Unquoted:		
Lebanese treasury bills	**63,262**	68,576
Effect of hedging interest rate risk (note 24)	**827**	(303)
	159,143	162,582
Less: Allowance for ECL (note 21)	**(1,108)**	-
	158,035	162,582

13 NON CURRENT ASSET HELD FOR SALE

	Unaudited 30 June 2018 LL million	Audited 31 December 2017 LL million
Cost	-	121
Provision for impairment	-	(121)
	-	-

During the period ended 30 June 2018, the Bank sold the section 32 of the plot number 1931 in the Dekerman area for the amount of LL million 105 to a third party (note 7).

14 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 June 2018 LL million	Audited 31 December 2017 LL million
(Negative) positive fair value on swap contracts (note 24)	**(827)**	303

15 OTHER ASSETS

	Unaudited 30 June 2018 LL million	Audited 31 December 2017 LL million
Deferred expenses	**312**	302
Prepaid expenses	**191**	298
Staff receivables	**192**	228
Sundry debtors	**449**	341
Exchange difference on structural foreign exchange position	**74**	74
Stamps	**19**	10
	1,237	1,253

Deferred expenses represent mainly the cost of computer software which is amortized on a straight line basis over a period of 5 years.

16 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	Unaudited 30 June 2018 LL million	*Audited 31 December 2017 LL million*
Current accounts	**243,356**	224,414
Time deposits	**9,604**	7,064
Saving accounts	**92,764**	79,046
Accrued interest payable	**807**	517
	346,531	311,041

Customers' deposits include coded deposits amounting to LL million 262 (2017: LL million 261).

17 OTHER LIABILITIES

	Unaudited 30 June 2018 LL million	*Audited 31 December 2017 LL million*
Sundry creditors	**8,240**	5,815
Accrued expenses	**966**	1,432
Income tax liability	**514**	88
Other taxes	**175**	207
National Social Security Fund	**89**	89
	9,984	7,631

18 PROVISIONS FOR RISKS AND CHARGES

	Unaudited 30 June 2018 LL million	*Audited 31 December 2017 LL million*
Retirement benefits obligation	**3,220**	3,140
Provision for risks and charges	**2,606**	3,505
Provision for ECL on off – balance sheet exposure (note 21)	**11**	-
	5,837	6,645

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

	Unaudited 30 June 2018 LL million	*Audited 31 December 2017 LL million*
Provision at 1 January	**3,140**	7,300
Provided during the year	**80**	15
Provision paid during the year	**-**	(4,175)
Provision at 31 December	**3,220**	3,140

18 PROVISIONS FOR RISKS AND CHARGES (continued)

The movement in the provision for risks and charges during the year was as follows:

	Unaudited ***30 June 2018*** ***LL million***	*Audited* *31 December 2017* *LL million*
Balance at 1 January	**3,505**	3,056
Addition provision during the period / year	**14**	449
Provision used for allowance ECL (a)	**(752)**	-
Write-back of provision during the period / year	**(158)**	-
Foreign exchange difference	**(3)**	-
Balance at 31 December	**2,606**	3,505

(a) 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. During the period ended 30 June 2018, the Bank used part of this provision amounting to LL million 752 to cover the impact of first-time adoption of IFRS 9 Expected Credit Losses (ECL) model on 1 January 2018 and kept excess provision amounting to LL million 918 under "provision for risks and charges".

19 CASH AND CASH EQUIVALENTS

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

	Unaudited ***30 June 2018*** ***LL million***	*Audited* *31 December 2017* *LL million*	*Unaudited* *30 June 2017* *LL million*
Cash and balances with the Central Bank	**35,827**	62,225	60,384
Due from banks and financial institutions	**52,129**	29,682	25,991
Due to banks and financial institutions	**-**	(6)	(9)
Due from head office, branches and affiliates	**5,055**	5,634	6,756
Due to head office, branches and affiliates	**(23,693)**	(22,620)	(11)
	69,318	74,915	93,111

20 ASSETS UNDER MANAGEMENT

The Bank has fiduciary assets as follows:

	Unaudited ***30 June 2018*** ***LL million***	*Audited* *31 December 2017* *LL million*
Lebanese Treasury bills denominated in LL	**5,159**	5,349
Lebanese Eurobonds	**10,478**	10,478
Financial notes	**7,250**	7,277
	22,887	23,104

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

21 EXPECTED CREDIT LOSSES

	Unaudited 30 June 2018					
	Cash and balances with the Central Bank LL million	***Loans and advances to customers at amortised cost LL million***	***Loans and advances to related parties at amortised cost LL million***	***Financial assets at amortised cost LL million***	***Financial guarantees and other commitments LL million***	***Total LL million***
Balance as of 1 January	-	**1,156**	-	-	-	**1,156**
Effect of IFRS 9 adoption	**349**	**84**	**9**	**1,329**	**11**	**1,782**
Amended Balance as of 1 January	**349**	**1,240**	**9**	**1,329**	**11**	**2,938**
Impairment loss for the period	**38**	**227**	-	-	-	**265**
Recoveries	-	-	-	**(221)**	-	**(221)**
Foreign exchange difference	-	**7**	-	-	-	**7**
At 30 June	**387**	**1,474**	**9**	**1,108**	**11**	**2,989**

	Unaudited 30 June 2017					
	Cash and balances with the Central Bank LL million	*Loans and advances to customers at amortised cost LL million*	*Loans and advances to related parties at amortised cost LL million*	*Financial assets at amortised cost LL million*	*Financial guarantees and other commitments LL million*	*Total LL million*
Balance at 1 January	-	1,115	-	-	-	1,115
Add:						
Charges for the period	-	39	-	-	-	39
Foreign exchange difference	-	1	-	-	-	1
Balance at 30 June	-	1,155	-	-	-	1,155

22 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.

22 RELATED PARTY TRANSACTIONS (continued)

	June 2018	
	Outstanding balance LL million	***Interest income (expense) LL million***
Key Management Personnel and their Family members		
Net loans and advances	**877**	**16**
Deposits	**188**	-
Banks under common directorships		
Debit balances	**2,449**	**34**
Term loan	**22,612**	**(277)**
Credit balances	**152**	-
Shareholders		
Debit balances	**2,606**	**9**
Credit balances	**929**	-
Deposits	**486**	-
Guarantees received	**13,532**	-
Other related parties		
Deposits	**460**	-
Board Members		
Deposit	**118**	-

	June 2017	
	Outstanding balance LL million	*Interest income (expense) LL million*
Key Management Personnel and their Family members		
Net loans and advances	1,020	17
Deposits	236	-
Banks under common directorships		
Debit balances	3,924	8
Credit balances	11	-
Shareholders		
Debit balances	2,832	1
Guarantees received	22,074	-
Other related parties		
Deposits	385	-
Board Members		
Deposit	67	-

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 1,871 and LL million 1,691 respectively for period ended 30 June 2018 (for the period ended 30 June 2017: LL million 631 and LL million 511 respectively). The notional amount for the interest rate swap with National Bank of Kuwait SAK as at 30 June 2018 amounted to LL million 55,778 (30 June 2017: LL million 27,512).

23 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.

23 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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.

	Unaudited 30 June 2018		
	Banks LL million	***Customers LL million***	***Total LL million***
Guarantees and contingent liabilities			
Financial guarantees	-	**4,719**	**4,719**
Commitments			
Documentary credits			-
Undrawn credit lines (revocable)		**11,755**	**11,755**
Other commitments		**30**	**30**
	-	**11,785**	**11,785**
	-	**16,504**	**16,504**

	Audited 31 December 2017		
	Banks LL million	*Customers LL million*	*Total LL million*
Guarantees and contingent liabilities			
Financial guarantees	-	8,658	8,658
Commitments			
Documentary credits	-	-	-
Undrawn credit lines (revocable)	-	15,691	15,691
Other commitments	-	30	30
	-	15,721	15,721
	-	24,379	24,379

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

24 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.

	Unaudited 30 June 2018			*Audited 31 December 2017*		
	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	-	**827**	**55,778**	303	-	55,778

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.

25 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.

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).

25.1 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:

	Unaudited 30 June 2018 Level 2 LL million	*Audited 31 December 2017 Level 2 LL million*
Financial liabilities		
Derivative financial instruments		
Interest rate swaps	**827**	(303)

No transfers between levels were made during the period ended 30 June 2018 and 31 December 2017.

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.

25.2 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.

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

25.2 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:

30 June 2018

	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	126,091	8,702	117,389	-	126,091
Due from banks and financial institutions	52,135	-	52,135	-	52,135
Due from Head Office, branches and affiliates	5,055	-	5,055	-	5,055
Loans & advances to customers at amortized cost	118,515	-	-	118,594	118,594
Loans & advances to related parties at amortized cost	877	-	-	877	877
Financial assets at amortized cost	158,035	3,673	145,959	-	149,632
	460,708	12,375	320,538	119,471	452,384
Financial liabilities					
Due to head offices, branches and affiliates	23,693	-	23,693	-	23,693
Customers' deposits at amortized cost	346,531	-	346,855	-	346,855
Related parties deposits at amortized cost	1,252	-	1,252	-	1,252
	371,476	-	371,800	-	371,800

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
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
	334,340	-	334,536	-	334,536

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.