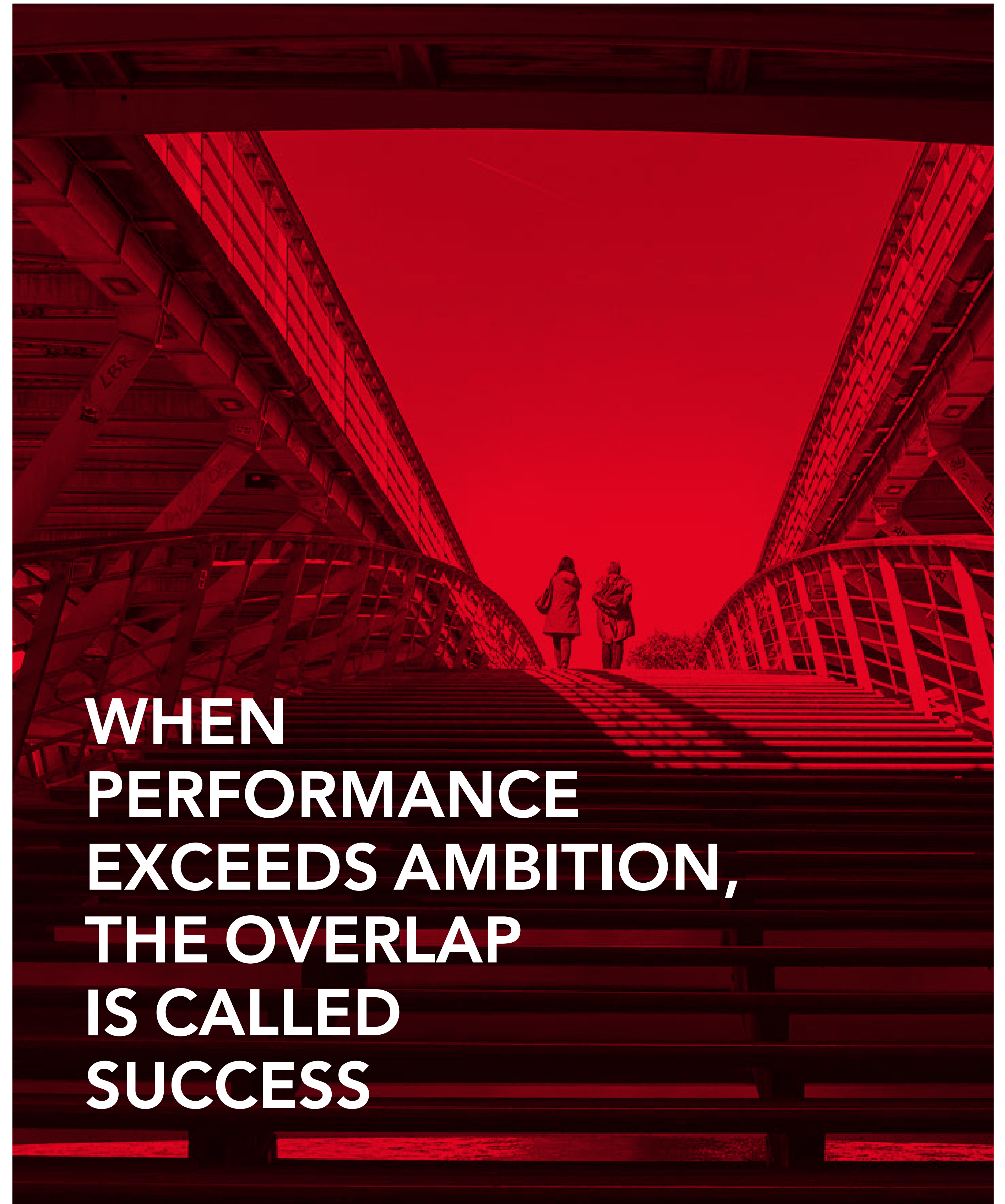
CONSOLIDATED

FINANCIAL STATEMENTS



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOCIÉTÉ GÉNÉRALE DE BANQUE AU LIBAN SAL

Qualified opinion

We have audited the consolidated financial statements of Société Générale de Banque au Liban SAL (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for qualified opinion

As disclosed in note 36 to the consolidated financial statements, during 2016, the Group did not recognize in the consolidated income statement an amount of LL 734,253 million in gains realized from certain transactions on financial instruments with the Central Bank of Lebanon and their related taxes of LL 110,742 million. Instead the Group recognized LL 404,801 million of the gains net of tax directly under non distributable reserves in equity and LL 218,710 million under other liabilities in compliance with the Central Bank of Lebanon's Intermediate Circular no. 446 dated 30 December 2016. Furthermore the Group recorded excess collective impairment allowances for LL 165,825 million in order to comply with the requirements of the Central Bank of Lebanon's Intermediate Circular no. 439 dated 8 November 2016. The Group's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards.

In addition as also disclosed in note 36 to the consolidated financial statements, during the year ended 31 December 2017, the Bank realized an amount of LL 31,657 million from the deferred income to the consolidated income statement.

Had the Group properly accounted for these transactions, events and conditions, in accordance with IFRS, the effects on current year's figures and corresponding figures would have been as follows:

- Provision for risks and charges as at 31 December 2017 and 31 December 2016 would have decreased by LL 165,825 million.
- Other liabilities as at 31 December 2017 and 31 December 2016 would have decreased by LL 184,856 million and LL 218,710 million respectively.
- Profit for the year ended 31 December 2017 would have decreased by LL 31,657 million and profit for the year ended 31 December 2016 would have increased by LL 789,336 million.
- Equity as at 31 December 2017 and 31 December 2016 would have increased by LL 350,681 million and LL 384,535 million respectively.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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 consolidated financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addresses the key audit matter
Impairment of Loans and Advances	
Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgement and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. This includes the analysis of the financial performance of the borrower, historic experience when assessing the likelihood of incurred losses in the portfolios and the adequacy of collateral for secure lending. However, consumer loans generally comprise much smaller value loans to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping by product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of loan loss provision. Notes 20 and 11 to the consolidated financial statements provide details relating to the impairment of loans and advances.	These risks were addressed by us as follows: • For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans. • Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances. • For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of repayments due but not yet paid. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

Other information included in the Group's 2017 Annual Report
Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2017 Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities with the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The partners in charge of the audit resulting in this independent auditors' report are Ramzi Ackawi for Ernst & Young and Nehme Semaan for BDO, Semaan, Gholam & Co:

Ernst & Young
26 April 2018
Beirut, Lebanon

BDO, Semaan, Gholam & Co

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2017

	Notes	2017 LL million	2016 LL million
Interest and similar income	5	1,648,668	1,350,541
Interest and similar expense	6	(1,210,167)	(954,170)
NET INTEREST INCOME		438,501	396,371
Fee and commission income	7	98,024	102,433
Fee and commission expense		(39,781)	(33,163)
NET FEE AND COMMISSION INCOME		58,243	69,270
Net gain from financial assets at fair value through profit or loss	8	12,476	18,668
Revenue from financial assets at fair value through other comprehensive income	9	1,715	638
Net gain from sale of financial assets at amortized cost	24	182,556	579,708
Other operating income	10	34,114	31,653
TOTAL OPERATING INCOME		727,605	1,096,308
Net credit losses	11	(12,285)	(19,511)
NET OPERATING INCOME		715,320	1,076,797
Personnel expenses	12	(142,058)	(133,379)
Other operating expenses	13	(157,326)	(167,003)
Depreciation of property and equipment	24	(11,955)	(11,269)
Amortization of intangible assets	25	(3,336)	(3,210)
Impairment of goodwill	29	-	(163,158)
Provision for impairment on non-currrent assets held for sale	27	(3,010)	(951)
TOTAL OPERATING EXPENSES		(317,685)	(478,970)
OPERATING PROFIT		397,635	597,827
Provisions for risks and charges	37	-	(165,825)
Net gain from sale and write-off of other assets		-	19
PROFIT BEFORE TAX		397,635	432,021
Income tax expense	14	(64,573)	(128,999)
PROFIT FOR THE YEAR		333,062	303,022
Attributable to:			
Equity holders of the parent		330,768	286,259
Non-controlling interest		2,294	16,763
		333,062	303,022

The attached notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	2017 LL million	2016 LL million
PROFIT FOR THE YEAR	333,062	303,022
Other comprehensive loss		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods (net of tax):		
Exchange differences on translation of foreign operations	14,269	(2,089)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods (net of tax):		
Net gain (loss) from financial assets at fair value through other comprehensive income	(11,918)	245
Other comprehensive loss for the year, net of tax	2,351	(1,844)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	335,413	301,178
Attributable to:		
Equity holders of the parent	333,136	284,425
Non-controlling interests	2,277	16,753
	335,413	301,178

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	2017 LL million	2016 LL million
ASSETS			
Cash and balances with the Central Banks	15	13,259,404	8,544,014
Due from banks and financial institutions	16	854,226	798,629
Amounts due from affiliated banks and financial institutions	17	590,385	918,608
Loans to banks and financial institutions		8,397	8,397
Derivative financial instruments	18	9,197	2,472
Financial assets at fair value through profit or loss	19	201,687	180,270
Loans and advances to customers at amortized cost	20	7,344,616	6,627,649
Loans and advances to related parties at amortized cost	21	111,065	100,737
Debtors by acceptances		445,375	211,715
Financial assets at amortized cost	22	8,642,264	10,476,347
Financial assets at fair value through other comprehensive income	23	161,514	25,208
Property and equipment	24	485,330	433,785
Intangible assets	25	48,019	49,317
Investment properties	26	1,478	1,483
Non-current assets held for sale	27	186,504	175,919
Other assets	28	134,084	109,800
Goodwill	29	3,405	3,405
Total assets		32,486,950	28,667,755

The attached notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2017

	Notes	2017 LL million	2016 LL million
LIABILITIES AND EQUITY			
LIABILITIES			
Due to the Central Banks	30	1,622,207	431,765
Loans and repurchase agreements	31	1,681,384	2,062,317
Due to banks and financial institutions	32	479,217	568,948
Amounts due to affiliated banks and financial institutions	33	6,844	1,429
Derivative financial instruments	18	164	9,507
Customers' deposits at amortized cost	34	24,690,508	21,788,334
Related parties' deposits at amortized cost	35	165,282	181,207
Engagements by acceptances		445,375	211,715
Other liabilities	36	367,376	589,764
Provision for risks and charges	37	248,920	263,010
Total liabilities		29,707,277	26,107,996
EQUITY			
Share capital – common shares	38	14,586	14,586
Share capital – preferred shares	38	9,675	9,675
Share premium – common shares	38	149,349	149,349
Share premium – preferred shares	38	563,200	561,171
Cash contribution by shareholders	38	106,746	106,746
Non distributable reserves	39	961,685	864,648
Distributable reserves	40	29,460	20,532
Revaluation reserve of property	41	3,934	3,934
Cumulative change in fair value of financial assets at fair value through other comprehensive income	42	(11,678)	(218)
Profit for the year		330,768	286,259
Foreign currency translation reserve		(4,618)	(18,862)
Retained earnings		573,600	496,250
Equity attributable to equity holders of parent		2,726,707	2,494,070
Non-controlling interests		52,966	65,689
Total equity		2,779,673	2,559,759
Total liabilities and equity		32,486,950	28,667,755

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 26 April 2018

Antoun Sehnaoui
Chairman

Georges Saghbini
Deputy General Manager

The attached notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

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

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT LL MILLION														
	Notes	Share capital – common shares LL million	Share capital – preferred shares LL million	Share premium – common shares LL million	Share premium – preferred shares LL million	Cash contribution by shareholders LL million	Non distributable reserves LL million	Distributable reserves LL million	Revaluation reserve of property LL million	Cumulative change in fair value of financial assets at fair value through other comprehensive income LL million	Foreign currency translation reserve LL million	Profit for the year LL million	Retained earnings LL million	Total LL million	Non-controlling interest LL million	Total equity LL million
Balance at 31 December 2015		14,586	9,675	149,349	559,161	106,746	391,134	19,442	3,934	(477)	(16,769)	250,844	351,552	1,839,177	52,502	1,891,679
Profit for the year		-	-	-	-	-	-	-	-	-	-	286,259	-	286,259	16,763	303,022
Other comprehensive loss		-	-	-	-	-	-	-	-	259	(2,093)	-	-	(1,834)	(10)	(1,844)
Total comprehensive income		-	-	-	-	-	-	-	-	259	(2,093)	286,259	-	284,425	16,753	301,178
Transfer to retained earnings		-	-	-	-	-	-	-	-	-	-	(250,844)	250,844	-	-	-
Income on financial transactions	36	-	-	-	-	-	404,801	-	-	-	-	-	-	-	-	404,801
Transfer to non distributable reserves	39	-	-	-	-	-	68,765	-	-	-	-	-	(68,765)	-	-	-
Transfer to distributable reserves		-	-	-	-	-	-	1,090	-	-	-	-	(1,090)	-	-	-
Transfer to share premium	38	-	-	-	2,010	-	-	-	-	-	-	-	(2,010)	-	-	-
Dividends paid to equity holders of the parent – preferred shares	43	-	-	-	-	-	-	-	-	-	-	-	(34,281)	(34,281)	-	(34,281)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	-	(3,566)	(3,566)
Adjustments		-	-	-	-	-	(52)	-	-	-	-	-	-	(52)	-	(52)
Balance at 31 December 2016		14,586	9,675	149,349	561,171	106,746	864,648	20,532	3,934	(218)	(18,862)	286,259	496,250	2,494,070	65,689	2,559,759
Profit for the year		-	-	-	-	-	-	-	-	-	-	330,768	-	330,768	2,294	333,062
Other comprehensive income		-	-	-	-	-	-	-	-	(11,876)	14,244	-	-	2,368	(17)	2,351
Total comprehensive income		-	-	-	-	-	-	-	-	(11,876)	14,244	330,768	-	333,136	2,277	335,413
Transfer to retained earnings		-	-	-	-	-	-	-	-	416	-	(286,259)	285,843	-	-	-
Transfer to non distributable reserves	39	-	-	-	-	-	97,536	-	-	-	-	-	(97,536)	-	-	-
Transfer to distributable reserves	40	-	-	-	-	-	-	8,928	-	-	-	-	(8,928)	-	-	-
Transfer to share premium	38	-	-	-	2,029	-	-	-	-	-	-	-	(2,029)	-	-	-
Dividends paid to equity holders of the parent – preferred shares	43	-	-	-	-	-	-	-	-	-	-	-	(39,763)	(39,763)	-	(39,763)
Dividends paid to equity holders of the parent – common shares	43	-	-	-	-	-	-	-	-	-	-	-	(60,588)	(60,588)	-	(60,588)
Acquisition of non controlling interest in SGBL insurance	3	-	-	-	-	-	-	-	-	-	-	-	351	351	(13,166)	(12,815)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	-	(1,834)	(1,834)
Adjustments		-	-	-	-	-	(499)	-	-	-	-	-	-	(499)	-	(499)
Balance at 31 December 2017		14,586	9,675	149,349	563,200	106,746	961,685	29,460	3,934	(11,678)	(4,618)	330,768	573,600	2,726,707	52,966	2,779,673

The attached notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	Notes	2017 LL million	2016 LL million
OPERATING ACTIVITIES			
Profit before income tax		397,635	432,021
Adjustments for:			
Depreciation and amortization	24 & 25	15,291	14,479
Share of profit from an associate	28	(172)	(90)
Amortization of additional deferred costs resulting from the acquisition of the Lebanese Canadian Bank SAL	28	-	3,526
Amortization of deferred employee termination benefits	28	8,232	8,103
Provision for impaired loans – customers	20	26,555	37,337
Provision for impaired loans – related parties	21	1,309	1,500
Loans written off	11	993	668
Impairment loss of goodwill	29	-	163,158
Net provisions for impairment of non-current assets held-for-sale		2,288	268
Net provisions on balances with banks and financial institutions	16	420	154
Write-back for other impaired debit balances	28	(10)	(219)
Recoveries of credit losses – customers	20	(16,982)	(11,720)
Provision for employees' end of service benefits	12	2,132	6,293
Gain from sale of property and equipment		-	(19)
Write-back of provision for financial assets at amortized cost	22	-	(8,442)
Gain from sale of non-current assets held-for-sale	10	(406)	(3,080)
Write-off of property and equipment		3	31
Write-off of intangible assets	25	7,753	-
Net provision for risks and charges		3,758	191,767
Unrealized (gain) loss on derivative financial instruments		(16,068)	5,554
		432,731	841,289
Working capital changes:			
Cash and balances with the Central Banks		(4,559,290)	(2,917,943)
Due from banks and financial institutions		34,112	105,372
Amounts due from affiliated banks and financial institutions		(6,882)	(2,794)
Reverse repurchase agreements		-	219,567
Due to the Central Banks		1,123,056	(403,800)
Loans and repurchase agreements		(380,933)	(53,847)
Due to banks and financial institutions		86,471	(196,017)
Loans and advances to customers at amortized cost		(742,399)	(729,801)
Loans and advances to related parties at amortized cost		(11,637)	51,309
Financial assets at fair value through profit or loss		(21,417)	59,536
Financial assets at fair value through other comprehensive income		(148,224)	1,597
Financial assets at amortized cost		1,665,021	(149,395)
Other assets		(32,334)	(23,844)
Customers' deposits at amortized cost		2,902,174	3,108,457
Related parties' deposits at amortized cost		(15,925)	48,436
Other liabilities		(49,652)	43,437
Cash from operations		274,872	1,559

The attached notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
For the year ended 31 December 2017

	Notes	2017 LL million	2016 LL million
OPERATING ACTIVITIES (continued)			
Employees' end of service benefits paid	37	(2,951)	(1,088)
Taxation paid		(237,309)	(54,422)
Provision for risks and charges paid		(16,625)	(5,965)
Net cash flows from (used in) operating activities		17,987	(59,916)
INVESTING ACTIVITIES			
Purchase of property and equipment	24	(63,313)	(78,771)
Purchase of intangible assets	25	(9,768)	(11,580)
Proceeds from sale of property and equipment		117	65
Proceeds from sale of non-current assets held for sale		1,779	17,317
Acquisition of a non-controlling interest in a subsidiary	3	(12,815)	(151,380)
Net cash flows used in investing activities		(84,000)	(224,349)
FINANCING ACTIVITIES			
Dividends paid to equity holders of the parent	43	(100,351)	(34,281)
Dividends paid to non-controlling interest		(1,834)	(3,566)
Net cash flows used in financing activities		(102,185)	(37,847)
Effect of exchange rate changes and other adjustments		13,661	(1,498)
DECREASE IN CASH AND CASH EQUIVALENTS		(154,537)	(323,610)
Cash and cash equivalents at 1 January		1,870,308	2,193,918
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44	1,715,771	1,870,308
Operational cash flows from interest and dividend			
Interest paid		1,172,282	934,440
Interest received		1,532,821	1,310,925
Dividend received		3,437	2,905

The attached notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

Société Générale de Banque au Liban SAL (the "Bank") is a shareholding company registered in Beirut, Lebanon. It was registered in 1953 under no. 3696 at the Commercial Registry of Beirut and no. 19 on the list of banks published by the Central Bank of Lebanon. The headquarters of the Bank are located at Saloumeh Square, Sin El Fil, Lebanon.

The Bank, together with its subsidiaries (collectively the "Group"), are mainly involved in banking, insurance and financial services activities (commercial, investment and private).

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

Presentation of financial statements
The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Group and/or its counterparties

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December. The Bank consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (CONTINUED)

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements represent the financial statements of the Bank and the following subsidiaries:

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Name	Country of incorporation	Activities	PERCENTAGE OF OWNERSHIP 2017	2016
Société Générale Bank - Cyprus Ltd	Cyprus	Banking	100.00%	100.00%
Société Générale de Banque – Jordanie	Jordan	Banking	87.67%	87.67%
Fidus SAL*	Lebanon	Financial services	49.00%	49.00%
Sogelease Liban SAL	Lebanon	Leasing	99.75%	99.75%
SGBL Insurance SAL (previously Sogecap Liban SAL)	Lebanon	Insurance	100.00%	75.00%
Société Générale Jordanie Brokerage Ltd	Jordan	Brokerage	100.00%	100.00%
Société Générale Libanaise Foncière SARL	Lebanon	Real estate	98.66%	98.66%
Société Générale de Services d'Investissement SARL	Lebanon	Services and studies	98.50%	98.50%
LCB Finance SAL	Lebanon	Financial services	100.00%	100.00%
LCB Investments Holding SAL	Lebanon	Investments & management	100.00%	100.00%
LCB Insurance Brokerage House SAL (owned by LCB Investments Holding SAL)	Lebanon	Brokerage	99.14%	99.14%
LCB Estates SAL (owned by LCB Investments Holding SAL)	Lebanon	Real Estate	99.14%	99.14%
SGBL Courtage Assurance SARL	Lebanon	Brokerage	100.00%	100.00%
799 Bassatine Tripoli SAL	Lebanon	Investments and management	60.00%	60.00%
Foncière 415 Saifi SAL	Lebanon	Real estate	100.00%	100.00%
Société d'Investissements et de Services «SIS» SAL	Lebanon	Investments and management	99.00%	99.00%
Liberty International Bank Limited **	Abu Dhabi	Banking	100.00%	-

* The Group has a de facto control over Fidus SAL. Consequently, the financial statements of Fidus SAL have been consolidated with those of the Bank.

** The Bank incorporated Liberty International Bank Limited on 29 March 2017 in Abu Dhabi, UAE.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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Impairment of goodwill
Management judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management view of future business prospects.

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

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:
- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

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

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the consolidated 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 is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities.

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

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

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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).

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.

Revaluation of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated income statement. The Group engaged an independent valuation specialist to assess fair value as at 31 December. Investment properties were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Provisions and other contingent liabilities
The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation and proceedings arising in the ordinary course of the Group's businesses.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations effective after 1 January 2017
The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The adoption of this amendment had no significant impact on the amounts reported in these consolidated financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance.

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

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these financial statements.

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 recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date and does not expect a significant impact on its consolidated financial statements from the application of this standard.

IFRS 16 Leases:
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of transactions involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The Group 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 Group plans to adopt the new standard on the required effective date along with the provisions of the Central Bank of Lebanon ('BDL') basic circular number 143 and the Banking Control Commission ('BCC') circular number 293.

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

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

- Based on assessments undertaken to date, the expected increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model (see II below) compared to IAS 39 incurred loss model is estimated at approximately LL 69,251 million, which is already covered by the Group's excess provisions disclosed in notes 36 and 37. Accordingly, there will be no impact on the Group's equity from the adoption of the IFRS 9 impairment requirements.

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

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IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;

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

I. Classification and measurement

The Group has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortized cost information, as well as fair value information is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets.

At the date of application of IFRS 9 (2014), the Group reassessed the classification and measurement category for all financial assets debt instruments that satisfy the contractual cash flow characteristics (SPPI test) and classified them within the category that is consistent with the business model for managing these financial assets on the basis of facts and circumstances that existed at that date.

The classification and measurement requirements for financial assets that are equity instruments or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9.

The Group does not expect a material impact on the classification of the Group's financial assets nor their carrying values.

II. Impairment

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

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

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

Key Considerations

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

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group existing risk management processes.

Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition.
2. Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

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.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (continued)

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 Bank. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant.

Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that

do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governance
In addition to the existing risk management framework, we have established an internal Committee to provide oversight to the IFRS 9 implementation. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for Expected Credit Losses.

The expected impact on the Group's consolidated statement of financial position and equity is discussed above.

III. Hedge accounting
The Group 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.

The Group does not expect an impact on its financial statements as the Group does not have hedged items measured at FVOCI.

IV. Financial instruments: disclosures (IFRS 7)
The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

2.5 Summary of significant accounting policies

(1) Foreign currency translation
The consolidated financial statements are presented in Lebanese Lira. For each entity in the Group, the Bank determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non–trading activities are taken to other operating income in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time, they are recognized in the income statement.

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

(ii) Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Lebanese Lira at the rate of exchange prevailing at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement in other operating expenses or other operating income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(2) Financial instruments – classification and measurement

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

(ii) Classification and measurement of financial investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Balances with the Central Banks, due from banks and financial institutions, loans to banks and financial institutions, reverse repurchase agreements, amounts due from affiliated banks and financial institutions and loans and advances to customers and related parties – at amortized cost
After initial measurement, "Balances with the Central Banks", "Due from banks and financial institutions", "Loans to banks and financial institutions", "Reverse repurchase agreements", "Amounts due from affiliated banks and financial institutions" and "Loans and advances to customers and to related parties" 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 consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in "Net credit losses".

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

The Group classifies all financial liabilities as subsequently measured at amortized cost using the effective interest rate 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.

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

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

Due to the Central Banks, loans and repurchase agreements, due to banks and financial institutions, amounts due to affiliated banks and financial institutions and customers' deposits and related parties' deposits
After initial measurement, "due to the Central Banks", "loans and repurchase agreements", "due to banks and financial institutions", "amounts due to affiliated banks and financial institutions" and "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.

c. Derivatives recorded at fair value through profit or loss
The Group uses derivatives such as forward foreign exchange contracts and interest rate swaps.

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 included in "net gain (loss) from financial assets at fair value through profit or loss" in the consolidated income statement.

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

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

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

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.

(3) Derecognition of financial assets and financial liabilities

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

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

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

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

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

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(4) Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "loans and repurchase agreements", reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position to "Financial assets pledged as collateral".
Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position within "Reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the effective interest rate.

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

(5) Securities lending and borrowing
Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the consolidated statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

(6) Determination of fair value
The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in the notes.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

(7) Impairment of financial assets

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

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

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, 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 consolidated income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the

impairment was 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 "Net credit losses" in the consolidated income statement.

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

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

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

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

(ii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously 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.

(iii) Collateral repossessed

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossessed date in line with the Group's policy.

(8) Hedge accounting

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

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

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge

is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain (loss) from financial assets at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

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

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

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

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

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

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

(9) Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements. Therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position.

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

Group as a lessee
Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rents payable are recognized as an expense in the period in which they are incurred.
Group as a lessor
Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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

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

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

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

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

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

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

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

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

(iii) Dividend income
Dividend income is recognized when the Group's right to receive the payment is established.

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

(12) Cash and cash equivalents
Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise balances with original maturities of a period of three months or less including cash and balances with the Central Banks, deposits with banks and financial institutions, reverse repurchase agreements, amounts due from affiliated banks and financial institutions, due to the Central Banks, loans and repurchase agreements, due to banks and financial institutions and amounts due to affiliated banks and financial institutions.

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

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

The Group's investments in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of this investee is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss in the statement of profit or loss.

(14) Property and equipment
Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Buildings acquired prior to 1 January 1994 were restated for the changes in the general purchasing power of Lebanese Lira after the approval of the Central Bank of Lebanon. Net surplus arising on restatement is credited to "Revaluation reserve of property". Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

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

• Buildings	50 years
• Furniture and fixtures	5 to 12.5 years
• Installations	16.67 years
• Vehicles	10 years

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

The assets' residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

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

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

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

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

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

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

when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

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

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

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

Software	5 years
Key money	5 years
Customer relationship – core deposits	12.5 years
Customer relationship – loans and advances	12.5 years

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

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

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

(17) Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on the evaluation performed by independent qualified valuers on the basis of current market values and if any, by reference to sale agreements entered into by the Group for the disposal of the property subsequent to year end.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated income statement in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair

value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

(18) Non-current assets held for sale
Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
  Or
- Is a subsidiary acquired exclusively with a view to resale

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale.

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU'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 consolidated income statement.

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

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

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

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

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

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

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

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

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

(ii) Deferred tax (continued)
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.

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 other comprehensive income are also recognized in other comprehensive income and not in the consolidated income statement.

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

(22) Provision
Provision are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(23) Employees' end of service benefits
The Bank's contributions for end of service benefits paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of staff salaries. The final end of service benefits due to employees by the NSSF (a defined contribution plan) after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last month salary multiplied by the number of years of service as stipulated in the National Social Security Law. The Group is liable to pay to the NSSF the difference between the contributions paid and the final end of service benefits due to employees by the NSSF.

End-of-service benefits for employees at foreign subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the subsidiaries are located.

Contributions are recorded as an expense under "personnel expenses".

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

(25) Dividends on common and preferred shares
Dividends on common and preferred shares are recognized as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the consolidated statement of financial position date.

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

(27) Equity reserves
The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

"Cumulative change in fair value of financial instruments at fair value through other comprehensive income" reserve which comprises changes in fair value of equity instruments at fair value through other comprehensive income.

"Distributable and non-distributable reserve" which include transfers from retained earnings in accordance with regulatory requirements.

"Revaluation reserve of property" which comprises the revaluation surplus relating to property.

3 ACQUISITION OF ADDITIONAL INTEREST IN SGBL INSURANCE SAL

On 8 March 2017, the Group acquired an additional 25% interest in the voting shares of SGBL Insurance SAL (previously Sogecap Liban SAL), increasing its ownership interest to 100%. Cash consideration of EUR 7,930,000 (CV in LL 12,815 million) was paid to the non-controlling shareholders.

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The carrying value of the net assets of SGBL Insurance SAL (excluding goodwill on the original acquisition) was LL 13,166 million. Following is a schedule of additional interest acquired in SGBL Insurance SAL:

	LL million
Cash consideration paid to non-controlling shareholders	12,815
Carrying value of the additional interest in SGBL Insurance SAL	(13,166)
Difference recognized in retained earnings	(351)

4 MATERIAL PARTLY-OWNED SUBSIDIARIES

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

Proportion of equity interests held by non-controlling interests:

Name	Country of incorporation	2017 %	2016 %
SGBL Insurance SAL (previously Sogecap Liban SAL)	Lebanon	-	25.00
Fidus SAL	Lebanon	51.00	51.00
Société Générale de Banque – Jordanie (SGBJ)	Jordan	12.33	12.33

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

Summarized statements of profit and loss for 2017:

	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Net interest income	5,781	40,254
Net fee and commission income	7,907	5,975
Net (loss) gain from financial assets at fair value through profit or loss	(64)	1,994
Net gain from sale of debt instruments at amortized cost	-	2,851
Revenue from financial assets at fair value through other comprehensive income	-	28
Other operating income	66	2,222
Net credit losses	(1,329)	(946)
Operating expenses	(11,699)	(26,800)
Income tax expense	(175)	(8,978)
Profit for the year	487	16,600
Attributable to non-controlling interests	248	2,047
Dividends paid to non-controlling interest	-	1,834

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Summarized statements of profit and loss for 2016:

	SGBL Insurance SAL LL million	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Net interest income	9,234	3,655	43,328
Net fee and commission income (expense)	(3,383)	31,293	8,370
Net gain (loss) from financial assets at fair value through profit or loss	1,127	(13)	1,837
Revenue from financial assets at fair value through other comprehensive income	-	-	40
Net gain from sale of debt instruments at amortized cost	-	-	6,653
Income from insurance activities	24,223	-	-
Other operating income	93	1,354	1,370
Net credit losses	-	(283)	(954)
Operating expenses	(16,524)	(12,206)	(25,442)
Income tax expense	(450)	(3,554)	(12,014)
Profit for the year	14,320	20,246	23,188
Attributable to non-controlling interests	3,580	10,325	2,859
Dividends paid to non-controlling interest	2,261	-	1,305

Summarized statements of financial position as at 31 December 2016:

	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Cash and balances with the Central Banks	233	170,859
Due from banks and financial institutions	45,962	79,799
Amounts due from affiliated banks and financial institutions	38,097	127,111
Financial assets at fair value through profit or loss	241	-
Loans and advances at amortized cost	109,926	1,387,102
Financial assets at amortized cost	-	1,045,438
Financial assets at fair value through other comprehensive income	373	1,109
Property and equipment	4,425	47,825
Intangible assets	-	2,721
Non-current assets held for sale	-	6,140
Other assets	345	6,670
Due to the Central Banks	-	(22,528)
Due to banks and financial institutions	(86,132)	(41,051)
Amounts due to affiliated banks and financial institutions	(1,145)	(518)
Deposits at amortized cost	(71,289)	(2,504,258)
Other liabilities	(6,146)	(21,309)
Total equity	34,890	285,110
Attributable to non-controlling interests	17,794	35,154

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Summarized statements of financial position as at 31 December 2016:

	Sogecap Insurance SAL LL million	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Cash and balances with the Central Banks	4	909	306,021
Due from banks and financial institutions	-	91,327	89,397
Amounts due from affiliated banks and financial institutions	190,142	66,048	149,457
Financial assets at fair value through profit or loss	20,379	300	-
Loans and advances at amortized cost	-	130,248	1,210,961
Financial assets at amortized cost	1,475	-	948,735
Financial assets at fair value through other comprehensive income	-	330	1,017
Property and equipment	1,369	4,805	47,481
Intangible assets	-	-	2,880
Non-current assets held for sale	-	-	6,243
Other assets	2,048	651	6,716
Due to the Central Banks	-	-	(25,737)
Due to banks and financial institutions	-	(109,650)	(105,228)
Amounts due to affiliated banks and financial institutions	-	(8,788)	(511)
Deposits at amortized cost	(132,541)	(117,879)	(2,325,789)
Other liabilities	(30,205)	(23,898)	(28,116)
Total equity	52,671	34,403	283,527
Attributable to non-controlling interests	13,168	17,546	34,948

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

	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Operating	(42,784)	(36,897)
Investing	(47)	(42,039)
Financing	-	(19,329)
Net increase in cash and cash equivalents	(42,831)	(98,265)

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

	Sogecap Liban SAL LL million	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Operating	20,421	79,736	(120,090)
Investing	58,803	(537)	(185,446)
Financing	(9,045)	(10,753)	(18,163)
Net increase in cash and cash equivalents	70,179	68,446	(323,699)

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5 INTEREST AND SIMILAR INCOME

	2017 LL million	2016 LL million
Balances with the Central Banks	601,578	306,195
Financial assets at amortized cost	590,563	628,891
Loans and advances to customers at amortized cost	440,477	392,846
Due from banks and financial institutions	7,423	4,975
Loans and advances to related parties at amortized cost	5,696	5,045
Amounts due from affiliated banks and financial institutions	2,810	665
Reverse repurchase agreements	121	11,924
	1,648,668	1,350,541

6 INTEREST AND SIMILAR EXPENSE

	2017 LL million	2016 LL million
Customers' deposits at amortized cost	1,079,985	825,378
Due to banks and financial institutions	83,111	74,557
Due to the Central Banks	38,048	50,185
Related parties' deposits at amortized cost	7,021	3,939
Amounts due to affiliated banks and financial institutions	2,002	111
	1,210,167	954,170

7 FEE AND COMMISSION INCOME

	2017 LL million	2016 LL million
Credit-related fees and commissions	37,196	36,313
Maintenance of accounts	22,414	21,557
Brokerage and custody income	12,153	18,060
Commercial banking income	9,188	10,126
Trade finance income	9,132	9,241
Other commissions	5,896	5,325
Insurance brokerage income	2,045	1,811
	98,024	102,433

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

	2017 LL million	2016 LL million
Net gain on foreign exchange	11,109	12,844
Interest income on debt instruments at fair value through profit or loss	8,939	3,733
Dividend income from equity instruments at fair value through profit or loss	1,722	2,267
Realized and unrealized (loss) gain from financial assets at fair value through profit or loss	(9,294)	(176)
	12,476	18,668

Net gain on foreign exchange includes gains and losses from spot and forward contracts and the revaluation of the daily open trading position.

9 REVENUE FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2017 LL million	2016 LL million
Dividend income from financial assets at fair value through other comprehensive Income	1,715	638

10 OTHER OPERATING INCOME

	2017 LL million	2016 LL million
Income from services rendered	134	134
Write-back of impairment losses on non-current assets held-for-sale (note 27)	722	683
Gain from sale of non-current assets held-for-sale (note 27)	406	3,080
Income from insurance activities	27,580	24,223
Other operating income	5,272	3,533
	34,114	31,653

11 NET CREDIT LOSSES

	2017 LL million	2016 LL million
Provision for loans and advances to customers (note 20)	(26,555)	(37,337)
Provision for loans and advances to related parties (note 21)	(1,309)	(1,500)
Write-back of provision for loans and advances to customers (note 20)	9,909	7,748
Write-back of unrealized interest on loans and advances to customers (note 20)	7,073	3,972
Loans written off	(993)	(668)
	(11,875)	(27,785)
Provision on balances with banks and financial institutions (note 16)	(420)	(154)
Impairment loss on financial assets at amortized cost (note 22)	-	(233)
Write-back of impairment on financial assets at amortized cost (note 22)	-	8,442
Write-back of provision for other assets (note 28)	10	219
	(12,285)	(19,511)

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12 PERSONNEL EXPENSES

	2017 LL million	2016 LL million
Salaries and wages	97,196	87,819
Social Security contributions	14,261	12,807
Provisions for employees' end of service benefits (note 37)	2,132	6,293
Other allowances	28,469	26,460
	142,058	133,379

13 OTHER OPERATING EXPENSES

	2017 LL million	2016 LL million
Net provision for risks and charges	8,246	18,454
Professional services	20,404	30,246
Publicity and advertising	19,723	16,734
Rent	17,272	16,271
Travelling and entertainment expenses	15,575	12,072
Maintenance and repairs	11,093	10,591
Telecommunication and postage	10,047	10,253
Taxes and fees	7,294	7,992
Premiums for guarantee of deposits	9,377	7,799
Electricity, water and fuel	4,855	4,782
Printings and stationery	2,714	2,766
Legal expenses	2,805	2,381
Other operating charges	27,921	26,662
	157,326	167,003

14 INCOME TAX

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

	2017 LL million	2016 LL million
Current tax		
Current income tax	63,527	239,148
Other adjustments	1,282	12
Deferred tax		
Relating to origination and reversal of temporary differences	(236)	581
Relating to transactions with the Central Bank of Lebanon	-	(110,742)
	64,573	128,999

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Reconciliation of the total tax charge

The reconciliation between the tax expense and the accounting profit for the years ended 31 December 2017 and 31 December 2016 is as follows:

	2017 LL million	2016 LL million
Accounting profit before tax	397,635	432,021
Less: Revenues previously subject to tax	(87,893)	(32,091)
Add: Non-deductible expenses	72,543	415,462
Add: Gain recognized directly in non-distributable reserves	-	476,698
Add: Deferred income	-	257,555
Taxable profit	382,285	1,549,645
Effective income tax rate	16.62%	15.43%
Income tax expense	63,527	239,148

Current tax liabilities (note 36)

	2017 LL million	2016 LL million
Income tax due	63,527	239,148
Tax withheld on interest previously paid	(20,562)	(21,387)
Others	2,595	832
	45,560	218,593

Deferred tax

The following table shows deferred tax recorded on the consolidated statement of financial position and changes recorded in the income tax expense:

	2017			2016		
	Deferred tax assets LL million	Deferred tax liabilities LL million	Income statement LL million	Deferred tax assets LL million	Deferred tax liabilities LL million	Income statement LL million
Depreciation of property and equipment	-	861	(278)	21	562	(202)
Impairment allowance for loans and advances	4,625	-	(2)	4,623	-	-
Unrealized losses on financial instruments at fair value through profit or loss	214	-	-	214	-	-
Tax losses expected to be utilized in future periods	1,241	-	(465)	776	-	846
Others	1,063	-	509	1,572	-	(63)
	7,143	861	(236)	7,206	562	581

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15 CASH AND BALANCES WITH THE CENTRAL BANKS

	2017 LL million	2016 LL million
Cash	121,535	106,330
Current accounts with the Central Banks	419,844	729,735
Time deposits with the Central Banks	12,718,025	7,707,949
	13,259,404	8,544,014

Cash and balances with the Central Bank include non-interest bearing balances held at the Central Bank of Lebanon in coverage of the compulsory reserve requirements for all banks operating in Lebanon. This compulsory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments after taking into account certain waivers relating to subsidized loans denominated in Lebanese Lira. Accordingly, the compulsory reserve amounted to LL 222,555 million at 31 December 2017 (2016: LL 252,773 million).

In addition a 15% of total deposits in foreign currencies regardless of nature is required. These placements amounted to US$ 1,223,717,500 (equivalent to LL 1,844,754 million) as at 31 December 2017 (2016: US$ 1,095,640,000 equivalent to LL 1,651,677 million).

Société Générale de Banque – Jordanie and Société Générale Bank – Cyprus Ltd are also subject to compulsory reserve requirements with varying percentages, according to the banking rules and regulations of the Kingdom of Jordan and the Republic of Cyprus.

Time deposits include placements of LL 1,096,176 million pledged to the favor of the Central Bank of Lebanon against loans granted by the latter as at 31 December 2017 (2016: LL 540,944 million) (notes 30 & 31).

16 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2017 LL million	2016 LL million
Current accounts	238,437	338,253
Time deposits	431,870	271,965
Checks for collection	75,178	65,620
Discounted bills	103	-
Pledged accounts (i)	108,768	120,058
Debtor accounts against creditor accounts, net	581	3,008
	854,937	798,904
Less: Provision for impairment	(711)	(275)
	854,226	798,629

(i) Included under pledged accounts an amount of LL 92,782 million placed as collateral against repurchase agreements as at 31 December 2017 (2016: LL 89,668 million) (note 31).

The movement of the provision for impairment of deposits with banks and financial institutions as recognized in the consolidated statement of financial position is as follows:

	2017 LL million	2016 LL million
Provision at 1 January	275	145
Provision during the year (note 11)	420	154
Difference of exchange	16	(24)
Provision at 31 December	711	275

17 AMOUNTS DUE FROM AFFILIATED BANKS AND FINANCIAL INSTITUTIONS

	2017 LL million	2016 LL million
Sight deposits	465,143	483,304
Time deposits	125,242	435,304
	590,385	918,608

Time deposits include an amount of LL 54,198 million (equivalent to Euro 30 million) as of 31 December 2017 (2016: Euro 30 million, equivalent to LL 47,889 million) pledged in favour of Société Générale SA Paris in guarantee of documentary letters of credit and guarantees issued in favor of the Bank's clients.

18 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2017			2016		
	Assets LL million	Liabilities LL million	Total notional amount LL million	Assets LL million	Liabilities LL million	Total notional amount LL million
Derivatives held for trading						
Forward foreign exchange contracts	9,197	(164)	566,312	2,472	(9,507)	674,487

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

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

Fair value hedges
Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans and advances. The Group uses interest rate swaps to hedge interest rate risk.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 LL million	2016 LL million
Quoted		
Shares	77,294	94,196
Funds	23,720	20,376
Lebanese treasury bills – Eurobonds	11,418	3,688
	112,432	118,260
Unquoted		
Shares	50,477	23,228
Lebanese treasury bills – denominated in LL	1,090	1,094
Debt securities issued by banks	37,688	37,688
	89,255	62,010
	201,687	180,270

20 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2017 LL million	2016 LL million
Corporate lending	4,800,919	4,254,325
Retail lending	3,123,666	2,985,287
	7,924,585	7,239,612
Less: Unrealized interest (i)	(351,633)	(380,513)
Less: Allowance for impairment losses (ii)	(228,336)	(231,450)
	7,344,616	6,627,649

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(i) The movement of unrealized interest on substandard, doubtful, and bad loans is as follows:

	2017		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	297,801	82,712	380,513
Unrealized interest for the year	44,447	27,337	71,784
Less: Write-back during the year (note 11)	(3,246)	(3,827)	(7,073)
Less: Unrealized interest written off	(89,873)	(18,369)	(108,242)
Transfers from off-statement of financial position	62,209	10,927	73,136
Transfers to off-statement of financial position	(65,660)	(1,952)	(67,612)
Transfer from retail to corporate	2,859	(2,859)	-
Difference of exchange	3,745	5,382	9,127
Balance at 31 December	252,282	99,351	351,633

	2016		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	308,372	63,262	371,634
Unrealized interest for the year	44,341	24,147	68,488
Less: Write-back during the year (note 11)	(1,885)	(2,087)	(3,972)
Less: Unrealized interest written off	(63,465)	(4,681)	(68,146)
Transfers from off-statement of financial position	11,197	3,275	14,472
Difference of exchange	(759)	(1,204)	(1,963)
Balance at 31 December	297,801	82,712	380,513

(ii) The movement of the impairment allowances during the year was as follows:

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	2017		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	110,197	121,253	231,450
Charge for the year (note 11)	5,429	21,126	26,555
Less: Write-back of provision (note 11)	(4,242)	(5,667)	(9,909)
Less: Provisions written off	(11,292)	(10,004)	(21,296)
Transfers from off-statement of financial position	8,870	5,625	14,495
Transfers to off-statement of financial position	(18,795)	(2,589)	(21,384)
Transfer from retail to corporate	789	(789)	-
Difference of exchange	3,476	4,949	8,425
Balance at 31 December	94,432	133,904	228,336
Specific provisions	85,486	111,865	197,351
Collective provisions	8,946	22,039	30,985
	94,432	133,904	228,336
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	453,260	309,415	762,675

	2016		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	111,597	98,151	209,748
Charge for the year (note 11)	8,134	29,203	37,337
Less: Write-back of provision (note 11)	(3,619)	(4,129)	(7,748)
Less: Provisions written off	(14,687)	(2,019)	(16,706)
Transfers from off-statement of financial position	9,467	1,392	10,859
Difference of exchange	(695)	(1,345)	(2,040)
Balance at 31 December	110,197	121,253	231,450
Specific provisions	101,327	98,948	200,275
Collective provisions	8,870	22,305	31,175
	110,197	121,253	231,450
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	468,513	295,340	763,853

21 LOANS AND ADVANCES TO RELATED PARTIES AT AMORTIZED COST

	2017 LL million	2016 LL million
Corporate lending	83,568	83,013
Retail lending	47,176	38,772
	130,744	121,785
Less: Unrealized interest (i)	(404)	(339)
Less: Allowance for impairment losses (ii)	(19,275)	(20,709)
	111,065	100,737

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(i) The movement of unrealized interest on substandard, doubtful, and bad loans is as follows:

	2017		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	339	-	339
Unrealized interest for the year	55	-	55
Difference of exchange	10	-	10
Balance at 31 December	404	-	404

	2016		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	281	-	281
Unrealized interest for the year	51	-	51
Difference of exchange	7	-	7
Balance at 31 December	339	-	339

(ii) The movement of the impairment allowances during the year was as follows:

	2017		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	20,709	-	20,709
Charge for the year (note 11)	1,309	-	1,309
Less: provisions written off	(2,771)	-	(2,771)
Difference of exchange	28	-	28
Balance at 31 December	19,275	-	19,275
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	23,776	-	23,776

	2016		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	19,193	-	19,193
Charge for the year (note 11)	1,500	-	1,500
Difference of exchange	16	-	16
Balance at 31 December	20,709	-	20,709
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	24,818	-	24,818

The attached notes 1 to 54 form part of these consolidated financial statements.

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22 FINANCIAL ASSETS AT AMORTIZED COST

	2017 LL million	2016 LL million
Quoted		
Lebanese treasury bills – Eurobonds	62,642	40,284
Lebanese treasury bills – Eurobonds pledged as collateral against repurchase agreements	2,176,089	2,582,749
Foreign governmental debt securities	-	33,222
Foreign governmental debt securities pledged as collateral against repurchase agreements	25,290	25,194
Debt securities issued by banks	9,204	9,028
Corporate bonds pledged as collateral against repurchase agreements	42,261	42,980
Gross quoted investments at amortized cost	2,315,486	2,733,457
Provision for impairment (iv)	-	-
	2,315,486	2,733,457
Unquoted		
Lebanese treasury bills – denominated in LL	996,572	2,877,681
Lebanese treasury bills – denominated in LL mortgaged in favour of the Central Bank of Lebanon (i)	617,216	181,885
Certificates of deposit – denominated in LL	333,754	513,170
Certificates of deposit – EuroCDs	2,289,792	2,443,352
Certificates of deposits issued by foreign Central Banks	52,126	-
Certificates of deposit – EuroCDs pledged as collateral against repurchase agreements	45,390	45,390
Certificates of deposit – denominated in LL mortgaged in favour of the Central Bank of Lebanon (ii)	19,554	-
Certificates of deposit – EuroCDs mortgaged in favour of the Central Bank of Lebanon (ii)	309,388	309,388
Certificates of deposit – EuroCDs mortgaged in favour of a customer (iii)	669,674	412,723
Corporate bonds	21,723	22,013
Governmental bonds mortgaged against deposits from Social Security of Jordan	400,424	270,574
Governmental bonds mortgaged in favor of the Central Bank of Jordan	2,318	857
Foreign governmental debt securities	569,930	656,675
Certificates of deposit issued by banks	-	10,566
Gross unquoted investments at amortized cost	6,327,861	7,744,274
Provision for impairment (i)	(1,083)	(1,384)
	6,326,778	7,742,890
	8,642,264	10,476,347

(i) These Lebanese treasury bills are pledged against soft loans granted by the Central Bank of Lebanon (note 30).

(ii) During 2016, the Bank obtained the approval of the Central Bank of Lebanon to release an amount of US$ 200 million (equivalent LL 301,500 million) from obligatory reserves provided that this amount is invested in governmental bonds pledged in the favor of the Central Bank of Lebanon. The Bank pledged Eurobonds with a nominal amount of US$ 200 million (equivalent to LL 301,500 million) from 13 January 2016 until 18 August 2016, and subsequently two certificates of deposits with a total nominal amount of US$ 200 million (equivalent to LL 301,500 million).

The attached notes 1 to 54 form part of these consolidated financial statements.

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During 2017, in addition to previous amounts pledged to the Central Bank of Lebanon, the Bank pledged certificates of deposits with a nominal amount of LL 15,000 million against soft loans granted by the latter (note 30).

(iii) The Bank mortgaged and registered certificates of deposit in favor of a customer as a guarantee for the deposit placed at the Bank by the latter (note 34).

(iv) Movements in the provision for impairment of financial assets at amortized cost are as follows:

	2017 LL million	2016 LL million
Provision at 1 January	1,384	9,595
Provided during the year (note 11)	-	233
Written-back during the year (note 11)	-	(8,442)
Write off during the year	(301)	-
Difference of exchange	-	(2)
Balance at 31 December	1,083	1,384

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

The schedule below details the net gain from sale of financial assets at amortized cost

	2017			2016		
	Gains LL million	Losses LL million	Net LL million	Gains LL million	Losses LL million	Net LL million
Lebanese sovereign and Central Bank of Lebanon						
Certificates of deposit	20,737	-	20,737	393,732	(13,102)	380,630
Treasury bills	140,288	(98)	140,190	214,497	-	214,497
Eurobonds	15,633	(962)	14,671	662	(23,110)	(22,448)
	176,658	(1,060)	175,598	608,891	(36,212)	572,679
Other sovereign						
Other governmental securities	6,958	-	6,958	7,262	-	7,262
Private sector and other securities						
Corporate and other debt instruments	-	-	-	1,675	(1,908)	(233)
	183,616	(1,060)	182,556	617,828	(38,120)	579,708

During 2017, the Group entered into certain financial transactions with the Central Bank of Lebanon relating to treasury bills denominated in Lebanese Lira, whereby the Central Bank purchased treasury bills denominated in LL with a nominal of LL 1,950,000 million. As a result of this sale, the Group realized a gain of LL 131,248 million in the consolidated income statement and deposited US$ 1,300 million with the Central Bank of Lebanon.
During 2016, the Group entered into certain financial transactions with the Central Bank of Lebanon. These transactions were available to banks provided that they are able to reinvest an amount equivalent to the

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nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or Certificates of Deposit issued by the Central Bank of Lebanon denominated in US Dollars and purchased at their fair values. The net gains from such trades in excess of the fair value of the financial instruments sold amounted to LL 1,272,142 million, of which LL 734,253 million was not realized in the consolidated income statement (note 36).

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2017 LL million	2016 LL million
Quoted		
Shares	148,418	12,593
Unquoted		
Shares	13,096	12,615
	161,514	25,208

Dividend income recognized in the consolidated income statement from financial assets at fair value through other comprehensive income is disclosed in note 9.

24 PROPERTY AND EQUIPMENT

	Advances on purchase of property and equipment LL million	Land and buildings LL million	Furniture and fixtures LL million	Installations LL million	Vehicles LL million	Total LL million
Cost:						
At 1 January 2017	86,204	282,999	124,567	73,843	2,282	569,895
Additions	57,253	76	3,408	2,443	133	63,313
Disposals	-	-	(100)	-	(155)	(255)
Transfers	(20,257)	10,573	3,357	5,973	354	-
Write-off	-	-	(102)	-	-	(102)
Exchange differences	43	20	796	328	25	1,212
At 31 December 2017	123,243	293,668	131,926	82,587	2,639	634,063
Depreciation:						
At 1 January 2017	-	23,601	69,079	40,681	1,392	134,753
Provided during the year	-	2,623	5,751	3,298	283	11,955
Relating to disposals	-	-	(99)	-	(39)	(138)
Relating to write-off	-	-	(99)	-	-	(99)
Exchange differences	-	1	729	157	18	905
At 31 December 2017	-	26,225	75,361	44,136	1,654	147,376
Impairment:						
At 1 January 2017 and 31 December 2017	-	1,357	-	-	-	1,357
Net carrying amount:						
At 31 December 2017	123,243	266,086	56,565	38,451	985	485,330

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	Advances on purchase of property and equipment LL million	Land and buildings LL million	Furniture and fixtures LL million	Installations LL million	Vehicles LL million	Total LL million
Cost:						
At 1 January 2016	64,415	127,355	83,403	63,297	2,122	340,592
Additions	37,597	-	39,013	1,856	305	78,771
Acquisition of a subsidiary (note 3)	-	151,492	-	-	-	151,492
Disposals	-	-	(406)	(13)	(218)	(637)
Transfers	(16,332)	4,148	2,747	9,356	81	-
Transfer from non-current assets held for sale (note 27)	534	-	-	-	-	534
Write-off	-	-	(9)	(610)	-	(619)
Exchange differences	(10)	4	(181)	(43)	(8)	(238)
At 31 December 2016	86,204	282,999	124,567	73,843	2,282	569,895
Depreciation:						
At 1 January 2016	-	21,206	63,708	38,575	1,401	124,890
Provided during the year	-	2,395	5,934	2,743	197	11,269
Relating to disposals	-	-	(380)	(13)	(198)	(591)
Relating to write-off	-	-	(9)	(579)	-	(588)
Exchange differences	-	-	(174)	(45)	(8)	(227)
At 31 December 2016	-	23,601	69,079	40,681	1,392	134,753
Impairment:						
At 1 January 2016 and 31 December 2016	-	1,357	-	-	-	1,357
Net carrying amount:						
At 31 December 2016	86,204	258,041	55,488	33,162	890	433,785

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25 INTANGIBLE ASSETS

	Advances on intangible assets LL million	Customer relationships LL million	Key money LL million	Licenses and software LL million	Total LL million
Cost:					
At 1 January 2017	24,084	20,600	9,861	20,257	74,802
Additions	8,504	-	-	1,264	9,768
Write off	-	-	(7,753)	-	(7,753)
Transfers	(88)	-	88	-	-
Exchange differences	-	-	-	307	307
At 31 December 2017	32,500	20,600	2,196	21,828	77,124
Amortization:					
At 1 January 2017	-	8,584	1,934	14,967	25,485
Provided during the year	-	1,717	-	1,619	3,336
Exchange differences	-	-	-	284	284
At 31 December 2017	-	10,301	1,934	16,870	29,105
Net carrying amount:					
At 31 December 2017	32,500	10,299	262	4,958	48,019

	Advances on intangible assets LL million	Customer relationships LL million	Key money LL million	Licenses and software LL million	Total LL million
Cost:					
At 1 January 2016	15,621	20,600	9,861	17,202	63,284
Additions	10,513	-	-	1,067	11,580
Transfers	(2,050)	-	-	2,050	-
Exchange differences	-	-	-	(62)	(62)
At 31 December 2016	24,084	20,600	9,861	20,257	74,802
Amortization:					
At 1 January 2016	-	6,867	1,934	13,538	22,339
Provided during the year	-	1,717	-	1,493	3,210
Exchange differences	-	-	-	(64)	(64)
At 31 December 2016	-	8,584	1,934	14,967	25,485
Net carrying amount:					
At 31 December 2016	24,084	12,016	7,927	5,290	49,317

Customer relationships represents the intangibles resulting from the acquisition of assets and liabilities of the Lebanese Canadian Bank SAL (under liquidation) in prior years.

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26 INVESTMENT PROPERTIES

	2017 LL million	2016 LL million
Investment properties	1,478	1,483

The movement of investment properties recognized in the consolidated statement of financial position is as follows:

	2017 LL million	2016 LL million
At 1 January	1,483	1,480
Exchange difference	(5)	3
At 31 December	1,478	1,483

The Group's investment properties consist of properties in Lebanon held by the Group for capital appreciation.

As at 31 December 2017 and 2016, the fair values of the properties are based on valuations performed by accredited independent valuers specialized in valuing these types of properties.

The Group did not generate any rental income nor incurred any expenses relating to investment properties during the years ended 31 December 2017 and 31 December 2016.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

27 NON-CURRENT ASSETS HELD FOR SALE

	2017 LL million	2016 LL million
Assets obtained in settlement of debts (i)	186,504	175,919

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(i) The movement of the assets obtained in settlement of debts held for sale recognized in the consolidated statement of financial position is as follows:

	2017 LL million	2016 LL million
Cost:		
At 1 January	193,679	202,810
Additions	14,866	5,825
Disposals	(1,373)	(14,237)
Transfers to property and equipment (note 24)	-	(534)
Exchange differences	(627)	(185)
At 31 December	206,545	193,679
Impairment:		
At 1 January	17,760	17,492
Additions	3,010	951
Write-back during the year	(722)	(683)
Exchange differences	(7)	-
At 31 December	20,041	17,760
Net carrying amount:		
At 31 December	186,504	175,919

Assets obtained in settlement of debt held-for-sale represent primarily land and buildings acquired by the Group in settlement of certain loans and advances.

During the year, the Group disposed of assets obtained in settlement of debts held for sale with a cost of LL 1,373 million (2016: LL 14,237 million) and recognized a gain of LL 406 million (2016: LL 3,080 million) and a write-back of impairment losses amounting to LL 722 million (2016: LL 683 million) (refer to note 10), in addition to the release of reserve for non-current assets held for sale amounting to LL 371 million to reserve for capital increase (2016: LL 8,462 million). This amount relates to appropriations previously booked on reserve for non-current assets held for sale (refer to note 39).

28 OTHER ASSETS

	2017 LL million	2016 LL million
Deferred employee termination benefits (i)	12,528	20,760
Due from the National Social Security Fund	17,841	17,426
Prepaid expenses	23,267	9,773
Deferred tax assets (note 14)	7,143	7,206
Investment in an associate (ii)	1,945	1,773
Receivable from sale of non-current assets held for sale	4,731	15,975
Other debtors	73,173	44,023
Provision (iii)	(6,544)	(7,136)
	134,084	109,800

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(i) Deferred employee termination benefits
Deferred employee termination benefits amounting to LL 12,528 million as at 31 December 2017 (2016: LL 20,760 million), represent compensations paid to employees whose contracts were terminated as a result of the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL and their related taxes.

These compensations were calculated on the basis provided for in the staff compensation arbitrary decision dated 29 August 2011.

These benefits were deferred up to an amount of LL 60,300 million (equivalent to US$ 40 million). As a compensation for the employee termination benefits, the Central Bank of Lebanon exempted the Bank from part of the compulsory reserves denominated in Lebanese Lira. Part of these reserves were invested in Lebanese treasury bills whose nominal value amounted to LL 80,000 million and maturing on 1 December 2016.

During June 2012, the Central Bank of Lebanon granted the Bank a soft loan amounting to LL 170,000 million (note 30) in substitute of the exemption from part of the compulsory reserves granted during 2011. The proceeds from the soft loan were invested in Lebanese treasury bills. These treasury bills were pledged as collateral against the settlement of the soft loan. The interest income generated from these treasury bills will be offset against these deferred compensations over the period of the future economic benefits of these treasury bills.

During the year ended 31 December 2017, deferred employee termination benefits of LL 8,232 million (2016: LL 8,103 million) were amortized to the consolidated income statement against a net spread between the interest income from the Lebanese treasury bills and interest expense on the soft loan.

(ii) Investment in an associate
As of 31 December 2017 and 2016 the Group had 50% equity interest in Centre de Traitement Monetique SAL. The Group's share of profit from the associate amounted to LL 172 million for the year ended 31 December 2017 (2016: LL 90 million).

(iii) Provision
The movement of the provision recognized in the consolidated statement of financial position is as follows:

	2017 LL million	2016 LL million
Provision at 1 January	7,136	3,622
Write-off of provision	(582)	-
Written-back during the year (note 11)	(10)	(219)
Transfer from provision for risk and charges	-	3,733
Provision at 31 December	6,544	7,136

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29 GOODWILL

	2017 LL million	2016 LL million
Cost:		
At 1 January	169,128	169,685
Difference of exchange	-	(557)
At 31 December	169,128	169,128
Impairment:		
At 1 January	165,723	2,645
Impairment allowance during the year	-	163,158
Difference of exchange	-	(80)
At 31 December	165,723	165,723
Net book value:		
At 31 December	3,405	3,405

Impairment testing of goodwill
Goodwill acquired through business combinations has been allocated to six individual cash generating units (CGUs) for impairment testing as follows:

	2017 LL million	2016 LL million
Société Générale de Banque – Jordanie	2,393	2,393
Fidus SAL	199	199
Sogecap Liban SAL	813	813
Société Générale Bank – Cyprus Ltd (i)	-	-
Corporate banking (ii)	-	-
Retail banking (iii)	-	-
	3,405	3,405

(i) As at 31 December 2016, the recoverable amount of Société Générale Bank - Cyprus Ltd CGU amounted to LL 93,350 million compared to a book value of LL 108,446 million. Accordingly, the Bank booked an impairment loss on goodwill of LL 15,090 million.

(ii) As at 31 December 2016, the recoverable amount of the retail CGU amounted to LL 91,653 million compared to a book value of LL 167,036 million. Accordingly, the Bank booked an impairment loss on goodwill of LL 75,713 million.

(iii) As at 31 December 2016, the recoverable amount of the corporate CGU amounted to LL 283,797 million compared to a book value of LL 356,308. Accordingly, the Bank booked an impairment loss on goodwill of LL 72,355 million.

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Key assumptions used in value in use calculations
The recoverable amount of the Corporate Banking, Retail Banking and Société Générale Bank – Cyprus Ltd have been determined based on value in use calculations, using cash flow projections based on financial budgets approved by senior management covering a five-year period. The following rates are used by the Group:

	2016	
	Discount rate %	Projected growth rate %
Cash Generating Units		
Corporate Banking	13.80%	3.00%
Retail Banking	13.80%	3.00%
Société Générale Bank – Cyprus Ltd	12.70%	2.00%

Projected growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for Lebanon and Cyprus (where the operations reside).

The calculation of value in use for the CGUs is most sensitive to interest margin, discount rates and the projected growth rates used to extrapolate cash flows beyond the budget period.

Key assumptions

Interest margins
Interest margins are based on current fixed interest yields.

Cost of equity
The cost of equity is the return required for an investment to meet capital return requirements; it is often used as a capital budgeting threshold for required rate of return.

Growth rate
Growth rate is the percentage change of the compounded annualized rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.

30 DUE TO THE CENTRAL BANKS

	2017 LL million	2016 LL million
Current account	14	33
Term soft loans	1,617,526	428,855
Accrued interest	4,667	2,877
	1,622,207	431,765

Term soft loans include:

- Term loan amounting to LL 483 million as at 31 December 2017 (2016: LL 10,228 million) were granted by the Central Bank of Lebanon to cover 60% of the replacement costs of the Bank's damaged buildings and installations and to cover 60% of the Bank's credit losses relating to debtors directly affected by July 2006's war. The effective interest rate for 2017 was 2.28% (2016: 3.04%). The loan is secured by the pledge on lebanese treasury bills with a nominal of LL 483 million (2016: LL 10,228 million) included under financial assets at amortized cost (note 22).

- Term loan amounting to LL 170,000 million granted during June 2012 from the Central Bank of Lebanon after the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL for a ten years period. The effective interest rate is 2% for the first 5 years and 1.85% for the remaining 5 years. The loan is secured by the pledge on lebanese treasury bills with a nominal of LL 170,000 million (2016: LL 170,000 million) included under financial assets at amortized cost (note 22).

- Term loan amounting to LL 150,000 million granted during October 2013 from the Central Bank of Lebanon for a three years period to cover the additional losses resulting from the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL. The effective interest rate is 1.97% for the first two years and will be revised for the third year by the Central Bank of Lebanon. The loan matured during 2016.

- Term loans totaling to LL 292,990 million as at 31 December 2017 (2016: LL 222,997 million) were granted by the Central Bank of Lebanon to subsidize the loans granted to customers under circular 313 of the Central Bank of Lebanon. The term loans are subject to a 1% interest rate payable on a monthly basis. Part of these term loans are secured by the pledge on Lebanese treasury bills with a nominal of LL 2,050 million (2016: LL 430 million) and certificates of deposits denominated in LL with a nominal of LL 15,000 million as at 31 December 2017 (2016: nil). These instruments are included under financial assets at amortized cost (note 22).

- Term loans totaling to LL 1,108,583 million as at 31 December 2017 (2016: nil) were granted by the Central Bank of Lebanon. The term loans are subject to a 2% interest rate payable on a monthly basis. These term loans are secured by the pledge on Lebanese treasury bills with a nominal of LL 436,783 million included under financial assets at amortized cost (note 22) and the pledge of long-term placements held with the Central Bank of Lebanon amounting to LL 674,437 million (note 15).

31 LOANS AND REPURCHASE AGREEMENTS

	2017 LL million	2016 LL million
Central Bank of Lebanon	431,476	582,452
Banks and financial institutions	1,249,908	1,479,865
	1,681,384	2,062,317

The Group has a program to sell securities under agreements to repurchase ('repos'). The securities sold under agreements to repurchase are transferred to third parties and the Group receives cash in exchange. If the securities decrease in value, the Group may be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received as collateral.

The carrying amount and fair value of securities sold under agreements to repurchase at 31 December 2017 was LL 2,289,030 million and LL 2,246,197 million respectively (2016: LL 2,696,313 million and LL 2,648,811 million respectively). Those securities are presented in the statement of financial position under "Financial assets at amortized cost" (note 22).

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The following tables provide a summary of financial instruments that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition or were pledged against facilities granted, together with the associated liabilities:

	2017					
	Transferred financial asset	Foreign governmental debt securities LL million	Certificates of deposit – EuroCDs & bank placements LL million	Corporate bonds LL million	Lebanese Treasury bills – Eurobonds LL million	Total LL million
Carrying amount of assets	Securities lending and repos	25,290	467,129	42,261	2,176,089	2,710,769
Carrying amount of associated liabilities	Securities lending and repos	22,344	431,478	39,905	1,187,657	1,681,384

	2016					
	Transferred financial asset	Foreign governmental debt securities LL million	Certificates of deposit– EuroCDs & bank placements LL million	Corporate bonds LL million	Lebanese Treasury bills – Eurobonds LL million	Total LL million
Carrying amount of assets	Securities lending and repos	25,194	586,334	42,980	2,582,749	3,237,257
Carrying amount of associated liabilities	Securities lending and repos	22,344	582,452	39,905	1,417,615	2,062,316

In addition to the above an amount of LL 92,782 million is pledged as additional collateral against repurchase agreements as at 31 December 2017 (2016: LL 89,668 million). These placements are included under "Due from banks and financial institutions" (note 16).

32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2017 LL million	2016 LL million
Sight deposits	110,698	162,888
Time deposits	368,519	406,060
	479,217	568,948

33 AMOUNTS DUE TO AFFILIATED BANKS AND FINANCIAL INSTITUTIONS

	2017 LL million	2016 LL million
Sight deposits	6,844	1,429

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34 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2017		
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	765,575	1,307,593	2,073,168
Net creditor accounts against debtor accounts	763	1,147	1,910
Blocked margins	326,064	161,216	487,280
	1,092,402	1,469,956	2,562,358
Time deposits	5,084,658	10,276,492	15,361,150
Savings accounts	352,704	6,414,296	6,767,000
	6,529,764	18,160,744	24,690,508

	2016		
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	934,722	1,337,031	2,271,753
Net creditor accounts against debtor accounts	-	988	988
Blocked margins	307,891	186,640	494,531
	1,242,613	1,524,659	2,767,272
Time deposits	3,676,276	9,057,654	12,733,930
Savings accounts	357,438	5,929,694	6,287,132
	5,276,327	16,512,007	21,788,334

Included in customers' deposits as at 31 December 2017 are coded accounts amounting to LL 55,521 million (2016: LL 37,489 million). These accounts are opened in accordance with article 3 of the Banking Secrecy Law dated 3 September 1956.

Included under customers' deposits an amount of LL 583,073 million maturing during 2018, 2019 and 2020 guaranteed by certificates of deposit with a carrying amount of LL 669,674 (2016: deposits amounting to LL 376,884 million maturing during 2018 and 2019 guaranteed by certificates of deposit with a carrying amount of LL 412,723) (note 22).

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35 RELATED PARTIES' DEPOSITS AT AMORTIZED COST

	2017		
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	2,102	10,543	12,645
Time deposits	10,283	142,354	152,637
	12,385	152,897	165,282

	2016		
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	618	3,835	4,453
Time deposits	3,973	172,781	176,754
	4,591	176,616	181,207

36 OTHER LIABILITIES

	2017 LL million	2016 LL million
Deferred income (i)	184,856	218,710
Current tax liabilities (note 14)	45,560	218,593
Redeemed preferred shares payable to third parties (ii)	21,859	21,859
Accrued expenses	26,649	41,424
Payable to the shareholders of the Lebanese Canadian Bank SAL (iv)	12,060	12,060
Customers' transactions between Head Office and branches	18,989	15,193
Other taxes payable	15,626	17,951
Interest and commissions received in advance	10,631	10,121
Due to the National Social Security Fund	1,931	1,949
Deferred tax liabilities (note 14)	861	562
Other creditors (iii)	28,354	31,342
	367,376	589,764

(i) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, caped to the extent of the losses recorded to comply with recent regulatory provisioning requirements (refer to note 37), the impairment losses on goodwill recorded in accordance with IAS 36 and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One.

As a result of these operations with the Central Bank of Lebanon, the Group received a surplus of LL 1,272,142 million net of transaction costs consisting of interest, fees and other costs. The Group recognized current tax liabilities amounting to LL 188,436 million on the remaining balance of LL

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1,272,142 million. The Group then recognized an amount of LL 537,889 million and their related taxes of LL 77,694 million in the statement of income and elected to recognize LL 404,801 million net of taxes, directly in non-distributable reserves within equity (note 39). The remaining surplus, equivalent to LL 218,710 million, was booked as deferred income as at 31 December 2016.

During 2017, the Group transferred an amount of LL 31,657 million (net of associated costs) from the deferred income to net gain from sale of financial assets at amortized cost in the consolidated income statement.

(ii) Redeemed preferred shares payable to third parties represent liabilities acquired with the acquisition of the Lebanese Canadian Bank SAL and relating to preferred shares redeemed by the Lebanese Canadian Bank SAL and not yet claimed by the holders of those shares.

(iii) Included under other creditors an amount of LL 8,003 million as at 31 December 2016, representing the partial settlement made by a debtor in settlement of its debts amounting to LL 8,356 million.

The Group reimbursed this payment during 2017 since it has received the full payment of LL 8,356 million from the shareholders of the Lebanese Canadian Bank SAL during prior years.

(iv) This represents the balance of the cash collateral deposited by the shareholders of the Lebanese Canadian Bank SAL and amounting to US$ 8 million (equivalent to LL 12,060 million) as a guarantee against default of the loans of an acquired subsidiary. This amount is refundable to the shareholders of the Lebanese Canadian Bank SAL, since the initial consideration paid for the acquisition was reduced by the same amount.

37 PROVISION FOR RISKS AND CHARGES

	2017 LL million	2016 LL million
Technical reserve for insurance contracts	22,812	24,918
Employees' end of service benefits (i)	30,245	31,064
Provision for contingencies and charges	3,276	3,532
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circular number 439 dated 8 November 2016 (ii)	165,825	165,825
Other provisions	26,762	37,671
	248,920	263,010

(i) Movements in the provision for end of service benefits recognized in the consolidated statement of financial position are as follows:

	2017 LL million	2016 LL million
Balance at 1 January	31,064	25,859
Provided during the year (note 12)	2,132	6,293
Paid during the year	(2,951)	(1,088)
Balance at 31 December	30,245	31,064

(ii) On 8 November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute additional collective provisions. As such, provisions for risks and charges as at 31 December 2017 and 31 December 2016 include an amount of LL 165,825 million in excess of the provisioning requirements of IAS 39 (note 36).

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38 SHARE CAPITAL

a) Common shares

The authorized, issued and fully paid share capital as of 31 December 2017 comprised 56,535 shares of nominal value LL 258,000 each (2016: 56,535 shares of nominal value of LL 258,000 each).

b) Preferred shares

- On 28 March 2013, the Bank issued 12,500 preferred shares (Series 2012) for a nominal amount of LL 212,400 each (a total of LL 2,655 million) plus a share premium denominated in US Dollars of US$ 9,859 per share. Accordingly, the total share premium resulting from the issuance amounted to US$ 123,238,806 (or LL 185,782 million) less issuance costs of LL 395 million.

- On 13 September 2013, the Bank issued 15,000 preferred shares (Series 2013) for a nominal amount of LL 212,400 each (a total of LL 3,186 million) plus a share premium denominated in US Dollars of US$ 9,859 per share. Accordingly, the total share premium resulting from the issuance amounted to US$ 147,886,567 (or LL 222,939 million) less issuance costs of LL 385 million.

- On 2 July 2015, the Bank issued 10,000 preferred shares (Series 2015) for a nominal amount of LL 233,000 each (a total of LL 2,330 million) plus a share premium denominated in US Dollars of US$ 9,845 per share. Accordingly, the total share premium resulting from the issuance amounted to US$ 98,454,395 (or LL 148,420 million) less issuance costs of LL 194 million.

The payment of dividends for preferred shareholders is dependent on:

1. The availability of non-consolidated net income for a specific year after appropriation of legal and other regulatory reserves;
2. The continuous compliance with regulations issued by the Central Bank of Lebanon and the Banking Control Commission; and
3. The approval of the ordinary general assembly of shareholders to distribute those dividends.

During 2017, the Bank transferred LL 2,029 million (2016: LL 2,010 million) from "retained earnings" to the "share premium – preferred shares". These represent the appropriation of transaction costs incurred on preferred shares and additional premiums of 1.25% relating to preferred shares – Series 2012, 2% relating to preferred shares – Series 2013 and 1.5% relating to preferred shares – Series 2015.

The extraordinary general assembly of shareholders held on 2 July 2015 resolved to increase the nominal value of each share to LL 258,000. Accordingly, an amount of LL 937 million was transferred from "distributable reserves" to "share capital – preferred shares" in prior years.

c) Cash contribution by shareholders

Cash contribution to capital amounted to US$ 9,855,900 and EUR 46,229,259 as at 31 December 2017 totaling to LL 106,746 million (2016: US$ 9,855,900 and EUR 46,229,259 totaling LL 106,746 million). These contributions were granted by the shareholders of the Bank in order to support and develop the activities of the Bank, in accordance with the following conditions:

- Every shareholder is committed to retain the contributions during the lifetime of the Bank;
- The shareholders commit to cover any loss using their contributions according to the provisions of article 3-8 of circular N° 44 of the of the Central Bank of Lebanon and article 134 of the Money and Credit Act; and
- The shareholders have the right to use or not to use these contributions in case of a capital increase.

Both the Central Council of the Central Bank of Lebanon and the ordinary general assembly of the Bank approved these contributions.

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39 NON DISTRIBUTABLE RESERVES

	Legal reserve LL million	Reserve for general banking risks LL million	Reserve against doubtful and impaired loans LL million	Reserve for capital increase LL million	Reserve for non-current assets held for sale LL million	Reserve for retail and corporate loans LL million	Total LL million
At 31 December 2015	128,956	131,925	635	74,925	46,002	8,691	391,134
Appropriation during the year	25,724	22,931	-	484	10,156	9,470	68,765
Transfers	-	-	-	8,462	(8,462)	-	-
Income on financial transactions (note 36)	-	-	-	404,801	-	-	404,801
Adjsutments	-	-	(52)	-	-	-	(52)
At 31 December 2016	154,680	154,856	583	488,672	47,696	18,161	864,648
Appropriation during the year	28,836	26,945	-	3,005	22,466	16,284	97,536
Transfers	-	-	-	371	(371)	-	-
Adjsutments	-	-	(499)	-	-	-	(499)
At 31 December 2017	183,516	181,801	84	492,048	69,791	34,445	961,685

a) Legal reserve

As required by local regulations where the Group operates, a percentage of the net profit for the year should be transferred to legal reserve. This reserve is not available for dividend distribution.

b) Reserve for general banking risks

In compliance with the Central Bank of Lebanon regulations, the Bank should appropriate from its 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-statement of financial position items based on the rates specified by the Central Bank of Lebanon as a reserve for general banking risks. The consolidated ratio should not be less than 2% of these risks at the end of 2027.

In addition, Société Générale de Banque – Jordanie and Société Générale Bank – Cyprus Ltd are also required to appropriate reserves for general banking risks in accordance with local requirements.

c) Reserve against doubtful and impaired loans

In compliance with pronouncement 20/2008 of the Banking Control Commission issued on 13 September 2008, the Bank should appropriate to a special reserve an amount equal to its portfolio of doubtful and impaired loans which were not settled in accordance with the Central Bank basic circular no. 73 and its subsequent amendments.

The Bank releases this reserve to retained earnings when:

- The loan is settled and fully paid; or
- Partial settlement of the loan leading to a reserve in excess of the loan net carrying amount; or
- A provision is made in the income statement.

d) Reserve for capital increase

In compliance with the circular No. 167 issued by the Banking Control Commission, the Bank is required to appropriate the net write-back of provisions for doubtful debts in a particular year to the reserve for capital increase when the net results are positive.

In compliance with the circular No. 173 issued by the Banking Control Commission, the Bank is required to appropriate the gain realized from the sales of non-current assets held for sale to the reserve for capital increase when the net results are positive.

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In compliances with the Central Bank of Lebanon intermediate circular no. 446 dated 30 December 2016, the Bank should appropriate the gain realized from the sale of treasury bills and certificates of deposits denominated in LL and the simultaneous purchase of Eurobonds and certificates of deposit denominated in US$ to the reserve for capital increase.

e) Reserve for non-current assets held for sale

In compliance with pronouncements of the Banking Control Commission, when properties acquired in settlement of debts are not sold within the timeframe required by local regulators, the Bank should appropriate an amount equal to 5% or 20% of the carrying value of such properties. The annual appropriation, which is from the net profit of the respective year after appropriations to legal reserve and reserve for general banking risks, is reported under "reserve for non-current assets held for sale".

The Bank shall make a transfer from this reserve into the "Reserve for capital increase" when:

- The reserve appropriated in prior years related to a property disposed of; or
- The reserve appropriated in prior years, equal or up to an impairment loss recognized in the income statement against the acquired property.

f) Reserve for retail and corporate loans

In compliance with the circular No. 280 issued by the Banking Control Commission, the Bank is required to transfer from net profits for the year the equivalent of:

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014. This ratio will increase yearly by 0.5% over a six year period starting 2015.

- 0.25% of corporate loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014. This ratio will increase to 0.5% for the year 2015, 1% for the year 2016 and 1.5% for the year 2017.

As per Central Bank circular No. 143 issued on 7 November 2017, Lebanese banks are to stop allocating from the net profits an amount for the reserve for retail and corporate loans.

40 DISTRIBUTABLE RESERVES

	General reserves	
	2017 LL million	**2016 LL million**
Balance at 1 January	20,532	19,442
Appropriation during the year	8,928	1,090
Balance at 31 December	29,460	20,532

41 REVALUATION RESERVE OF PROPERTY

	2017 LL million	**2016 LL million**
Revaluation amount	5,499	5,499
Book value	(945)	(945)
Sale of real estate	(620)	(620)
Revaluation variance	3,934	3,934

The Central Bank of Lebanon and the tax authorities approved on 29 March 1995 and on 18 April 1995 respectively, the revaluation of some of the buildings owned by the Bank and used for operating purposes in accordance with the law no. 282 dated 30 December 1993.

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

	2017 LL million	**2016 LL million**
Balance at 1 January	(218)	(477)
Transfer to retained earnings	416	-
Net unrealized (loss) gain on financial assets at fair value through other comprehensive income, net of tax	(11,876)	259
Balance at 31 December	(11,678)	(218)

43 DIVIDENDS PAID TO EQUITY HOLDERS OF THE PARENT

According to the resolution of the ordinary general assembly of shareholders held on 25 April 2017 the following dividends were declared and paid:

	2017		
	Number of shares	**Dividend per share in LL**	**Total LL million**
Dividends for preferred shares – 2012 issue	12,500	1,060,325	13,255
Dividends for preferred shares – 2013 issue	15,000	1,060,325	15,905
Dividends for preferred shares – 2015 issue	10,000	1,060,325	10,603
Dividends for common shares	56,535	1,071,700	60,588
			100,351

According to the resolution of the ordinary general assembly of shareholders held on 25 April 2016 the following dividends were declared and paid:

	2016		
	Number of shares	**Dividend per share in LL**	
Dividends for preferred shares – 2012 issue	12,500	1,055,250	
Dividends for preferred shares – 2013 issue	15,000	1,055,250	
Dividends for preferred shares – 2015 issue	10,000	526,185	

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44 CASH AND CASH EQUIVALENTS

	2017 LL million	2016 LL million
Cash and balances with the Central Banks	13,259,404	8,544,014
Financial instruments – Treasury bills	3,865,027	5,687,379
Financial instruments – Certificates of deposit	3,667,552	3,734,590
Financial instruments – Certificates of deposits issued by foreign Central Banks	52,126	-
Due from banks and financial institutions	854,226	798,629
Amounts due from affiliated banks and financial institutions	590,385	918,608
Due to the Central Banks	(1,622,207)	(431,765)
Loans and repurchase agreements	(1,681,384)	(2,062,317)
Due to banks and financial institutions	(479,217)	(568,948)
Amounts due to affiliated banks and financial institutions	(6,844)	(1,429)
	18,499,068	16,618,761
Less: balances with maturities exceeding 3 months		
Cash and balances with the Central Banks	12,337,843	7,778,553
Financial instruments – Treasury bills	3,865,027	5,681,269
Financial instruments – Certificates of deposit	3,667,552	3,519,512
Due from banks and financial institutions	46,381	80,913
Amounts due from affiliated banks and financial institutions	66,618	59,736
Due to the Central Banks	(1,328,664)	(205,608)
Loans and repurchase agreements	(1,681,384)	(2,062,317)
Due to banks and financial institutions	(190,076)	(103,605)
	16,783,297	14,748,453
Cash and cash equivalents at 31 December	1,715,771	1,870,308

45 RELATED PARTY TRANSACTIONS

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

A list of the Group's principal subsidiaries is shown in note 2. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's consolidated financial statements.

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

Entities under common directorships are defined as those entities for which members of the Bank's board also serve as directors.

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Terms and conditions of transactions with related parties
The Group enters into transactions with major related parties in the ordinary course of business at normal commercial interest and commission rates. As at 31 December 2017, the Group has made provisions and suspended interest for doubtful debts relating to amounts owed by related parties totaling to LL 19,679 million (2016: LL 21,048 million) (note 21).

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		2016	
	Outstanding balance LL million	Income (expense) LL million	Outstanding balance LL million	Income (expense) LL million
Key management personnel				
Net loans and advances	105,116	4,792	95,260	4,220
Deposits	109,126	(5,238)	126,267	(2,114)
Guarantees given	1,524	-	1,144	-
Commitments	14	-	360	-
Entities under common directorship				
Net loans and advances	5,870	904	5,386	824
Deposits	54,990	(1,788)	53,501	(1,828)
Guarantees given	137	-	617	-
Shareholder – Bank				
Net loans and advances	588,834	1,211	915,847	665
Deposits	492	(9)	476	-
Guarantees given	19,616	-	34,466	-
Guarantees received	443	-	35	-
Commitments	-	-	438	(51)
Associate				
Deposits	679	(18)	1,220	(22)

Technical assistance fees paid to Société Générale – Paris, shareholder, amounted to LL 755 million for the year ended 31 December 2017 (2016: LL 754 million).

The Bank rented offices from board members for LL 511 million for the year ended 31 December 2017 (2016: LL 510 million).

Compensation of the key management personnel is as follows:

	2017 LL million	2016 LL million
Short-term benefits (i)	19,914	12,122
Termination benefits	653	137
	20,567	12,259

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(i) Short-term benefits comprise of salaries, bonuses, attendance fees and other short-term benefits to Key Management Personnel.

46 FIDUCIARY ACCOUNTS

	2017 LL million	2016 LL million
Deposits with banks	12,960	9,303
Loans and advances	10,703	6,030
Bonds	128,138	128,138
	151,801	143,471

47 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2017 LL million	2016 LL million
Lebanese treasury bills and Eurobonds	86,067	50,264
Bonds and other debt instruments	75,093	109,949
Equity instruments	298,567	317,457
Funds	27,217	23,241
	486,944	500,911

48 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit-related commitments and contingent liabilities
To meet the financial needs of customers, the Group enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and other guarantees and commitments to extend credit. Even though these obligations may not be recognized on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

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

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	2017		
	Banks LL million	Customers LL million	Total LL million
Guarantee and contingent liabilities			
Financial guarantees	56,067	109,238	165,305
Other guarantees	10,172	307,811	317,983
	66,239	417,049	483,288
Commitments			
Documentary credits	270,934	11,358	282,292
Undrawn credit lines	-	1,248,497	1,248,497
	270,934	1,259,855	1,530,789

	2016		
	Banks LL million	Customers LL million	Total LL million
Guarantee and contingent liabilities			
Financial guarantees	64,796	94,174	158,970
Other guarantees	14,607	252,752	267,359
	79,403	346,926	426,329
Commitments			
Documentary credits	246,693	11,150	257,843
Undrawn credit lines	-	1,120,491	1,120,491
	246,693	1,131,641	1,378,334

Guarantees
Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:
- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees provided include mainly performance guarantees, advance payment guarantees, tender guarantees, customs 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 industries where the Group operates due to the nature of the businesses undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss is reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims. Based on advice from the legal counsel, management believes that legal claims not provided for will not result in any financial loss to the Group.

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Capital commitments
At 31 December 2017, the Group had capital commitments in respect of premises and equipment purchases amounting to LL 75,122 million (2016: LL 102,581 million).

Operating lease commitments – Group as lessee
The Group enters into commercial leases on premises. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancelable operating leases as at 31 December are as follow:

	2017 LL million	2016 LL million
Within one year	9,948	8,529
After one year but not more than five years	27,222	26,117
More than five years	1,841	1,627
	39,011	36,273

Other commitments
The Group has commitments relating to future donations to not for profit organizations amounting to LL 6,030 million as at 31 December 2017 (2016: LL 7,538 million).

Other contingencies

a) Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. Fiscal years 2015, 2016 and 2017 are not yet reviewed by the Department of Income Tax as well as the Value Added Tax since inception. Management believe that the effect of any such reviews will not have a material effect on the financial statements.

b) The Bank's contributions to the National Social Security Fund (NSSF) have not been reviewed since May 2004. Management believe that the effect of any such review will not have a material effect on the financial statements.

49 FAIR VALUE MEASUREMENT

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

The fair value of assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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
Assets and liabilities 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
Assets and liabilities classified as Level 2 have been valued using models whose most significant inputs are observable in an active market. Such valuation techniques and models incorporate assumptions about factors observable in an active market, that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults rates.

Valuation technique using significant unobservable inputs – Level 3
Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of the asset or liability. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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

	2017			
		Valuation techniques		
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	Total LL million
Assets measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	9,197	-	9,197
Financial assets at fair value through profit or loss:				
Lebanese treasury bills (LL)	-	1,090	-	1,090
Lebanese treasury bills (Eurobonds)	11,418	-	-	11,418
Debt securities issued by banks	-	37,688	-	37,688
Funds	23,720	-	-	23,720
Shares	77,294	10,253	40,224	127,771
Financial assets at fair value through other comprehensive income:				
Shares	148,418	12,223	873	161,514
Investment properties	-	-	1,478	1,478
Liabilities measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	164	-	164

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	2016			
	Valuation techniques			
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	Total LL million
Assets measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	2,472	-	2,472
Financial assets at fair value through profit or loss:				
Lebanese treasury bills (LL)	-	1,094	-	1,094
Lebanese treasury bills (Eurobonds)	3,688	-	-	3,688
Debt securities issued by banks	-	37,688	-	37,688
Funds	20,376	-	-	20,376
Shares	94,196	11,761	11,467	117,424
Financial assets at fair value through other comprehensive income:				
Shares	12,593	11,741	874	25,208
Investment properties	-	-	1,483	1,483
Liabilities measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	9,507	-	9,507

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

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

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

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

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

Equity shares of non-listed entities
These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value.

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Investment properties
Investment properties valued using unobservable inputs are generally determined based on observable inputs of a similar nature, historical observations or other techniques. Investment properties are mainly valued by independent qualified valuers on the basis of current market prices of similar properties sold in the same area.

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

	2017		2016	
	Carrying value LL million	Fair value LL million	Carrying value LL million	Fair value LL million
Financial assets				
Cash and balances with the Central Banks	13,259,404	13,259,404	8,544,014	8,544,014
Due from banks and financial institutions	854,226	854,226	798,629	798,629
Amounts due from affiliated banks and financial institutions	590,385	590,385	918,608	918,608
Loans to banks and financial institutions	8,397	8,397	8,397	8,397
Loans and advances to customers at amortized cost	7,344,616	7,344,616	6,627,649	6,627,649
Loans and advances to related parties at amortized cost	111,065	111,065	100,737	100,737
Financial assets at amortized cost	8,642,264	8,377,089	10,476,347	10,327,414
	30,810,357	30,545,182	27,474,381	27,325,448
Financial liabilities				
Due to the Central Banks	1,622,207	1,597,408	431,765	429,842
Loans and repurchase agreements	1,681,384	1,681,384	2,062,317	2,062,317
Due to banks and financial institutions	479,217	479,217	568,948	568,948
Amounts due to affiliated banks and financial institutions	6,844	6,844	1,429	1,429
Customers' deposits at amortized cost	24,690,508	24,690,508	21,788,334	21,788,334
Related parties' deposits at amortized cost	165,282	165,282	181,207	181,207
	28,645,442	28,620,643	25,034,000	25,032,077

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Fair values measurement hierarchy of the Group's financial assets and liabilities for which fair values are disclosed:

	2017			
		Valuation techniques		
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	Total LL million
Assets for which fair values are disclosed:				
Cash and balances with the Central Banks	121,535	13,137,869	-	13,259,404
Due from banks and financial institutions	-	854,226	-	854,226
Amounts due from affiliated banks and financial institutions	-	590,385	-	590,385
Loans to banks and financial institutions	-	8,397	-	8,397
Loans and advances to customers at amortized cost	-	-	7,344,616	7,344,616
Loans and advances to related parties at amortized cost	-	-	111,065	111,065
Financial assets at amortized cost:				
Lebanese treasury bills (LL)	-	1,581,040	-	1,581,040
Lebanese treasury bills (Eurobonds)	2,198,117	-	-	2,198,117
Foreign governmental debt securities	26,249	964,863	-	991,112
Corporate bonds	42,895	20,775	-	63,670
Certificates of deposit issued by the Central Bank of Lebanon	-	3,481,970	-	3,481,970
Certificates of deposit issued by foreign banks	-	52,126	-	52,126
Debt securities issued by banks	9,054	-	-	9,054
Liabilities for which fair values are disclosed:				
Due to the Central Banks	-	(1,597,408)	-	(1,597,408)
Loans and repurchase agreements	-	(1,681,384)	-	(1,681,384)
Due to banks and financial institutions	-	(479,217)	-	(479,217)
Amounts due to affiliated banks and financial institutions	-	(6,844)	-	(6,844)
Customers' deposits at amortized cost	-	(24,690,508)	-	(24,690,508)
Related parties' deposits at amortized cost	-	(165,282)	-	(165,282)

	2016			
		Valuation techniques		
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	Total LL million
Assets for which fair values are disclosed:				
Cash and balances with the Central Banks	106,330	8,437,684	-	8,544,014
Due from banks and financial institutions	-	798,629	-	798,629
Amounts due from affiliated banks and financial institutions	-	918,608	-	918,608
Loans to banks and financial institutions	-	8,397	-	8,397
Loans and advances to customers at amortized cost	-	-	6,627,649	6,627,649
Loans and advances to related parties at amortized cost	-	-	100,737	100,737

49 FAIR VALUE MEASUREMENT (continued)

Financial assets at amortized cost:				
Lebanese treasury bills (LL)	-	3,083,568	-	3,083,568
Lebanese treasury bills (Eurobonds)	2,577,876	-	-	2,577,876
Foreign governmental debt securities	58,751	948,416	-	1,007,167
Corporate bonds	44,040	20,246	-	64,286
Certificates of deposit issued by the Central Bank of Lebanon	-	3,574,729	-	3,574,729
Certificates of deposit issued by banks	-	10,578	-	10,578
Debt securities issued by banks	9,210	-	-	9,210
Liabilities for which fair values are disclosed:				
Due to the Central Banks	-	(429,842)	-	(429,842)
Loans and repurchase agreements	-	(2,062,317)	-	(2,062,317)
Due to banks and financial institutions	-	(568,948)	-	(568,948)
Amounts due to affiliated banks and financial institutions	-	(1,429)	-	(1,429)
Customers' deposits at amortized cost	-	(21,788,334)	-	(21,788,334)
Related parties' deposits at amortized cost	-	(181,207)	-	(181,207)

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

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

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, credit spreads and broker statements.

Loans and advances to banks and customers
For the purpose of this disclosure, fair value of loans and advances is estimated using discounted cash flows by applying current rates for new loans granted during the year 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.

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50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

At 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 Banks	1,463,770	11,795,634	13,259,404
Due from banks and financial institutions	828,784	25,442	854,226
Amounts due from affiliated banks and financial institutions	590,385	-	590,385
Loans to banks and financial institutions	-	8,397	8,397
Derivative financial instruments	9,197	-	9,197
Financial assets at fair value through profit or loss	177,965	23,722	201,687
Loans and advances to customers at amortized cost	4,173,844	3,170,772	7,344,616
Loans and advances to related parties at amortized cost	94,171	16,894	111,065
Debtors by acceptances	348,376	96,999	445,375
Financial assets at amortized cost	318,390	8,323,874	8,642,264
Financial assets at fair value through other comprehensive income	1,109	160,405	161,514
Property and equipment	11,955	473,375	485,330
Intangible assets	3,434	44,585	48,019
Investment properties	-	1,478	1,478
Non-current assets held for sale	177,521	8,983	186,504
Other assets	129,388	4,696	134,084
Goodwill	-	3,405	3,405
TOTAL ASSETS	8,328,289	24,158,661	32,486,950
LIABILITIES			
Due to the Central Banks	31,604	1,590,603	1,622,207
Loans and repurchase agreements	450,974	1,230,410	1,681,384
Due to banks and financial institutions	434,985	44,232	479,217
Amounts due to affiliated banks and financial institutions	6,844	-	6,844
Derivative financial instruments	164	-	164
Customers' deposits at amortized cost	23,029,860	1,660,648	24,690,508
Related parties' deposits at amortized cost	165,282	-	165,282
Engagements by acceptances	348,376	96,999	445,375
Other liabilities	182,520	184,856	367,376
Provision for risks and charges	25,931	222,989	248,920
TOTAL LIABILITIES	24,676,540	5,030,737	29,707,277
NET	(16,348,251)	19,127,924	2,779,673

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At 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 Banks	1,234,877	7,309,137	8,544,014
Due from banks and financial institutions	768,627	30,002	798,629
Amounts due from affiliated banks and financial institutions	918,608	-	918,608
Loans to banks and financial institutions	-	8,397	8,397
Derivative financial instruments	2,472	-	2,472
Financial assets at fair value through profit or loss	180,270	-	180,270
Loans and advances to customers at amortized cost	3,807,450	2,820,199	6,627,649
Loans and advances to related parties at amortized cost	89,337	11,400	100,737
Debtors by acceptances	211,715	-	211,715
Financial assets at amortized cost	1,100,068	9,376,279	10,476,347
Financial assets at fair value through other comprehensive income	1,017	24,191	25,208
Property and equipment	11,270	422,515	433,785
Intangible assets	5,407	43,910	49,317
Investment properties	-	1,483	1,483
Non-current assets held for sale	168,304	7,615	175,919
Other assets	105,138	4,662	109,800
Goodwill	-	3,405	3,405
TOTAL ASSETS	8,604,560	20,063,195	28,667,755
LIABILITIES			
Due to the Central Banks	208,034	223,731	431,765
Loans and repurchase agreements	1,046,725	1,015,592	2,062,317
Due to banks and financial institutions	546,700	22,248	568,948
Amounts due to affiliated banks and financial institutions	1,429	-	1,429
Derivative financial instruments	9,507	-	9,507
Customers' deposits at amortized cost	20,681,680	1,106,654	21,788,334
Related parties' deposits at amortized cost	181,207	-	181,207
Engagements by acceptances	211,715	-	211,715
Other liabilities	371,054	218,710	589,764
Provision for risks and charges	27,366	235,644	263,010
TOTAL LIABILITIES	23,285,417	2,822,579	26,107,996
NET	(14,680,857)	17,240,616	2,559,759

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51 RISK MANAGEMENT

The Group devotes significant resources to the ongoing adaptation of its risk management framework, in order to keep pace with the increasing diversification of its activities. Risk management is implemented in compliance with the two following fundamental principles:

- risk assessment departments are completely independent from the operating divisions
- a consistent approach to risk assessment and monitoring is applied at the Group level

a) Risk management structure
The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors
The Board of Directors is responsible for the overall risk management approach and for approving risk strategies and principles.

Risk Management
The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Group Treasury
Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

b) Risk measurement and reporting systems
The Group is using a RAROC (Risk-Adjusted Return on Capital) approach to quantify its credit risk. One of the main objectives is to establish, using quantitative methods, the level of loss expected on credit transactions over the course of the business cycle.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

c) Risk mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

d) Excessive concentration
The Group also attempts to control credit risk by regular monitoring of its credit exposures and continuous assessment of the creditworthiness of counterparties by the credit risk committee.

51.1 CREDIT RISK

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

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions. The risk rating system, which is managed by an independent unit, provides a rating based on client and transaction level. The classification system includes ten grades, of which five grades relate to credit facilities which are neither past due nor impaired (risk rating "1", "2", "3", "4", and "5"(and credit facilities which are past due but not impaired)risk rating "6a" and "6c"), substandard individually impaired loans (risk rating "6b") and doubtful individually impaired loans (risk rating "7" and "8"). The Group uses the above internal rating system for the classifications of all of its financial assets portfolio.

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 consolidated statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative.

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

Credit-related commitments risk
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks as loans and are mitigated by the same control processes and policies.

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

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31 December 2017	Maximum exposure LL million	Collateral: Cash LL million	Collateral: Securities LL million	Collateral: Real estate LL million	Collateral: Letters of credit / guarantees LL million	Net credit exposure LL million
Balances with the Central Banks	13,137,869	-	-	-	-	13,137,869
Due from banks and financial institutions	854,226	-	-	-	-	854,226
Amounts due from affiliated banks and financial institutions	590,385	-	-	-	-	590,385
Loans to banks and financial institutions	8,397	-	-	(8,397)	-	-
Derivative financial instruments	9,197	-	-	-	-	9,197
Financial assets at fair value through profit or loss	201,687	-	-	-	-	201,687
Loans and advances to customers at amortized cost:						
Retail loans	2,890,411	(366,194)	(383)	(1,694,907)	-	828,927
Corporate loans	4,454,205	(445,335)	(8,938)	(1,631,843)	-	2,368,089
Loans and advances to related parties at amortized cost						
Retail loans	47,176	-	-	(2,523)	-	44,653
Corporate loans	63,889	(2,316)	(76)	(12,362)	-	49,135
Debtors by acceptances	445,375	(121,529)	-	(5,738)	-	318,108
Financial assets at amortized cost	8,642,264	-	-	-	-	8,642,264
Financial assets at fair value through other comprehensive income	161,514	-	-	-	-	161,514
	31,506,595	(935,374)	(9,397)	(3,355,770)	-	27,206,054
Financial guarantees	165,305	(59,753)	(2)	(21,613)	-	83,937
Documentary credits	282,292	(53,665)	-	(24,722)	-	203,905
Undrawn credit lines	1,248,497	(129,859)	(2,873)	(56,024)	-	1,059,741
	1,696,094	(243,277)	(2,875)	(102,359)	-	1,347,583
	33,202,689	(1,178,651)	(12,272)	(3,458,129)	-	28,553,637

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31 December 2016	Maximum exposure LL million	Collateral: Cash LL million	Collateral: Securities LL million	Collateral: Real estate LL million	Collateral: Letters of credit / guarantees LL million	Net credit exposure LL million
Balances with the Central Banks	8,437,684	-	-	-	-	8,437,684
Due from banks and financial institutions	798,629	-	-	-	-	798,629
Amounts due from affiliated banks and financial institutions	918,608	-	-	-	-	918,608
Loans to banks and financial institutions	8,397	-	-	(8,397)	-	-
Derivative financial instruments	2,472	-	-	-	-	2,472
Financial assets at fair value through profit or loss	180,270	-	-	-	-	180,270
Loans and advances to customers at amortized cost:						
Retail loans	2,781,322	(332,586)	(260)	(1,546,396)	(105,890)	796,190
Corporate loans	3,846,327	(340,012)	(3)	(1,355,538)	(15,901)	2,134,873
Loans and advances to related parties at amortized cost						
Retail loans	38,772	(36)	-	(106)	-	38,630
Corporate loans	61,965	(2,314)	(91)	(12,362)	-	47,198
Debtors by acceptances	211,715	(14,223)	-	(3,816)	-	193,676
Financial assets at amortized cost	10,476,347	-	-	-	-	10,476,347
Financial assets at fair value through other comprehensive income	25,208	-	-	-	-	25,208
	27,787,716	(689,171)	(354)	(2,926,615)	(121,791)	24,049,785
Financial guarantees	158,970	(37,795)	(2)	(14,827)	-	106,346
Documentary credits	257,843	(20,018)	-	(18,568)	-	219,257
Undrawn credit lines	1,120,491	(94,622)	(3,623)	(46,729)	-	975,517
	1,537,304	(152,435)	(3,625)	(80,124)	-	1,301,120
	29,325,020	(841,606)	(3,979)	(3,006,739)	(121,791)	25,350,905

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, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

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

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

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

Other
In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of insurance proceeds and revenues, which are not reflected in the above table.

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The Group's concentrations of risk are managed by client/counterparty and by geographical region. The maximum credit exposure to any client as at 31 December 2017 was LL 375,597 million (2016: LL 368,148 million) before taking account of collateral or other credit enhancements and LL 134,363 million (2016: LL 147,711 million) net of such protection.

The following table shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, by geography of counterparty 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.

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Geographic analysis

	2017			2016		
	Lebanon LL million	Outside Lebanon LL million	Total LL million	Lebanon LL million	Outside Lebanon LL million	Total LL million
Financial assets						
Cash and balances with the Central Banks	12,752,437	506,967	13,259,404	8,225,975	318,039	8,544,014
Due from banks and financial institutions	96,054	758,172	854,226	123,285	675,344	798,629
Amounts due from affiliated banks and financial institutions	11	590,374	590,385	-	918,608	918,608
Loans to banks and financial institutions	-	8,397	8,397	-	8,397	8,397
Derivative financial instruments	-	9,197	9,197	1,336	1,136	2,472
Financial assets at fair value through profit or loss						
- Shares	103,082	24,689	127,771	96,229	21,195	117,424
- Funds	-	23,720	23,720	-	20,376	20,376
- Lebanese treasury bills	12,508	-	12,508	4,782	-	4,782
- Debt securities issued by banks	37,688	-	37,688	37,688	-	37,688
Loans and advances to customers at amortized cost	5,126,100	2,218,516	7,344,616	4,696,755	1,930,894	6,627,649
Loans and advances to related parties at amortized cost	79,957	31,108	111,065	72,136	28,601	100,737
Financial assets at amortized cost						
- Lebanese treasury bills	3,852,519	-	3,852,519	5,682,599	-	5,682,599
- Other governmental debt securities	-	997,962	997,962	-	986,522	986,522
- Certificates of deposit	3,667,552	52,126	3,719,678	3,734,589	-	3,734,589
- Other debt securities	-	72,105	72,105	-	72,637	72,637
Financial assets at fair value through other comprehensive income						
- Shares	147,232	14,282	161,514	8,569	16,639	25,208
	25,875,140	5,307,615	31,182,755	22,683,943	4,998,388	27,682,331

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Credit quality per class of financial assets
The credit quality of financial assets is managed by the Group using internal credit ratings. The tables below show the credit quality by class of asset based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

2017	Neither past due nor impaired LL million	Past due but not impaired LL million	Individually impaired Substandard LL million	Individually impaired Doubtful LL million	Total LL million
Cash and balances with the Central Banks	13,259,404	-	-	-	13,259,404
Due from banks and financial institutions	854,226	-	-	711	854,937
Loans to banks and financial institutions	-	-	-	27,758	27,758
Amounts due from affiliated banks and financial institutions	590,385	-	-	-	590,385
Derivative financial instruments	9,197	-	-	-	9,197
Financial assets at fair value through profit or loss					
- Shares	127,771	-	-	-	127,771
- Funds	23,720	-	-	-	23,720
- Lebanese treasury bills	12,508	-	-	-	12,508
- Debt securities issued by banks	37,688	-	-	-	37,688
Loans and advances to customers at amortized cost					
- Corporate	4,249,366	98,293	74,197	379,063	4,800,919
- Retail	2,760,080	54,171	29,282	280,133	3,123,666
Loans and advances to related parties at amortized cost					
- Corporate	59,792	-	-	23,776	83,568
- Retail	47,176	-	-	-	47,176
Financial assets at amortized cost					
- Lebanese treasury bills	3,852,519	-	-	-	3,852,519
- Other governmental debt securities	997,962	-	-	-	997,962
- Certificates of deposit	3,719,678	-	-	-	3,719,678
- Other debt securities	72,105	-	-	1,083	73,188
Financial assets at fair value through other comprehensive income					
- Shares	161,514	-	-	15	161,529
	30,835,091	152,464	103,479	712,539	31,803,573
Moody's equivalent	Aaa – B3*	Not rated	Not rated	Not rated	Not rated

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2016	Neither past due nor impaired LL million	Past due but not impaired LL million	Individually impaired Substandard LL million	Individually impaired Doubtful LL million	Total LL million
Cash and balances with the Central Banks	8,544,014	-	-	-	8,544,014
Due from banks and financial institutions	798,087	-	-	817	798,904
Loans to banks and financial institutions	-	-	-	24,668	24,668
Amounts due from affiliated banks and financial institutions	918,608	-	-	-	918,608
Derivative financial instruments	2,472	-	-	-	2,472
Financial assets at fair value through profit or loss					
- Shares	117,424	-	-	-	117,424
- Funds	20,376	-	-	-	20,376
- Lebanese treasury bills	4,782	-	-	-	4,782
- Debt securities issued by banks	37,688	-	-	-	37,688
Loans and advances to customers at amortized cost					
- Corporate	3,749,068	36,744	61,500	407,013	4,254,325
- Retail	2,661,384	28,563	24,942	270,398	2,985,287
Loans and advances to related parties at amortized cost					
- Corporate	58,195	-	-	24,818	83,013
- Retail	38,772	-	-	-	38,772
Financial assets at amortized cost					
- Lebanese treasury bills	5,682,599	-	-	-	5,682,599
- Other governmental debt securities	986,522	-	-	-	986,522
- Certificates of deposit	3,734,589	-	-	-	3,734,589
- Other debt securities	72,637	-	-	1,384	74,021
Financial assets at fair value through other comprehensive income					
- Shares	25,208	-	-	15	25,223
	27,452,425	65,307	86,442	729,113	28,333,287
Moody's equivalent	Aaa – B3*	Not rated	Not rated	Not rated	Not rated

(*) Amounts due from affiliated banks and financial institutions, derivative financial instruments, loans and advances to customers, loans and advances to related parties are not rated by Moody's.

It is the Group's policy to maintain accurate and consistent risk rating across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risks are assessed and updated regularly.

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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
Regular	6,427,102	-	-	6,427,102
Follow up	513,069	-	-	513,069
Follow-up and regularization	328,707	-	-	328,707
Substandard	103,479	(35,905)	-	67,574
Doubtful	493,980	(195,756)	(151,467)	146,757
Bad	188,992	(120,376)	(65,159)	3,457
	8,055,329	(352,037)	(216,626)	7,486,666
Collective impairment	-	-	(30,985)	(30,985)
	8,055,329	(352,037)	(247,611)	7,455,681

	2016			
	Gross balance LL million	Unrealized interest LL million	Impairment allowances LL million	Net balance LL million
Regular	5,800,273	-	-	5,800,273
Follow up	484,561	-	-	484,561
Follow-up and regularization	287,892	-	-	287,892
Substandard	86,442	(37,564)	-	48,878
Doubtful	512,120	(221,980)	(154,808)	135,332
Bad	190,109	(121,308)	(66,176)	2,625
	7,361,397	(380,852)	(220,984)	6,759,561
Collective impairment	-	-	(31,175)	(31,175)
	7,361,397	(380,852)	(252,159)	6,728,386

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.

	2017 LL million	2016 LL million
Corporate loans	151,374	141,567
Retail loans	29,350	16,154
	180,724	157,721

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

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

Individually assessed allowances
The Group determines the allowance appropriate for each individually significant loan or advance on an individual basis, taking into account any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. 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 risen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances and debt securities at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio.

The Group generally bases its analysis on historical experience. However, when there are significant market developments, regional and / or global, the Group would include macroeconomic 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 Group may use the aforementioned factors as appropriate to adjust the impairment allowances.

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 whose effects 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). This 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 Group's overall policy.

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

51.2 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Board has set limits on the value of risk that may be accepted. This is monitored on a weekly basis by the Asset and Liability Committee.

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51.2.1 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets, liabilities and off-statement of financial position items which will mature or reprice in a particular period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

Interest rate sensitivity
The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate financial assets and financial liabilities held at 31 December, including the effect of hedging instruments.

	2017		2016	
Currency	**Increase/decrease in basis points**	**Sensitivity of profit or loss LL million**	**Increase/decrease in basis points**	**Sensitivity of profit or loss LL million**
Lebanese Lira	+ 50	8,791	+ 50	6,955
US Dollars	+ 50	10,493	+ 50	9,034
Euro	+ 50	(246)	+ 50	(241)
Lebanese Lira	- 50	(8,791)	- 50	(6,955)
US Dollars	- 50	(10,493)	- 50	(9,034)
Euro	- 50	246	- 50	241

Interest sensitivity gap
The table below analyses the Group's interest risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

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	2017 (LL million)							
	Up to 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Non interest bearing**	**Total**
ASSETS								
Cash and balances with the Central Banks	1,359,190	801,990	54,198	37,688	987,564	9,255,743	763,031	13,259,404
Due from banks and financial institutions	547,284	31,667	34,409	-	-	6,301	234,565	854,226
Amounts due from affiliated banks and financial institutions	57,919	37,920	54,418	-	-	-	440,128	590,385
Loans to banks and financial institutions	8,397	-	-	-	-	-	-	8,397
Derivative financial instruments	-	-	-	-	-	-	9,197	9,197
Financial assets at fair value through profit or loss	-	-	-	483	38,754	10,868	151,582	201,687
Loans and advances to customers at amortized cost	2,019,588	1,211,471	3,170,881	335,725	137,530	458,884	10,537	7,344,616
Loans and advances to related parties at amortized cost	61,362	1,893	47,810	-	-	-	-	111,065
Financial assets at amortized cost	52,126	3,629	146,140	1,210,859	2,735,073	4,377,940	116,497	8,642,264
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	161,514	161,514
TOTAL ASSETS	4,105,866	2,088,570	3,507,856	1,584,755	3,898,921	14,109,736	1,887,051	31,182,755
LIABILITIES								
Due to the Central Banks	128	30	2,042	3,872	247,674	1,340,837	27,624	1,622,207
Loans and repurchase agreements	-	445,768	244,441	874,892	84,081	22,172	10,030	1,681,384
Due to banks and financial institutions	252,812	43,001	108,871	-	9,267	34,965	30,301	479,217
Amounts due to affiliated banks and financial institutions	6,326	-	-	-	-	-	518	6,844
Customers' deposits at amortized cost	12,634,299	3,365,899	4,977,246	1,072,430	405,955	299,509	1,935,170	24,690,508
Related parties' deposits at amortized cost	144,643	288	3,987	-	-	1,135	15,229	165,282
Derivative financial instruments	-	-	-	-	-	-	164	164
TOTAL LIABILITIES	13,038,208	3,854,986	5,336,587	1,951,194	746,977	1,698,618	2,019,036	28,645,606
Total interest sensitivity gap	(8,932,342)	(1,766,416)	(1,828,731)	(366,439)	3,151,944	12,411,118	(131,985)	2,537,149

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	2016 (LL million)							
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Non interest bearing	Total
ASSETS								
Cash and balances with the Central Banks	993,461	815,306	47,889	-	1,252,750	4,623,881	810,727	8,544,014
Due from banks and financial institutions	326,844	164,378	24,578	-	-	6,301	276,528	798,629
Amounts due from affiliated banks and financial institutions	545,403	12,340	47,889	-	-	-	312,976	918,608
Loans to banks and financial institutions	8,397	-	-	-	-	-	-	8,397
Derivative financial instruments	-	-	-	-	-	-	2,472	2,472
Financial assets at fair value through profit or loss	-	541	-	478	1,076	40,314	137,861	180,270
Loans and advances to customers at amortized cost	862,730	2,001,541	2,972,104	297,901	103,523	376,900	12,950	6,627,649
Loans and advances to related parties at amortized cost	47,362	377	52,970	-	-	-	28	100,737
Financial assets at amortized cost	40,646	337,679	580,609	1,204,004	2,712,749	5,448,747	151,913	10,476,347
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	25,208	25,208
TOTAL ASSETS	2,824,843	3,332,162	3,726,039	1,502,383	4,070,098	10,496,143	1,730,663	27,682,331
LIABILITIES								
Due to the Central Banks	-	10,410	176,017	1,458	6,500	234,472	2,908	431,765
Loans and repurchase agreements	152,165	649,280	267,054	-	958,973	22,172	12,673	2,062,317
Due to banks and financial institutions	398,504	77,080	29,536	1,131	12,004	9,112	41,581	568,948
Amounts due to affiliated banks and financial institutions	965	-	-	-	-	-	464	1,429
Customers' deposits at amortized cost	10,984,269	3,416,185	3,774,424	801,615	187,617	322,388	2,301,836	21,788,334
Related parties' deposits at amortized cost	170,770	26	2,664	-	-	1,137	6,610	181,207
Derivative financial instruments	-	-	-	-	-	-	9,507	9,507
TOTAL LIABILITIES	11,706,673	4,152,981	4,249,695	804,204	1,165,094	589,281	2,375,579	25,043,507
Total interest sensitivity gap	(8,881,830)	(820,819)	(523,656)	698,179	2,905,004	9,906,862	(644,916)	2,638,824

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51.2.2 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. In accordance with the Group's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Sensitivity to currency exchange rates
The table below indicates the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, on the consolidated income statement (due to fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Lebanese Lira would have resulted in an equivalent but opposite impact.

	2017		2016	
Currency	Change in currency rate in %	Effect on profit before tax LL million	Change in currency rate in %	Effect on profit before tax LL million
US Dollars	+ 2.5	1,506	+ 2.5	(199)
Euro	+ 2.5	(70)	+ 2.5	9

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The following consolidated statements of financial position as at 31 December 2016 and 2015 are detailed in Lebanese Lira (LL million) and foreign currencies, primarily US$, translated into LL million:

	31 December 2017			31 December 2016		
	LL million	Foreign currencies in LL million	Total LL million	LL million	Foreign currencies in LL million	Total LL million
ASSETS						
Cash and balances with the Central Banks	6,174,830	7,084,574	13,259,404	3,898,288	4,645,726	8,544,014
Due from banks and financial institutions	38,573	815,653	854,226	36,106	762,523	798,629
Amounts due from affiliated banks and financial institutions	11	590,374	590,385	-	918,608	918,608
Loans to banks and financial institutions	-	8,397	8,397	-	8,397	8,397
Derivative financial instruments	-	9,197	9,197	-	2,472	2,472
Financial assets at fair value through profit or loss	6,094	195,593	201,687	9,987	170,283	180,270
Loans and advances to customers at amortized cost	2,162,990	5,181,626	7,344,616	1,739,795	4,887,854	6,627,649
Loans and advances to related parties at amortized cost	1,702	109,363	111,065	161	100,576	100,737
Debtors by acceptances	-	445,375	445,375	-	211,715	211,715
Financial assets at amortized cost	1,967,097	6,675,167	8,642,264	3,572,736	6,903,611	10,476,347
Financial assets at fair value through other comprehensive income	521	160,993	161,514	521	24,687	25,208
Property and equipment	233,319	252,011	485,330	198,342	235,443	433,785
Intangible assets	45,031	2,988	48,019	46,139	3,178	49,317
Investment properties	-	1,478	1,478	-	1,483	1,483
Non-current assets held for sale	5,958	180,546	186,504	5,315	170,604	175,919
Other assets	75,988	58,096	134,084	58,149	51,651	109,800
Goodwill	(33,427)	36,832	3,405	(147,056)	150,461	3,405
TOTAL ASSETS	10,678,687	21,808,263	32,486,950	9,418,483	19,249,272	28,667,755
LIABILITIES						
Due to the Central Banks	1,576,640	45,567	1,622,207	405,995	25,770	431,765
Loans and repurchase agreements	-	1,681,384	1,681,384	-	2,062,317	2,062,317
Due to banks and financial institutions	1,465	477,752	479,217	188	568,760	568,948
Amounts due to affiliated banks and financial institutions	19	6,825	6,844	9	1,420	1,429
Derivative financial instruments	-	164	164	-	9,507	9,507
Customers' deposits at amortized cost	7,119,998	17,570,510	24,690,508	6,774,394	15,013,940	21,788,334
Related parties' deposits at amortized cost	5,720	159,562	165,282	90,286	90,921	181,207
Engagements by acceptances	-	445,375	445,375	-	211,715	211,715
Other liabilities	267,096	100,280	367,376	484,053	105,711	589,764
Provision for risks and charges	122,314	126,606	248,920	220,882	42,128	263,010
TOTAL LIABILITIES	9,093,252	20,614,025	29,707,277	7,975,807	18,132,189	26,107,996
NET EXPOSURE	1,585,435	1,194,238	2,779,673	1,442,676	1,117,083	2,559,759

51.2.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 10 percent increase in the value of the Group's equities at 31 December 2017 would have increased net income by LL 12,777 million and other comprehensive income by LL 16,151 million (2016: LL 11,742 million and LL 2,520 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

51.2.4 PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. Market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore the Group considers the effect of prepayment risk on net profit as not material after taking into account the effect of any prepayment penalties.

51.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Group 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 Group might be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. 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 daily basis. The Group 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 would be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Banks on customer deposits. In accordance with the Group's policy, 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 Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

Regulatory ratios and limits
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%. The net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposit and acceptances and other debt instruments issued by the Group and loans from the public sector that mature within one year.

Besides the regulatory requirements, the liquidity position is also monitored through internal limits, such as the loans-to-deposits ratio.

The attached notes 1 to 54 form part of these consolidated financial statements.

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Loans to deposits

	2017	2016
Year-end	29.63%	30.53%
Maximum	30.79%	34.21%
Minimum	29.55%	30.53%
Average	30.02%	32.74%

The table below summarizes the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 December. Trading derivatives are shown at fair value in a separate column. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

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

31 December 2017:	Trading derivative LL million	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial assets							
Cash and balances with the Central Banks	-	1,250,044	170,427	45,216	2,956,215	25,947,642	30,369,544
Due from banks and financial institutions	-	781,882	20,167	26,844	21,347	7,312	857,552
Loans to banks and financial institutions	-	-	-	-	-	8,397	8,397
Amount due from affiliated banks and financial institutions	-	523,835	12,628	55,185	-	-	591,648
Derivative financial instruments	9,197	-	-	-	-	-	9,197
Financial assets at fair value through profit or loss	-	23,722	670	2,048	52,973	140,486	219,899
Loans and advances to customers at amortized cost	-	2,275,582	163,474	1,926,311	2,290,521	1,486,553	8,142,441
Loans and advances to related parties at amortized cost	-	62,231	222	32,504	6,832	16,419	118,208
Financial assets at amortized cost	-	73,640	99,454	500,110	5,366,963	5,755,789	11,795,956
Financial assets at fair value through other comprehensive income	-	-	-	-	-	161,514	161,514
Total undiscounted financial assets	9,197	4,990,936	467,042	2,588,218	10,694,851	33,524,112	52,274,356
Financial liabilities							
Due to the Central Banks	-	9,532	10,033	40,194	445,190	1,357,678	1,862,627
Loans and repurchase agreements	-	16,969	226,940	273,069	624,261	928,353	2,069,592
Due to banks and financial institutions	-	278,998	47,295	109,825	10,234	45,443	491,795
Amounts due to affiliated banks and financial institutions	-	6,849	-	-	-	-	6,849
Derivative financial instruments	164	-	-	-	-	-	164
Customers' deposits at amortized cost	-	13,084,090	4,385,047	6,425,354	1,758,174	67	25,652,732
Related parties' deposits at amortized cost	-	171,436	288	4,108	-	-	175,832
Total undiscounted financial liabilities	164	13,567,874	4,669,603	6,852,550	2,837,859	2,331,541	30,259,591
Total net financial assets (liabilities)	9,033	(8,576,938)	(4,202,561)	(4,264,332)	7,856,992	31,192,571	22,014,765

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31 December 2016:	Trading derivative LL million	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial assets							
Cash and balances with the Central Banks	-	1,105,630	14,315	116,867	3,018,569	11,761,828	16,017,209
Due from banks and financial institutions	-	727,328	26,561	14,878	13,526	21,032	803,325
Loans to banks and financial institutions	-	-	-	-	-	8,397	8,397
Amount due from affiliated banks and financial institutions	-	858,396	12,341	47,889	-	-	918,626
Derivative financial instruments	2,472	-	-	-	-	-	2,472
Financial assets at fair value through profit or loss	-	20,379	1,216	2,081	12,335	160,699	196,710
Loans and advances to customers at amortized cost	-	2,177,736	96,516	1,704,057	1,945,957	1,447,685	7,371,951
Loans and advances to related parties at amortized cost	-	60,213	127	29,525	4,387	11,742	105,994
Financial assets at amortized cost	-	60,493	431,556	1,072,760	5,653,654	7,394,896	14,613,359
Financial assets at fair value through other comprehensive income	-	-	-	-	-	25,208	25,208
Total undiscounted financial assets	2,472	5,010,175	582,632	2,988,057	10,648,428	20,831,487	40,063,251
Financial liabilities							
Financial liabilities							
Due to the Central Banks	-	5,051	15,711	190,890	79,475	162,431	453,558
Loans and repurchase agreements	-	20,514	67,649	1,039,874	1,086,665	22,893	2,237,595
Due to banks and financial institutions	-	440,165	77,294	29,601	14,830	11,582	573,472
Amounts due to affiliated banks and financial institutions	-	1,429	-	-	-	-	1,429
Derivative financial instruments	9,507	-	-	-	-	-	9,507
Customers' deposits at amortized cost	-	12,092,769	4,494,108	4,822,138	1,170,850	67	22,579,932
Related parties' deposits at amortized cost	-	188,653	26	2,777	-	-	191,456
Total undiscounted financial liabilities	9,507	12,748,581	4,654,788	6,085,280	2,351,820	196,973	26,046,949
Total net financial assets (liabilities)	(7,035)	(7,738,406)	(4,072,156)	(3,097,223)	8,296,608	20,634,514	14,016,302

CONSOLIDATED FINANCIAL STATEMENTS

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

	2017					
	On demand LL million	Less than 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 guarantees	22,809	17,566	67,348	8,479	49,103	165,305
Documentary credit	65,337	131,898	73,902	11,155	-	282,292
Total	88,146	149,464	141,250	19,634	49,103	447,597

	2016					
	On demand LL million	Less than 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 guarantees	27,199	30,410	52,729	5,076	43,556	158,970
Documentary credit	58,889	82,220	103,964	12,770	-	257,843
Total	86,088	112,630	156,693	17,846	43,556	416,813

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

51.4 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 Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

52 CAPITAL

By maintaining an actively managed capital base, the Group's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to meet national and international regulatory capital requirements at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon according to the provisions of Basic Circular No 44. These ratios measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets and off-balance sheet commitments at a weighted amount to reflect their relative risk.

To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the following ratios of total regulatory capital to risk-weighted assets for the year ended 31 December 2017 and thereafter:

	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2017	9.00 %	12.00%	14.50 %

Risk weighted assets

As of 31 December 2016 and 2015, risk weighted assets are as follows:

	2017 LL million	2016 LL million
Risk weighted assets	15,697,204	14,041,529

Regulatory capital

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

	Excluding profit for the year		*Including profit for the year less proposed dividends*	
	2017 LL million	2016 LL million	2017 LL million	2016 LL million
Common Tier 1 capital	1,712,340	1,550,591	2,003,237	1,796,819
Additional Tier 1 capital	577,777	574,769	577,777	574,769
Tier 2 capital	191,776	225,496	191,776	225,496
Total capital	2,481,893	2,350,856	2,772,790	2,597,084

Capital adequacy ratio

As of 31 December 2017 and 2016, capital adequacy ratio is as follows:

	Excluding profit for the year		*Including profit for the year less proposed dividends*	
	2017	2016	2017	2016
Common Tier 1 capital	10.91%	11.04%	12.76%	12.80%
Total Tier 1 capital ratio	14.59%	15.14%	16.44%	16.89%
Total capital ratio	15.81%	16.74%	17.66%	18.50%

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years; however, they are under constant scrutiny of the Board.

53 COMPARATIVE INFORMATION

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current period. An amount of LL 951 million have been reclassified from "Other operating expenses" to "Provision for impairment on non-currrent assets held for sale" in consolidated income statement. This change did not affect the previously reported results and have been made to improve the quality of information presented.