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Chairman's Letter

The regional political instability, Syrian war and economic downturns have extended to the year 2017 and Lebanon was highly affected by these factors which raised many concerns on various economic levels. The Lebanese banking sector, being a major contributor to the Lebanese economy had its own share of adverse consequences and political shocks. Following the Prime Minister's resignation in November, the banking sector witnessed huge conversions of LBP deposits into foreign currencies, deposit outflows, and increased deposit dollarization ratio. By the end of November, currency conversions and outflows have decreased, as the Lebanese have been targeting higher LBP interest rates. Despite this turmoil, the banking sector had a growth of 7.6% in assets, a growth of 5.5% in loans and a slight 3.8% increase in deposits, compared to 7.2% in 2016. The strength of the banking system is attributed to the oversight and proactive measures and controls undertaken by the Central Bank of Lebanon, the prudent management of banks and their experience in operating under shocks and in an unstable environment, and the confidence of the Lebanese in the banking sector.

BBAC has a solid and diverse customer base, whose relationship with the Bank is based on mutual trust, transparency and a sense of belonging. Our customers have contributed to the 4.87% growth in our deposits from LBP 8,602 billion in 2016 to LBP 9,021 billion in 2017. Consequently, loans increased from LBP 2,531 billion in 2016 to LBP 2,646 billion in 2017 with a growth rate of 4.51% compared to 2.37% in 2016.

The Bank is keen on maintaining high liquidity levels to meet its obligations. In 2017, net liquidity decreased slightly to 79.77% (from the 2016 ratio of 79.86%) as a result of the huge growth in deposits from banks and the liquidity crisis of November. Consolidated assets reached LBP 10,445 billion at the end of 2017 growing by 6.94% from the 2016 figure of LBP 9,767 billion.

2017 was not a remarkable year for BBAC in terms of profitability. Our profits declined by 4.46% from LBP 77,532 million in 2016 to LBP 74,075 million in 2017. This decline was the outcome of the income taxes increase from 15% to 17%, as well as other taxes on interest income that affected our profitability adversely. In addition, the liquidity crisis which took place in November caused interest rates on inter-bank borrowing to increase, which also had a direct effect on banks' profitability in general. Accordingly, Return on Average Assets (ROAA) and Return on Average Equity (ROAE) decreased to 0.73% and 8.39% respectively.

A notable event that marked 2017 was the launching of BBAC's new brand identity, reflecting the close relationship of the Bank with customers and stakeholders in general. It was accompanied by marketing campaigns and a wide media presence; consequently, BBAC was awarded for best logo and brand identity by the World Union of Arab Banks (WUAB). BBAC incorporates care in its slogan "Your Caring Bank" as well as in practice – A major factor in customer retention and satisfaction. We consider our customers' needs, expectations, worries, and comfort our priority,

and we work hard to render the best customer service and experience. BBAC unveiled its new AED platinum card for frequent travelers to the United Arab Emirates, eliminating their hassles in currency exchange and conversion charges.

Being a part of an evolving and competitive business, BBAC is totally committed to keeping pace with the latest technologies and banking solutions that further enhance the Bank's position and operations, and that meet customers' aspirations. In addition, changes and innovations in the financial system demand strong and effective corporate governance systems based on transparency, fair dealing and integrity, in order to preserve stakeholders' rights and minimize agency costs.

BBAC always seeks to expand and reach more customers to increase its market share and presence locally and regionally. Further to its representative office in Abu Dhabi, the Bank launched a new representative office in Lagos (Nigeria); thus approaching expats and businesses in Africa. Additionally, by the end of 2017, BBAC opened a new branch in Bechara El Khoury – Beirut, as part of its expansion strategy to have a solid presence in the vital areas of Lebanon, especially the capital, Beirut.

Lebanon is a country that fosters innovation and change. We are certain that the future carries challenges, but we have faith that we can overcome them, and achieve prosperity and growth. We will continue to safeguard our shareholders' values, meet our customers' expectations, and provide them with the best service and offer the best working experience to our employees, because our success and continuity depend on comprehensive coordination. To all our stakeholders, we extend our gratitude for making our objectives attainable.

Sincerely,

Ghassan T. Assaf
Chairman and General Manager

01

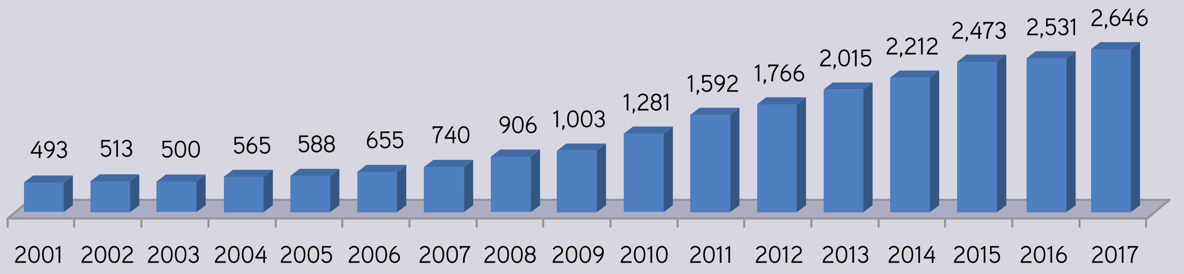
MANAGEMENT

Financial Highlights

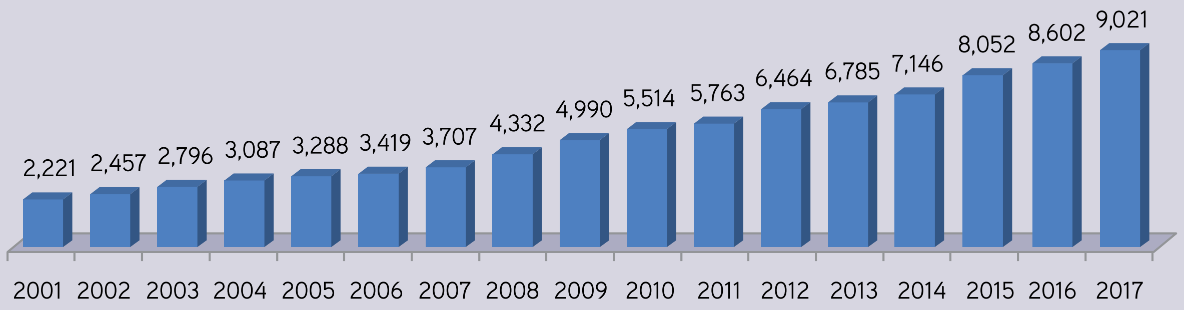
Evolution of Key Indicators (LBP billion)

Assets

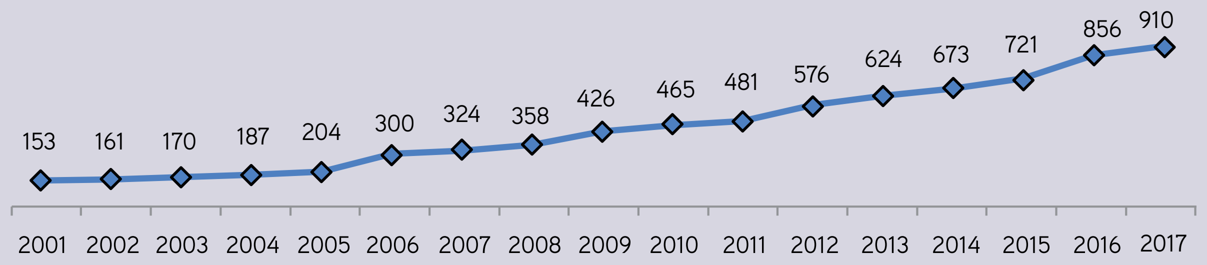
Loans to Customers and Related Parties



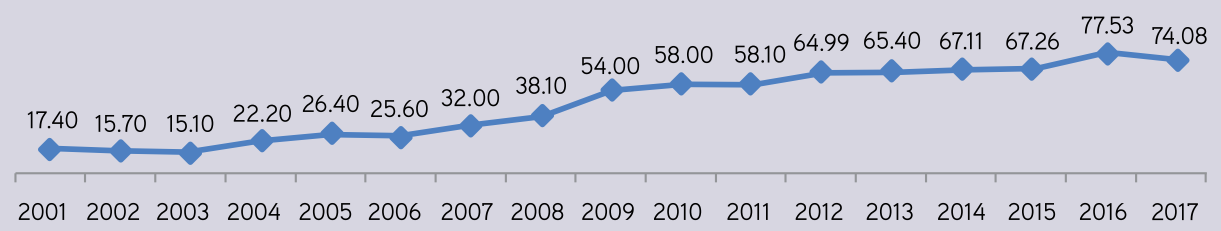
Deposits from Customers and Related Parties



Shareholders' Equity



Net Profit



Selected Financial Data

			Growth
	2017 (LBP million)	2016 (LBP million)	2017/2016
Total Assets	10,444,808	9,767,339	6.94 %
Total Loans	2,645,669	2,531,380	4.51 %
Total Deposits[1]	9,021,309	8,602,048	4.87 %
Net Liquid Assets[2]	7,196,091	6,869,290	4.76 %
Shareholders' Equity	910,211	855,684	6.37 %
Net Profit	74,075	77,532	-4.46 %

1- Exclude financial liabilities held at fair value through profit or loss (FVTPL)
2- "Liquid Assets" less "Deposits from Banks and Financial Institutions"

Loan Quality: Loans and Advances by BDL Classification			Growth
	2017 (LBP million)	2016 (LBP million)	2017/2016
Net Regular Loans (1)	**2,605,038**	**2,536,915**	**2.69%**
Add Collective Impairment on Loans and Advances	95,915	101,503	-5.51%
Gross Regular Loans (2)	**2,700,953**	**2,638,418**	**2.37%**
Net Substandard Loans (3)	**54,511**	**26,193**	**108.11%**
Add Unrealized Interest	7,659	3,029	152.86%
Gross Substandard Loans (4)	**62,170**	**29,222**	**112.75%**
Net Doubtful and Bad Loans (5)	**(13,880)**	**(31,728)**	**-56.25%**
Add Unrealized Interest	18,920	43,801	-56.80%
Add Provisions	119,561	130,084	-8.09%
Gross Doubtful and Bad Loans (6)	**124,601**	**142,157**	**-12.35%**
Net Non-Performing Loans (3+5)	**40,631**	**(5,535)**	**-834.07%**
Net Loans	**2,645,669**	**2,531,380**	**4.51%**
Gross Loans	**2,887,724**	**2,809,797**	**2.77%**
Net Non-Performing to Gross Loans (3+5)/(2+4+6)	**1.41%**	**-0.20%**	**1.60 %**

Asset Quality

Gross regular loans increased by 2.37% in 2017 compared to 6.49% in 2016. Net regular loans for 2017 grew by only 2.69%. Net substandard loans increased by 108.11% in 2017, and net doubtful and bad loans decreased by -56.25%, compared to 620.58% and -233.84% in 2016 respectively. As a result, net non-performing to gross loans ratio increased from -0.2% in 2016 to 1.41% in 2017. Moreover, the ratio of non-performing loans to gross loans also increased from 6.10% in 2016 to 6.47% in 2017.

Gross loans recorded a growth of 2.77% in 2017 compared to 8.24% in 2016. This small growth is mainly due to the growth of regular loans at a slower pace than previous years, as all banks in the sector found the harsh of economic environment restrict their lending opportunities.

Key Ratios

Liquidity Ratios (%)	2017	2016
Net LBP Liquidity	90.44%	93.16%
Net FC (Foreign Currency) Liquidity	73.43%	71.08%
Net Liquidity (Total)	79.77%	79.86%
Loans / Deposits (LBP)	20.22%	17.65%
Loans / Deposits (FC)	34.73%	37.20%
Loans / Deposits (Total)	29.33%	29.43%
Liquid Assets / Total Assets	72.23%	71.44%
Asset Quality Ratios[1] (%)	**2017**	**2016**
Gross doubtful & bad loans / Gross loans	4.31%	5.06%
Gross Non-Performing loans / Gross loans	6.47%	6.10%
Provisions for doubtful & bad loans / Gross doubtful & bad loans	111.14%	122.32%
Provisions for Loans / Gross Loans	8.38%	9.91%
Net doubtful & bad / Total assets	-0.13%	-0.32%
Net Non-Performing loans/ Total assets	0.39%	-0.06%
Capital Adequacy Ratios (%)	**2017**	**2016**
Capital adequacy ratio according to Basel II	14.75%	15.01%
Profitability	**2017**	**2016**
Average assets	10,106,074	9,474,040
Average equity	882,948	788,492
Return on average assets ROAA after tax (%)	0.73%	0.82%
Return on average equity ROAE after tax (%)	8.39%	9.83%
Number of common shares outstanding (million)	144	144
Number of preferred shares "B" outstanding (million)	8	8
Number of preferred shares "C" outstanding (million)	5	5
Earnings per common share (EPS) in LBP[2]	514	538
Earnings per common share (EPS) in LBP[3]	419	473
Dividends per common share (DPS) in LBP[4]	70	70
Dividends per preferred share "B" in LBP	1,055	1,055
Dividends per preferred share "C" in LBP	1,055	1,055
Dividends payout ratio	32.13%	25.21%
Retention ratio	67.87%	74.79%
Book value per common share in LBP[5]	4,960	4,581

Management Efficiency Ratios (%)	2017	2016
Interest paid / Interest received	70.29%	70.13%
Net commissions / Income[6]	18.83%	14.33%
Cost / Income[6]	58.01%	51.32%
Cost per average branch (in LBP million)	2,926	3,085

1 Non-accrual interest is included in non-performing loans; unrealized interest is included in provisions
2 Before allocation of any dividends
3 After the allocation of dividends on Preferred Shares
4 An interest payment of LBP 1.4 million was made on Cash Contributions for the year 2017
5 Before distribution of dividends
6 Income before "Operating Expenses" and "Taxes"

Sources of Funds

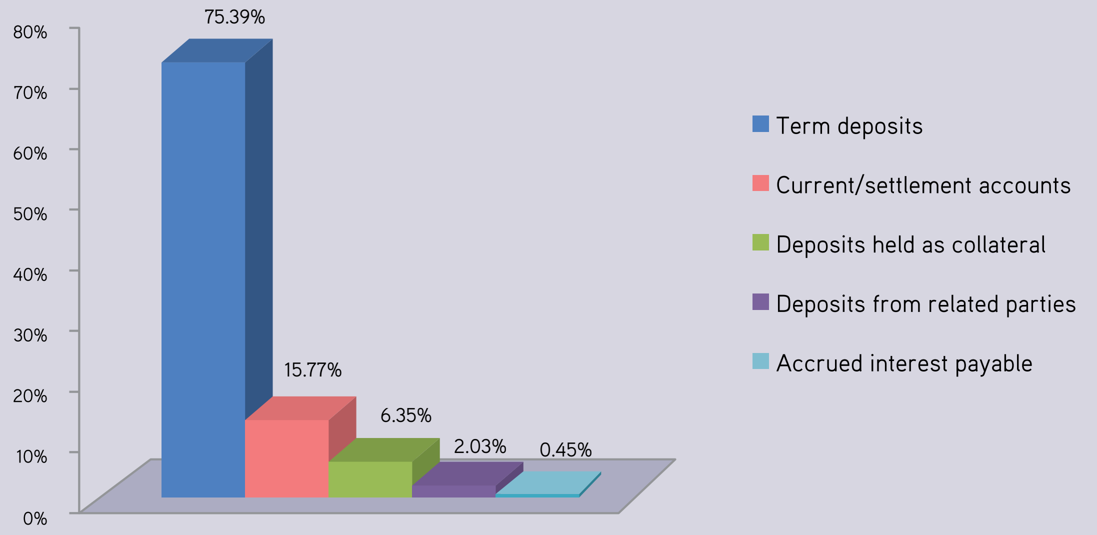
Since deposits constitute the largest and most significant source of funds for banks, BBAC has always worked on receiving deposits to support its growth and development. For 2017, deposits showed a growth of 4.87%, compared to 6.83% in 2016. Among various types, term deposits, which grew by 5.96% in 2017, constitute 75.39% of total deposits, compared to 74.61% in 2016.

Approximately 95% of customer deposits are denominated in LBP and USD. USD deposits constitute 58% of total deposits followed by 37.26% for LBP. In terms of growth, USD deposits grew by 10.20%, while LBP deposits decreased by 1.70% in 2017. As to maturity, 95.5% of the Bank's deposits are current maturing within a 12-month period compared to 95.9% in 2016.

In 2017, BBAC's shareholders' equity increased by 6.37% from LBP 855,684 million in 2016 to LBP 910,211 million in 2017 and this growth is tied to the increase of 37% of other reserves. A part of this increment comes from a portion previously accounted for under deferred liabilities but now it is included in the Bank's common equity following the Central Bank of Lebanon's approval. Another part goes for other banking risks. Following the Central Bank of Lebanon Basic Circular No. 50, Decision No. 7129 dated 9/10/1998, other banking risks should represent 2% of the Risk Weighted Assets of the Bank by the end of year 20 (year 2018).

Breakdown of Customer Deposits by Type and Currency Mix

Customer Deposits by Type and Currency Mix			Structure		% Change
	2017 (LBP million)	2016 (LBP million)	2017	2016	2017/2016
Term Deposits	6,801,204	6,418,408	75.39%	74.61%	5.96%
Current/Settlement Accounts	1,423,087	1,376,863	15.77%	16.01%	3.36%
Deposits Held as Collateral	573,283	583,934	6.35%	6.79%	-1.82%
Deposits from Related Parties	183,074	190,006	2.03%	2.21%	-3.65%
Accrued Interest Payable	40,661	32,837	0.45%	0.38%	23.83%
Total	**9,021,309**	**8,602,048**	**100%**	**100%**	**4.87%**
Of which Current	8,614,603	8,247,390	-	-	-
Of which Non-Current	406,706	354,658	-	-	-
Denominated as Follows					
LBP	37.26%	39.75%	-	-	-
Foreign Currencies	62.74%	60.25%	-	-	-



Deposits by Type

Liquidity

Liquidity is a very crucial element for a bank's success and continuity. The bank should be able to maintain high liquidity levels, because shortfalls in liquidity will ultimately give rise to liquidity risks that can lead to losses and penalties, due to the inability to fulfill its obligations and to fund increases in assets.

In November 2017, customer deposits denominated in LBP witnessed conversions to USD due to the unexpected resignation of Lebanese PM Saad Hariri. Consequently, banks needed to borrow to enhance their liquidity and to meet customers' demand for conversions to USD, during a 3-week period. As a result, BBAC customer deposits in LBP decreased like all banks in the sector, while deposits in foreign currency increased. However, BBAC was able to maintain

a good liquidity ratio with slight decrease from 79.86% in 2016 to 79.77% in 2017 - its LBP liquidity decreased from 93.16% in 2016 to 90.44% in 2017, but its foreign currency liquidity increased from 71.08% in 2016 to 73.43% in 2017.

Total liquid assets in 2017 increased by 8.12%, compared to 7.76% in 2016 but with a different composition, where the share of financial assets at fair value through profit or loss and amortized cost decreased from 57.43% in 2016 to 52.77% in 2017. On the other hand, cash and balances with central banks increased from 29.32% in 2016 to 33.29% of total liquid assets. This change is the result of banks' participation in the exchange transactions of Central Bank of Lebanon in August 2017, which allowed banks to benefit from 2% Lebanese facilities against placing long term foreign currency deposits with the Central Bank of Lebanon, with minimum maturity of 5 years, and an opportunity to purchase LBP treasury bills. Considering the limited auction done by the Ministry of Finance, banks are allowed to consider the non-invested part as placements with the Central Bank of Lebanon, awaiting the availability of LBP treasury bills for purchase.

The Bank primary liquidity position in foreign currency remained solid at 57% of total liquid assets against 43% in LBP, and the ratio of liquid assets to total assets increased from 71.44% in 2016 to 72.23% in 2017.

Loans to deposits ratio dropped slightly from 29.43% in 2016 to 29.33% in 2017 due to the increase of total deposits by 4.87% at a higher pace than the increase in loans by 4.51%, while total liquid assets to deposits ratio increased from 81.12% in 2016 to 83.63% in 2017, proving the Bank's strong ability to maintain solid liquidity level.

Profitability Ratios

During 2017, corporate income tax rates increased from 15% to 17%, and the computation of tax for the said year was split into 2 periods. Moreover, the new tax provisions introduced in the Budget Law increased the tax rate on interest income from 5% to 7%. In addition, the deduction of tax on interest from the annual corporate tax charge is no longer allowed. Consequently, BBAC paid more income tax in 2017 than previous years. This was primarily the result of its 4.5% net profit decline from LBP 77,532 million in 2016 to LBP 74,075 million in 2017.

Despite the growth in net interest, and net fee and commission income, the net trading income during year 2017 recorded a decline in net gain on investment securities. This was the effect of the exceptional gain arising from the "special swap deals" done with the Central Bank of Lebanon during 2016.

Return on Average Assets (ROAA) decreased from 0.82% in 2016 to 0.73% in 2017, while Return on Average Equity (ROAE) decreased from 9.83% in 2016 to 8.39% in 2017. The decrease in both ratios is attributed to the 4.5% decline in net profit against the growth in average assets and equity by 6.7% and 12.0% respectively.

Dividend payout ratio increased from 25.21% in 2016 to 32.13% in 2017, resulting from the fact that dividends for preferred shares C issued in 2016 were paid for the full year 2017, while only for the fourth quarter in 2016. Consequently, retention ratio decreased to reach 67.87% in 2017, in comparison to the 2016 figure of 74.79%.

Board of Directors

Chairman-General Manager
Sheikh Ghassan T. Assaf

Vice Chairman
Judge Abbas El Halabi

Mr. Walid T. Assaf	Member
Mr. Ali Assaf	Member
Mr. Marc Maamary	Member
Mr. Ali Ghandour	Member
Assaf Holding Company S.A.L.	Member
Mr. Farouk Mahfouz	Member
Mr. Michel Tueni	Member
Me. Amine Rizk	Secretary of the Board

Major Shareholders and General Management

Major Shareholders

Assaf Family	54.453%
Fransabank s.a.l.	37.068%
Other Shareholders	8.479%

Legal Affairs Office

Judge Abbas El Halabi

Solicitors

Me. Chafic Khalaf
Me. Amine Rizk
Me. Ramzi Haikal
Me. Paul Morcos
Me. Mazen Tajeddine
Bât. Bassam Daye
Me. Assaad Najm
Me. Adnan Jisr
S.E. Samir Jisr

Auditors

PricewaterhouseCoopers – KPMG

Executive Advisors to the Chairman

Mr. Georges Mirza	Credit Affairs
Dr. Amalia Azoury	Economic Affairs

General Management

Mr. Nadim Hamadeh	Assistant General Manager - Banking
Mr. Chawki Bader	Assistant General Manager - External Expansion
Mr. Marwan Abou Assi	Assistant General Manger - Finance and Administration
Mrs. Lina Makarem	Assistant General Manager - Treasury
Mr. Anwar Abou Ghaida	Accounting and Financial Control Division
Mr. Raja Makarem	Project Finance and SME Division
Mr. Camille Moujaes	Branch Network Division
Mrs. Wafaa Abed	Group Internal Audit
Mr. Bachir Yakzan	Risk Management Department – CRO
Ms. Najwa Kaedbey	Human Resources Department
Mr. Ali Al Danaf	Recovery and Restructuring Department
Mr. Wissam Maroun	Compliance Department
Mr. Salim Karam	Insurance Unit
Mr. Francois Balaa	Information Technology Department
Mrs. Sabah Khatounian	Administration Department
Mr. Tarek Bilal	Marketing Department
Ms. Nahed Zeid	Cards and Electronic Banking Operations Department
Mr. Ibrahim Itani	Private Banking Unit
Mrs. Hilda Ashkar	Operations Department
Mr. Georges Moarbes	SME Credit Department
Mr. Elias Moukayed	Branch Management and Support Department
Mr. Marwan Abou Ibrahim	Corporate Credit Department
Mr. Maher Rahhal	Subsidized and Kafalat Loans Department
Mr. Salah Saab	Market Intelligence Department
Mrs. Joyce Abdelnour	Consumer Credit Department
Mr. Fadi Barakeh	Organization and Methods Department
Ms. Nawal Aziz	Project Finance Department
Mr. Wissam Al Aridi	Project Management Unit
Mrs. Hiam Halabi	Management Information System Unit
Mr. Labib Abou Dehn	Customers' Rights Protection Unit
Mr. Bachar El Masri	Iraq Accounting Unit
Miss. Mariam Harajli	External Branches Unit
Mr. Akram Achkar	Real Estate Liquidation Unit

Corporate Governance

BBAC believes in the importance of sound Corporate Governance that guides the Bank forward while promoting the highest standards of conduct. Corporate governance is a set of laws, regulations, and policies that define the functions of the Board of Directors (BOD) and the top management of the Bank. These policies also govern the relationship between the BOD, senior management, shareholders, and other related parties.

BBAC recognizes that the key to its long-term success is to sustain public trust in the Bank, which is accomplished through serving the Bank's clients and communities in the best way with the right values. Holding the highest standards of corporate governance and ethical conduct requires a set of strong corporate governance practices that allocate rights and responsibilities among the Bank's stockholders, BOD, and management in a manner that enhances shareholder value.

The Bank's management's processes, structures, and policies help ensure compliance with laws and regulations and provide clear lines of responsibility, decision-making and accountability. Accordingly, corporate governance practices are designed not just to satisfy regulatory requirements, but also to provide effective oversight and management of the Bank as a trustee for all stakeholders.

BBAC builds and protects its culture by aggressively promoting its core values and Code of Conduct to employees. Moreover, the Bank's current organizational structure aims to divide the different functions and responsibilities between the BOD, Executive Management, Operating Management, Board Committees, and Management Committees, which are involved in decision making; by setting clear grounds for control, separation of authorities, job specialization, responsibility and accountability. These functions ensure that the values of the clients and shareholders are preserved and that the resources are utilized in the most effective and appropriate manner.

Excerpts from BBAC's Ordinary General Assembly of Shareholders

Held on May 24, 2018

Resolution No. ١

The Ordinary General Assembly of BBAC Shareholders approved the activities, accounts, balance sheet and the profit and loss statements for the year ending December 31, 2017.

Resolution No. ٢

The Ordinary General Assembly of BBAC Shareholders resolved the appropriation of the profits for the year 2017 as follows:

(LBP thousand)	2017
Profits for the Year 2017	74,074,930
Less: Appropriation of Reserves for "General Banking Risks"	9,000,000
Appropriation of Reserves for "Legal Reserves"	7,512,287
Appropriation of Reserves for "Property in Settlement of Debt"	2,414,989
Appropriation of Reserves for "Retail Portfolio"	1,655,695
Unrealized Gain on Financial Instruments Held at Fair Value through Profit or Loss	2,524,370
Profits after Allocations	50,957,588
Add: Retained Earnings - December 2017	228,074,410
Total Retained Earnings - December 2017	279,031,998
Less: Dividends on Preferred Shares B	8,442,000
Less: Dividends on Preferred Shares C	5,276,250
Dividends on Common Shares	10,080,000
Interest on Cash Contribution	1,404
Retained Earnings Carried Forward	255,232,343

02

MANAGEMENT DISCUSSION AND ANALYSIS

Basis of Presentation

The discussion and analysis that follows have been prepared by the management and are based on the audited financial statements of the Bank as at December 31, 2017.

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis highlights the performance of BBAC in 2017.

Any reference to "BBAC" or the "Bank" stands for BBAC s.a.l. and its international branches and any reference to "BDL" signifies the Central Bank of Lebanon. Any reference to "Central Banks" implies BDL as well as the Central Banks, in countries where BBAC's branches operate.

Unless otherwise indicated, all figures are expressed in Lebanese Pounds, whereas all US Dollar amounts have been translated at the closing exchange rate which is published by BDL at the relevant dates, which remained at LBP 1507.50/USD.

Corporate Profile

BBAC s.a.l was established as a commercial bank in 1956 under the name of "Bank of Beirut and the Arab Countries" by a group of prominent investors headed by Sheikh Toufic Assaf, Mr. Nashaat Sheiklard, and Mr. Jamal Shehaiber. Currently, 54.453% of the Bank's shares are owned by the Assaf family, 37.068% are owned by Fransabank s.a.l., and the remaining 8.479% are held by other shareholders.

BBAC offers a broad range of commercial and personal financial services including Retail Banking, Corporate and Commercial Banking, Trade Finance, Private Banking, Treasury and Capital Markets, and Insurance Products.

BBAC currently has 40 branches spread over the Lebanese territories and it always aims to launch new branches to strengthen its presence locally, regionally and internationally. In addition to its existing three international branches - one in Limassol, Cyprus, and two in Iraq (Erbil and Baghdad) - the Bank opened a branch in Sulaymaniyah, Iraq. The opening of the Sulaymaniyah branch comes in line with BBAC's expansion strategy in Iraq, where the Bank has been crowned with success, encouraging it to invest and expand in order to earn a bigger share of the local market. The Bank is also aiming at opening a new branch in Kousba, North Lebanon, thus fulfilling its strategy of expansion and growth.

Mission Statement

Integrity

BBAC believes that a sound banking relationship is built on integrity and trust. Trust is achieved by conducting clients' personal and business transactions efficiently and with strict confidentiality.

Service

BBAC constantly strives to recognize and satisfy evolving customers' needs by developing services, products and solutions tailored to meet their requirements.

Growth

BBAC is committed to being a leading participant in the economic development of the community where it is present. The extent of the Bank's success in attaining this objective is reflected positively in the measure of its growth.

Business Overview

BBAC offers clients a wide range of financial products and services that varies from the traditional banking activities to the most recent financially engineered products. These are provided through:

Corporate and Commercial Banking

Fulfilling its role in stimulating the growth of the Lebanese economy, BBAC continuously seeks to provide existing and potential participants in the economy with optimum solutions for their business needs. By supporting and funding clients' business plans, whether they are business-oriented individuals or organizations, BBAC is able to capitalize on development opportunities.

BBAC continued to expand its credit portfolio benefiting from its high liquidity and its excess in deposits. In this regard, 2017 witnessed an increase in Commercial and Corporate portfolio, mainly due to the extension of new loans to corporate clients as well as to Small and Medium Enterprises (SMEs), whilst preserving the conservative credit practices of the Bank.

Despite the continuing economic challenges and political conditions prevailing in several key markets that triggered a slowdown in new lending in some markets and a decrease of exposure in other markets, BBAC managed to sustain a solid growth of lending, which was the outcome of a strategy followed by the corporate and commercial banking department to maintain a strong relationship with customers during those challenging times and provide them with suitable solutions across the Bank's network.

In fulfilling the diverse needs of its clients, BBAC offers short and long-term loans as well as a variety of fixed and variable repayment loans. In addition, the range of facilities at BBAC extends from simple lines of credit and term loans to the more advanced forms of financing. These products are granted to entities in numerous industries, such as real estate development, construction, manufacturing, trading, among many others.

Moreover, as a way to support SMEs, BBAC presents various types of specialized loans, such as Kafalat Loans and Subsidized Loans for non-costly financing. These loans benefit from interest rate subsidies and expand to industries, such as tourism and agriculture, which are considered key players in increasing Lebanon's GDP and providing job opportunities to the population.

BBAC extended new loans covering a variety of sectors including fertilizer production, retail and commercial development, construction and contracting, real estate, and is currently processing to mandate and participate in several syndicated loans to finance oil drill and gas projects.

High expertise, integrity and quality of service represent the basis of the Corporate and Commercial Banking department's philosophy, whilst strictly adhering to the regulatory environment and internal policies governing project finance activities.

Retail Banking

BBAC offers a wide variety of innovative products and services, including retail loans, credit cards, mortgages and savings and term deposit accounts to cater to the various financial needs of customers and help them reach their goals and aspirations.

BBAC is committed to building long-term relationships with its customers, and aims at making daily banking and financial decisions easier, as well as creating the best experience for its customers across all touch points.

In 2017, BBAC installed ATMs in strategic locations, such as ABC Verdun, The Spot Choueifat and Beiteddine. Moreover, BBAC opened a new branch in the Bechara El Khoury area, increasing the number of local branches to 39, in addition to 70 ATMs distributed across Lebanon.

BBAC has tailored a collection of secure electronic banking services (Online Banking for personal and business customers, Mobile Banking and Mobile Payment) to provide supreme comfort and satisfaction to customers, as well as accelerate and facilitate the completion of banking operations, wherever they are and at any time. BBAC has also taken every precaution necessary to ensure a climate of trust and to protect the confidentiality and the security of its customers' financial and payment information.

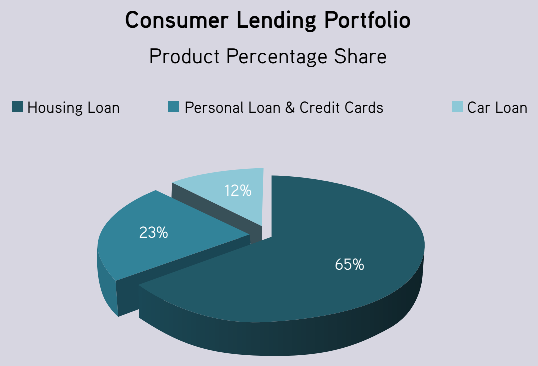
In order to match the customers' needs and preferences, BBAC advises its clients who wish to control their payments, save money or make future plans to open customized banking accounts. These particular accounts and products include Domiciliation Accounts, Current Accounts, Savings Accounts and Fixed Term Accounts, in addition to the direct debit of service bills.

BBAC also offers a number of personal loans, such as Public Sector Loans, Private Sector Loans, Small Business Loans, Educational Loans, and Outlet Loans to easily meet consumers' diverse plans. With a strong emphasis on providing unparalleled customer service, the Bank continuously invests in optimizing its products and services to meet the varying needs of its customers.

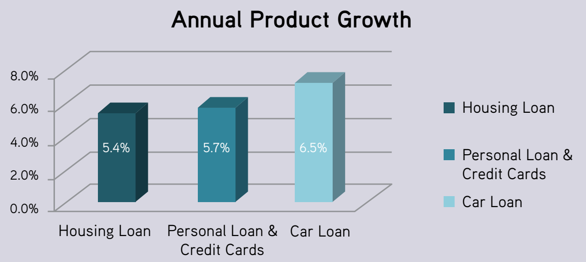
Moreover, BBAC strives to meet the increasing financial demands of the Lebanese housing sector through various mortgage offers, including the Iskan Housing loan, Military Housing loan, Internal & General Security Forces Housing loan, BDL Housing loan, Displaced Housing loan, Expatriate Housing Loan and BBAC's own Housing Loan Program.

Consumer Loan Portfolio Statistics and Annual Growth for 2017

The Consumer Lending Portfolio is distributed among Housing Loans, Personal Loans, Credit Cards, and Car Loans. In 2017, as illustrated below, Housing Loans backed by mortgages made approximately two thirds of the consolidated total consumer loan portfolio, whereas Personal Loans (including Credit Cards) and Car Loans made up for the remaining third.



The Consumer Credit portfolio witnessed an aggregate growth of 6% throughout 2017.
The chart below displays the segregated growth of each consumer product separately.



BBAC has always demonstrated its commitment to women through a collection of products and services designed to cater to their banking and financial needs. Through the 'Mother Account', BBAC became the first bank in Lebanon to welcome and allow mothers to open an account for their children, independently of the father's legal consent. Moreover, BBAC dedicates the whole month of March each year to honor and celebrate women, by presenting exclusive offers on a uniquely arranged bouquet of banking products that suit their tastes and meet their financial needs. In parallel, the Bank also offers the 'Diamond Card', which is designed exclusively for women, and offered to them free of charge for life, with a chance to win diamonds.

In light of the growing payment services, BBAC also offers a diversified payment cards portfolio, such as the 'Classic', 'Gold' and 'Platinum' Credit Cards, designed to offer financial flexibility and purchasing power relative to every need and lifestyle. Other credit cards are also available, such as the 'Euro Card' for travel enthusiasts, which helps avoid the hassle of exchange rates when travelling to Europe. In 2017, BBAC introduced the 'AED Card' that targets Lebanese expatriates in the UAE.

BBAC also provides its elite customers with the 'Visa Infinite Card', which offers a range of exclusive services that fall in line with their distinctive and luxurious lifestyle. For customers looking for a secure online shopping experience, BBAC offers the 'Internet Card', which is a charge card designed to provide a sense of confidence and flexibility when making purchases over the Internet.

Always keeping in mind the responsibility it bears as a Lebanese institution, BBAC offers its clients an opportunity to contribute to a humanitarian cause through the 'CCCL Card' that donates 1% of made purchases to the Children's Cancer Center of Lebanon (CCCL) to help treat children with cancer.

BBAC also gives cardholders access to its loyalty program, 'MyRewards', that rewards the Bank's cardholders with points they collect automatically when they use their BBAC credit cards for purchases at any point of sale in Lebanon and abroad. These points can be redeemed for a variety of rewards that scope from cash, travel, and electronics to gift vouchers, leisure and donations, all of which value is determined according to the number of points accumulated.

With 'MyRewards' program, cardholders can combine the points earned on BBAC's different credit cards into one account, and benefit from a higher point balance and more valuable rewards, as well as redeem lesser points for valuable rewards online, by following easy steps on the program's website: www.bbacmyrewards.com.

The Bank is also working on introducing new types of cards, focusing particularly on the needs of the young demographic.

Private Banking

The Private Banking unit offers personal financial and investment services to the Bank's high-net-worth clients through a dedicated professional team. The timely services are rendered with confidentiality and trust and include trade execution, portfolio administration and advice on investment opportunities and market insights.

The Private Banking team performs global market research to identify new active markets in financial services; in addition to monitoring Money and Capital markets and carrying out market studies and technical analysis. The Private Banking unit offers a wide variety of trading services in several simple and sophisticated financial products such as derivatives, futures, options, equities, and commodities.

The Private Banking unit has a wide client base and it is continuously targeting for high-net-worth individuals by promoting the Bank's financial products and wealth management services, which allows the Bank to constantly improve its profitability and financial stability.

Treasury and Capital Markets

The main function of the Treasury department is to manage the Bank's liquidity and cash position by evaluating the daily liquidity report and interest rate fluctuations. Through its various sections, the Treasury department engages in several foreign exchange, money market and capital market operations guided by the regulatory authorities' rules and regulations and the policies and procedures set by concerned committees such as the BOD and Asset Liability Management Committee (ALCO).

When conducting its transactions, the Treasury department aims at maximizing the Bank's return and profit by seeking suitable market opportunities and investments given the Bank's risk exposure limits.

The Treasury department manages a diversified investment portfolio with various asset classes including equities and fixed income securities, aiming at investing excess liquidity to generate high returns in compliance with ALCO and the BOD decisions. The Treasury department also identifies placements and borrowing needs in line with the Bank's policies in order to maintain strong liquidity position.

The Treasury department performs its trading and investment activities through Beirut Stock Exchange, regional and international exchanges and major Correspondent banks. It provides the Bank's clients with round-the-clock services in FX spots, forwards and financial instruments, among others. The transactions are executed in a fast and accurate manner ensuring high quality customer service.

Insurance Services

BBAC differentiates itself by providing its clients with ultimate customer care and a broad portfolio of products and services that address the entire range of its clients' financial well-being objectives. Accordingly, the Bank offers insurance services as well as savings plans throughout its branch network in partnership with insurers known for their solidity, security, and expertise.

In collaboration with The Capital Insurance and Reinsurance Co. s.a.l., a subsidiary of BBAC, the Bank offers flexible and competitive insurance products that are especially designed to satisfy all clients' requirements in terms of premium, cover, security, and services. These products include: (1) Term Life Insurance & Personal Accidents; (2) Private Car Insurance (All Risk, TPL, Total Loss, Orange Card); (3) Cargo & Marine Insurance (Sea Freight, Air Freight, Hull & Machinery); (4) Public Liability; (5) Workmen's Compensation (Employer's Liability); (6) Money Insurance & Financial Risks (Cash in Safe, Cash in Transit, Fidelity Guarantee); (7) Foreign Domestic Helper Insurance (Life and Medical Expenses Covering Domestic Workers); (8) Home Insurance (Burglary, Fire, Neighbors, Earthquake & Allied Perils); (9) Travel Insurance; (10) Engineering Risks (C.A.R., E.A.R., Machinery Breakdown, Electronic Equipment All Risks).

BBAC offers two investment plans, JANA Retirement Plan and NAJAH Education Plan, in partnership with Allianz SNA s.a.l., that were certified by the Lebanese Capital Markets Authority under resolution No. 6/5/15 for JANA and 7/5/15 for NAJAH issued on March 10, 2015. These plans are designed to give BBAC's clients and their families' protection and guaranteed benefits, offering the opportunity to safeguard their financial future.

Information Technology

The Information Technology (IT) department continuously works on updating the foundation of the business applications. This ensures proper alignment with the Bank's strategy of having a platform that is able to undertake the digital transformation program and reply to future development and capabilities.

The IT department's strategy is to follow the digital banking trend with respect to data availability, confidentiality and security, as well as to deliver innovative products and services in-line with evolving technologies.

The Bank invested in an integrated solution based on Service Oriented Architecture (SOA), which enables easier streamlined integration across systems/channels and ensures a fast time-to-market.

The Bank also introduced a new Loyalty system that is not only linked to cards but it also covers a wider scope where it tracks all customer activities and translates them into points, in addition to the introduction of "Online Redemption" that is available through an advanced portal with the aim of facilitating the redemption of loyalty points.

The IT department's existing information system infrastructure allows the Bank to easily introduce new products and services to its clients across multiple channels. This infrastructure is being frequently improved regarding agility, reliability and high availability based on enterprise storage consolidation, servers and desktop virtualization.

On the other hand, the IT department is highly committed to maintaining and enhancing the security of the IT infrastructure in order to protect customer channels and services that are provided online, as well as improving the hardening of internal application platforms.

Regarding Business Continuity, disaster recovery sites and data protection technologies, the IT department provides a robust infrastructure through the implementation of a three-site data center replication setup that links together the Bank's primary, high availability and remote disaster recovery data centers.

The Bank successfully tested IT continuity drill scenarios, covering the critical operations in Lebanon and overseas branches. This test is repeated on a yearly basis.

Compliance

As part of the regulatory effort in combating financial crimes, BBAC has established its Compliance department in accordance with law 44 and BDL circular No. 83.

The Compliance department functions are independent from any other business or control activity within the Bank, as it reports all noted deviations and Compliance issues to the Bank's assigned Compliance Committees at the level of the Board and Senior Management. The Compliance team plays a major role in assisting the BOD and Senior Management in identifying and mitigating Compliance risks and threats.

The Compliance tone is set by the BOD and Senior Management, who ensure that the Bank is endowed with the necessary tools and resources needed in order to comply with all applied laws and regulations, as well as protect the integrity and reputation of the Bank and its relationship with all its stakeholders, including that of its correspondent banks, against all financial crimes threats. Accordingly, BBAC has set an effective compliance program that promotes for the highest level of professional and ethical standards when conducting its business.

Based on the local legislations and international standards, BBAC has established its AML/CFT Board Compliance committee to oversee compliance responsibilities within the Bank.

The Bank's compliance program is subject to an annual review from external auditors, in addition to periodical reviews conducted by the Bank's Internal Audit department to ensure compliance with the latest laws and regulations.

Furthermore, and in compliance with the applied laws, Lebanese banks are subject to regular reviews, completed by the Special Investigation Commission, being the supervisory authority, in order to verify the effectiveness of the Banks' adopted Compliance Program and to ensure their compliance with the applied regulations.

As part of its continuous effort in fighting financial crime, and in compliance with law 44 and its related BDL circulars, BBAC has established the below mentioned three sections within the Compliance department and has equipped them with the necessary qualified officers:

AML/CFT and Sanctions

The role of the AML/CFT and Sanctions section is to ensure that the Bank is operating in compliance with the applicable laws related to fighting money laundering and terrorism financing. The section plays a major role in enhancing the level of awareness among staff with respect to the financial crimes risks, and in setting the appropriate guidelines that help in identifying the Bank's customers, detecting and reporting suspicious activity, and maintaining a healthy business growth.

Furthermore, BBAC is committed to comply with the sanction policies issued by the United Nations, European Union, United States, United Kingdom, in addition to the sanctions regulations related to the jurisdictions where the Bank operates, or adopted by the Bank's Correspondent banks, when transacting with them. The Bank's Sanctions Policy includes prohibiting business activity, including immediate termination of customer relationships or providing products or services or facilitating transactions to parties that the Bank believes may violate the applicable Sanctions Policy.

Legal Compliance

The Legal Compliance section plays a major role in tracking and communicating new or amended regulations. Furthermore, the section monitors the Bank's business activity in order to ensure, compliance with the applicable laws and regulations, to detect and report violations, and to support Senior Management in setting the necessary corrective measures.

FATCA and CRS

As part of the International effort for combating tax evasion, and in compliance with the FATCA and Common Reporting Standard requirements, the Bank has established the FATCA and CRS section within the Compliance department, which is responsible for coordinating with all stakeholders in order to design and develop an effective program for the implementation of the FATCA and CRS rules, as well as to enhance the level of awareness among the involved staff through regular trainings and continuous follow-up on the latest guidelines associated with this area.

Risk Management

BBAC ensures a continuous improvement of its risk management framework, through enhancing controls, providing employees with ongoing risk awareness and developing trainings, as well as various risk measures.

The Bank benefits from strong internal governance, which clearly segregates the functions and responsibilities between the BOD and the executive management. In line with the Bank's regularly updated Code of Corporate Governance, the Chief Risk Officer (CRO) heads the Risk Management Department and reports directly to the Chairman-General Manager and to the Board Risk Committee.

The role of the Board Risk Committee reflects the constructive Board engagement in actively exercising judgment as to any change in the risk profile of the Bank. The committee meets regularly to discuss the different risk topics raised by its members; analyze risk reports prepared by the Risk Management department, review risk management policies, risk limits and methodologies,

as well as Internal Capital Adequacy and Assessment Process (ICAAP) reports; and give directions and recommendations on risk related issues to the executive management.

The Bank manages its risks based on the three lines of defense model, where a clear separation of functions exists between front line, support functions and Internal Audit. Business owners are the first line of defense, in identifying, assessing and controlling the risks of their business. The support functions, which consist mainly of Risk Management, Compliance, Legal, Human Resources Management, Financial Control, Operations and Information Technology, form the second line of defense. Along with the business owners, they ensure that risks in the business units have been appropriately identified and managed. Internal Audit operates as the third line of defense by independently assessing and evaluating the Bank's processes.

The department deploys risk management beyond compliance activities to achieve organizational objectives and protect enterprise value while having a clear grasp on business risks and controls, and binding risk to return.

Risk Management Framework

BBAC has a main objective to maintain an effective risk management framework. Accordingly, all risk management policies are governed by the Bank's risk appetite, and risks are properly monitored against the set limits. Risk Management procedures were designed to manage the principal risks the Bank assumes in conducting its activities, through identification, measurement, testing, monitoring and reporting of these risks.

During ٢٠١٧, the Bank acquired an Asset Liability Management solution for an optimal management of liquidity risk and interest rate risk, and implemented an enterprise-wide Operational Risk Management solution integrating all operational risk functionalities.

In support of the IFRS٩ implementation, the Bank finalized the development of an in-house IFRS ٩ solution to meet IFRS ٩ regulatory requirements. The solution calculates the Expected Credit Loss by Financial Assets based on multiple factors mainly external and internal ratings and management judgment.

In compliance with the new regulatory requirements issued by BDL (Circular No. ١٤١) in ٢٠١٧, the Bank prepared a recovery plan to increase its resilience to stress situation.

Credit Risk

Credit risk appetite and prudent credit risk policy are in place. The credit policy aims to embed a strong credit risk culture within the Bank, supported by a well-controlled yet quick and efficient credit granting and underwriting processes with clear approval limits. The credit process guarantees segregation of duties. Credit exposures are regularly monitored, exposures with counterparties are monitored against the set limits and credit worthiness of counterparties is continually assessed. Approval limits are monitored on an ongoing basis and are reviewed on annual basis. The overall effectiveness in managing credit risk is reflected by the relatively high quality of the loan portfolio.

BBAC uses Moody's Risk Analyst as an internal rating system for rating its corporate and commercial borrowers. The internal rating system supports the Bank in assessing the quality of its portfolio and sets the plan to adopt internal rating-based approaches, in line with Basel latest guidelines. It is also used as an efficient tool to calculate the Probability of Default for each obligor when calculating Expected Credit Losses to meet IFRS 9 requirements.

In addition, to meet IFRS 9 requirements, all financial assets are classified at stage 1, 2 or 3, according to a very detailed impairment model, developed by the Bank and approved by its BOD. The Bank specified clear indicators that change the asset from one stage to the other, incorporating forward-looking aspects.

In relation to Retail Credit Risk, the Bank benefits from an in-house developed application scorecard to assess the creditworthiness of its borrowers. This scorecard is being back-tested and updated on an annual basis to reflect a more accurate representation of credit risk.

Market Risk

The Market Risk Management policy developed by BBAC details the roles and responsibilities, and sets clear limits for allowed investments. The Bank maintains a relatively small trading portfolio (FVTPL) that does not have a substantial impact on the overall performance of the Bank or on its capital adequacy. The Bank's financial securities are mainly held at amortized cost. In adopting the IFRS 9 standard, the Bank established a portfolio of Fair Value through other Comprehensive Income (FVTOCI) securities.

During 2017, the Bank continued the implementation of the acquired Asset Liability Management solution, which will support the application of advanced techniques introduced by the recent Basel guidelines. The solution will help the Bank in managing different types of risks such as Interest Rate in the Banking Book, Liquidity Risk and Market Risk in a dynamic way.

Liquidity Risk

BBAC's Liquidity Risk policy is regularly updated. It defines internal liquidity risk limits and early warning indicators, in addition to a Contingency Funding Plan.

In terms of liquidity level, the Bank maintains high levels reflected by internal ratios that exceed the regulatory minimum set by the local regulations. Liquidity Coverage Ratio and Net Stable Funding Ratio are above the minimum requirements after applying major haircuts on High Quality Liquid Assets.

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book is monitored against limits set for the impact on the Net Interest Income and the Economic Value of the Equities. Regular stress tests are conducted to capture the impact of changes in market on Interest Rate Risk in the Banking Book.

Operational Risk

Operational risks are identified, assessed and monitored through periodic risk and control assessments across BBAC - a detailed Loss Incidents database, which is supported by well-applied event capturing procedures and continuous awareness sessions, as well as thorough operational risk assessments, which are conducted on all new and updated products and services applied by the Bank before launching them. Key risk indicators are defined for identified key risks to provide an early-warning indicator of risk exposures.

The identified risks are assessed against the impact they may cause and the frequency of their occurrence. To optimize the control environment, action plans are triggered and followed up to maintain the impact and likelihood of operational risks at an acceptable level.

To guarantee a sound practice of operational risk management, the Bank has acquired and implemented an Operational Risk solution integrating all Operational Risk functionalities in a centralized role based application.

Information Security and Business Continuity

BBAC continuously works on enhancing its management information systems and information security systems. The Bank is investing in new solutions that serve in adopting advanced risk management methodologies and help in establishing an appropriate control environment. Necessary IT measures are also taken to keep improving and refining the quality of data. Security Policies and Procedures have been updated and comprehensive IT Risk assessments have been conducted along with physical security visits and reporting to all local and foreign branches.

The Bank deploys enough security defenses and continuously works on the optimization of their corresponding monitoring processes. Information security monitoring is being performed on a daily basis along with security reviews, hardening of the IT infrastructure and necessary security tests for all applications supporting the launching of the Banks' new e-Services.

Strategically, the Bank follows a standard management framework ISMS (Information Security Management System) based on ISO27001 international standard, which is being practiced in its day-to-day business.

To preserve high quality of service to its customers and ensure the continuity of its business operations, the Bank has established a disaster recovery site, along with a detailed business continuity plan. The plan is tested regularly. In addition, to ensure the safety of its personnel, the Bank has put in place an evacuation procedure that was tested through repeated fire drills.

Other Risks

BBAC continuously monitors its exposure driven by other types of risks and takes the necessary measures to mitigate them. All material risks such as concentration, legal, compliance and others are routinely identified, assessed and measured. As a result, proper controls are added to ensure optimum mitigation of these risks.

Internal Capital Adequacy Assessment Process

BBAC conducts the Internal Capital Adequacy Assessment Process (ICAAP) on a yearly basis to ensure continuous compliance with local regulatory requirements. The Bank also follows Basel guidelines when assessing its capital needs on an ongoing basis.

The Bank considers the ICAAP as an integral part of the capital planning process to ensure the available capital is aligned with the assumed risks. To ensure the adequacy of the capital base in stressful situations, the Bank complements the ICAAP exercise with a set of various stress scenarios, applied for different severity levels.

The Bank calculates Pillar 1 risks capital charges using the standardized measurement approaches for Credit and Market risks, and uses Basic Indicator approach for Operational Risks. Pillar 2 risks are addressed through the ICAAP.

Capital Adequacy

BBAC maintains a sound capital base that ensures the adequate level of capital needed to support the development of its business while complying with regulatory requirements.

The composition of the Bank capital is summarized as follows:

Capital Funds as per Basel III (LBP million)		
As of December 31	2017	2016
Total CET1	653,780	565,983
Total Tier 1	849,781	761,984
Total Capital (Tier 1 +Tier 2)	873,886	786,089

By the end of 2017, the three capital adequacy ratios were well above the regulatory requirements set by BDL (Circular No. 44), as shown below:

Capital Adequacy Ratio*	BBAC		BDL Circular No. 44	
As of December 31	2017	2016	2017	2016
Common Equity Tier 1 Ratio	11.04%	10.81%	9.0%	8.5%
Tier 1 Capital Ratio	14.34%	14.56%	12.0%	11%
Total Capital Ratio	14.75%	15.01%	14.5%	14%

The major exposure of the Bank is the credit risk with 92.27% of total risk weighted assets. Credit risk weighted assets mainly include the sovereign risk exposures in the form of Central Bank Placements, Certificates of Deposits and Eurobonds issued by the Lebanese government, representing 38% of credit risk weighted assets. The corporate portfolio reached up to 16% while the portfolio of SME, Retail, Housing and Claims Secured by Commercial Real Estate represents 30% of Credit Risk weighted assets.

Risk Weighted Assets (LBP million)				
As of December 31	2017	% of total RWA	2016	% of total RWA
Credit Risk	5,466,501	92.27%	4,756,066	90.9%
Market Risk	81,031	1.37%	126,361	2.4%
Operational Risk	376,759	6.36%	352,410	6.7%
Total Risk Weighted Assets (RWA)	5,924,291	100%	5,234,837	100%

*The ratios are based on the unaudited financial statements as of December 31, 2017.

Human Resources Management

By the end of 2017, BBAC had a total workforce of 838 employees; 66% of which falling under the age of 40 years and 77% of which are university degree holders.

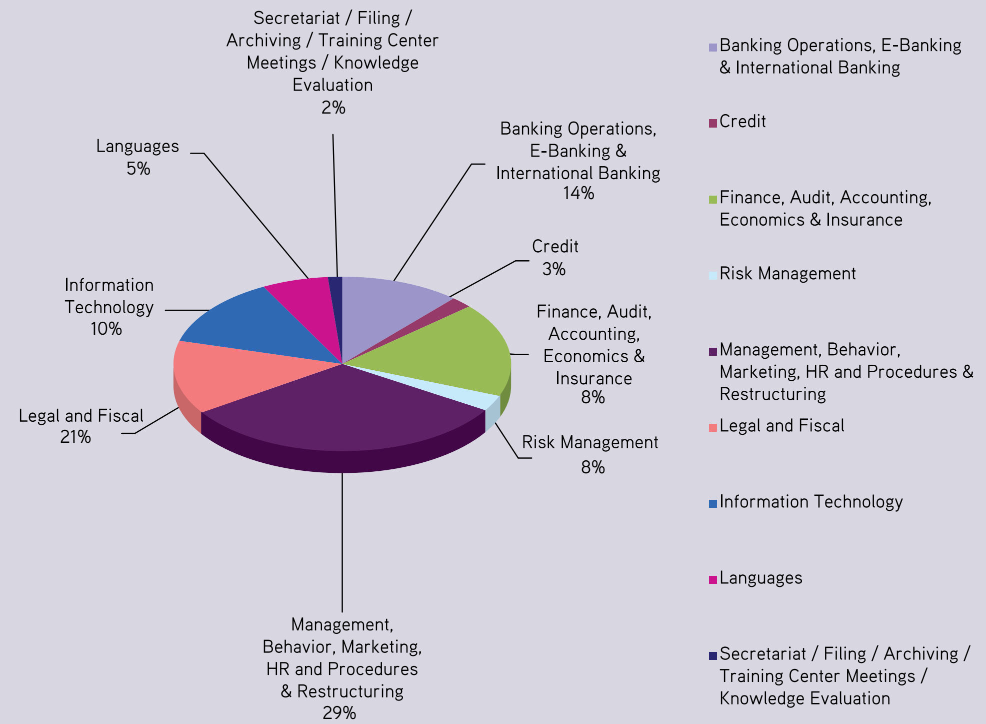
The gender distribution was similar to 2016 with Males constituting 56% of the staff and Females 44% of the total staff population.

BBAC is very keen on providing equal career and growth opportunities for all employees and is committed to developing its workforce by encouraging employees to evolve both on a professional and personal level by offering them the financial support needed to pursue post graduate studies or certifications.

Throughout 2017, BBAC took part in the annual job fairs of major universities such as the American University of Beirut (AUB), Lebanese American University (LAU), École Supérieure des Affaires (ESA), Sagesse University and Modern University for Business and Science (MUBS), in an effort to continuously connect with graduating students and attract potential talent for various positions.

BBAC also offered summer internships at its different branches during which interns were given the opportunity to learn about the various banking operations and services offered by the Bank.

Distribution of Training Hours According to Training Subjects for ٢٠١٧



Corporate Social Responsibility

Since its inception in 1956, BBAC has been committed to serving the financial needs of its customers, while still upholding the highest ethical standards, and remaining supportive and engaged in local communities. As one of the leading banks in Lebanon, BBAC is cognizant that a responsible approach to business is a decisive factor in determining the long-term viability and success of the Bank. For this reason, BBAC's dedication to sustaining a sound financial standing and performance, providing the best banking solutions to its customers and practicing responsible employment comes in concurrence with a commitment to preserve the common interests of all its stakeholders through a best practice corporate governance framework that sets the tone and provides the foundation for all its banking and Corporate Social Responsibility (CSR) activities.

For BBAC, CSR is not a choice; it is a central business need. The Bank believes that its core responsibility as a corporation goes beyond having a purely financial impact and must also have a social impact. The two go hand in hand because it is only by delivering social and economic value today that the Bank can create long-term sustainable benefits for tomorrow. Over the course of more than 60 years, BBAC has consistently enhanced its ethical standards and has balanced social and economic imperatives to address the concerns and expectations of all its stakeholders. Today, it is advancing on its sustainable journey by setting CSR commitments across the whole business because BBAC understands that it is only through its own exemplary actions that it can continue to prove its reputation as Lebanon's 'Caring Bank'.

As part of its community development and strategic philanthropy efforts, BBAC actively engages in a range of well-selected and tailored CSR initiatives. Among some of its most prominent areas of engagement are health and the environment, economic affairs, humanitarian and social issues in addition to contributions in the arenas of culture and arts, sports, education and youth programs.

In addition to having a positive impact in the communities it serves through a spectrum of donations and sponsorships, BBAC relies on the valuable volunteering and fundraising efforts of its employees. It also engages in various types of partnerships with leading Lebanese non-governmental organizations (NGOs) and initiatives to maximize its reach and impact on the country's most vulnerable and disadvantaged community groups.

In another dimension, BBAC aims to contribute to economic growth and revitalization through varied and multiple contributions and targeted initiatives that help stimulate entrepreneurship and job creation. BBAC is specifically keen on assisting small and medium-sized enterprises (SMEs), which are considered the backbone of the national economy.

In this context, BBAC continued to promote various loans that possess socially responsible attributes, thus offering borrowers favorable conditions such as interest rate subsidies. The Kafalat loan is one example, which is offered to SMEs operating throughout Lebanon in sectors such as tourism, agriculture, industry, high technology and crafts. These loans also encourage environmentally friendly investments and empower startups by committing the Bank's investments directly into different venture capital funds. The ultimate goal is to energize Lebanon's future economic development by creating an ecosystem that promotes investment and production in the country. BBAC also supports the local economy in other ways, including meeting people's financial needs at the various stages of their business and personal life cycles and helping them reach their goals, whether they want to buy a home, expand their business, pay for college or plan for retirement.

BBAC is making steady progress with regard to social and economic responsibilities; however, it still has much work ahead before making sustainability a mainstream component of its business. The continued growth and sustainability journey is sure to present challenges as well as opportunities especially amid the still-difficult economic, social, environmental and political climate facing Lebanon. But whatever lies ahead, BBAC's commitment to responsible banking and its caring nature for the community will remain solid. That's BBAC's responsibility, that's its promise and the mission that inspires it to succeed.

Financial Activities and Performance Highlights

Overview of the Lebanese Economy and Banking Sector

The prolonged political stalemate in Lebanon ended with the election of President in October 2016, and the subsequent formation of unitary government. At the beginning of 2017, the long disputed parliamentary election law, salary scale adjustment and the public-private partnership law were the main agreements for political leaders.

The real GDP in 2017 remained unchanged from last year (2%) driven by net exports of goods and services. This is due to a recovery in exports, a low base effect, and stagnation in imports. This combination was expected to narrow the current account deficit by about 2 bpts (basis points) to around 18% of GDP in 2017.

In line with previous years, Lebanese banks preserved their role as buffers against the recurring headwinds of an uncertain economy. As a matter of fact, and despite the existing low growth environment, banks remained the economic growth's last resort, providing continuous support for the country's consumption and investment activities.

Alpha Bank Group, which consists of 14 banks with deposits in excess of USD 2 billion each, witnessed a slow but a steady growth of 4.8% in total assets, reaching USD 227 billion at the end of September prior to shock resignation of Prime Minister Saad Hariri on November 4. However, Lebanon's economic integrity was soon preserved after the Prime Minister withdrew his resignation and the country regained its stability and its economy's long history of resilience and endurance.

In continuation of long term trends in the banking sector, activity growth was driven by 4% growth of customer's deposits in the first nine month period. On the other hand, the loan portfolio of Alpha banks grew at a slower pace compared to previous years, showing a 2.6% in the first nine month period compared to 4.7% in the same period of 2017.

At the profitability level, Alpha banks recorded an increase in net profits by 3.4% up till September 2017 (21.4% growth of net profit from discontinued activity), but it is important to note that the increase in net profit for 2017 showed a real increase, while in 2016 the net profit was a non-recurrent gain realized from swap deals done under the BDL's financial engineering operations.

Despite all regional turmoil and severe shocks, Lebanese banks' effective oversight and crisis management, and the wise BDL's policies, contributed together to sustain the confidence in the Lebanese banking sector to reduce risk and maintain a long term financial stability.

Breakdown of Assets and Liabilities

In the pursuit of earning higher income and return on its assets, BBAC has increased its investment in interest earning assets over the years. In 2017, interest-earning assets grew by 7.96% and they comprised 91.63% of total assets compared to 6.95% and 90.76% in 2016 respectively.

Balances with central banks scored the highest growth rate of 32.55% followed by 9.43% growth in due from banks and financial institutions. On the other hand, trading and investment securities made a negative growth of -0.68% due to a decline of 19.20% in interest-earning debt securities at fair value through profit or loss (FVTPL), while investment securities at amortized cost did not show growth for 2017. The growth rates of interest-earning assets in 2017 varied substantially from 2016 rates. Trading and investment securities form the largest proportion of total assets (37.74%) and interest-earning assets (41.19%) compared to 40.63% and 44.77% in 2016. This decline in structure composition was in favor of increased percentage composition for balances with central banks, which increased from 16.43% to 20.36% of total assets in 2017.

Loans and advances to customers and trading and investment securities comprised 62.79% of total assets and 81.9% of total interest income in 2017 compared to 66.15% and 88.08% in 2016. This decline is compensated in due from banks and financial institutions.

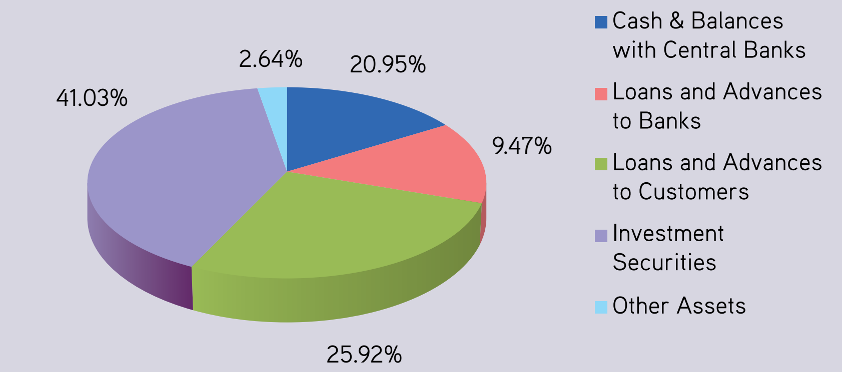
Breakdown of Assets by Interest-Earning and Non-Interest Earning Accounts

Interest and Non-Interest Earning Assets	Amount		Structure		% Change
	2017 (LBP million)	2016 (LBP million)	2017	2016	2017 / 2016
Balances with Central Banks	2,126,923	1,604,560	20.36%	16.43%	32.55%
Due from Banks and Financial Institutions	874,722	799,342	8.37%	8.18%	9.43%
Trading and Investment Securities	3,941,892	3,968,806	37.74%	40.63%	-0.68%
Loans and Advances to Customers and Related Parties	2,616,284	2,492,600	25.05%	25.52%	4.96%
Others Assets	10,823	-	0.10%	0.00%	-
Total Interest Earning Assets	**9,570,644**	**8,865,308**	**91.63%**	**90.76%**	**7.96%**
Total Non-Interest Earning Assets	**874,164**	**902,031**	**8.37%**	**9.24%**	**-3.09%**
Total Assets	**10,444,808**	**9,767,339**	**100.00%**	**100.00%**	**6.94%**

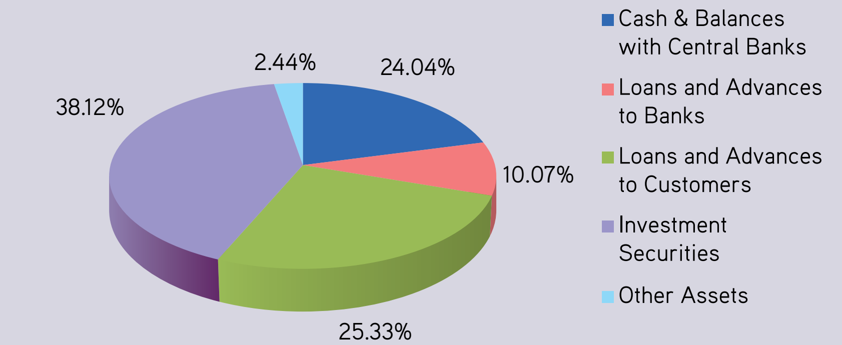
Asset and Liability Management

1. Use of Funds

2016



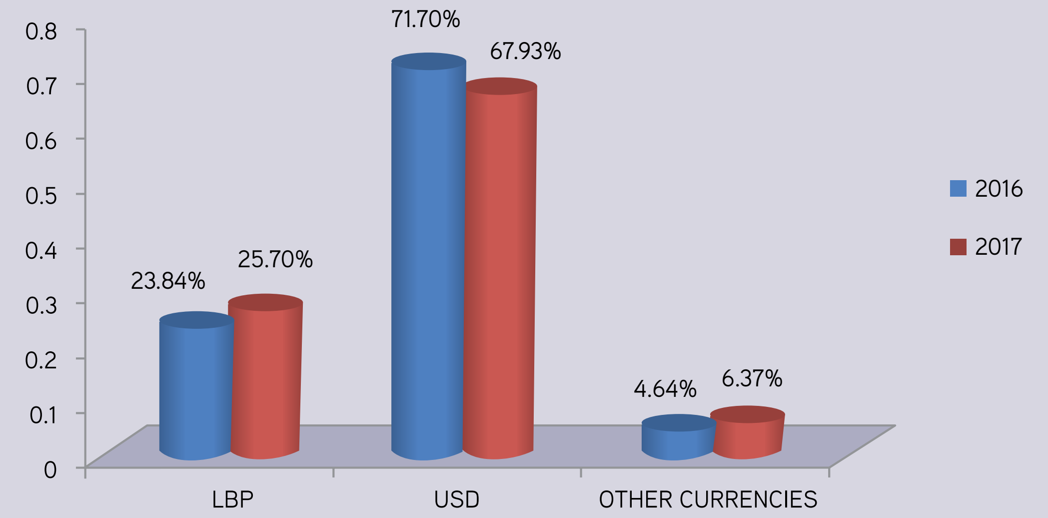
2017



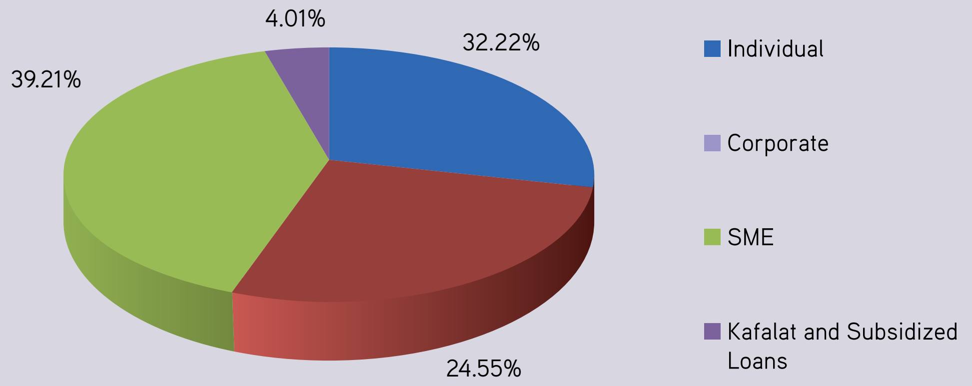
In 2017, BBAC's total assets scored LBP 10,445 billion growing by 6.94% from the 2016 LBP 9,767 billion figure. The highest growth rate was for cash and balances with central banks 22.75% followed by loans and advances to banks 13.81% compared to 37.51% and -27.70% respectively in 2016. Financial assets comprised 38.12% of total assets compared to 41.03% in 2016, while loans and advances to customers comprised 25.33% of total assets compared to 25.92% in 2016.

2. Loans and Advances by Currency/Type

By Currency



By Type-2017



The Bank's Loans and Advances to customers for 2017 were LBP 2,645,669 million compared to LBP 2,531,380 million for 2016 with a growth rate of 4.51%. The highest proportion of loans, 67.93%, is denominated in USD followed by 25.70% denominated in LBP and 6.37% denominated in GBP, EUR and other foreign currencies. This loan currency composition changed in 2017 in which USD loans declined by 3.77% of total loan portfolio in favor of LBP and foreign currencies. In 2017, LBP loans grew by 12.66%, while USD loans declined by 0.98% from 2016 values. 93.53% of BBAC's gross loans are performing loans and the remaining 6.47% are non-performing loans.

The two main groups of loans are loans to individuals and loans to corporate entities. Loans to corporate entities are the major group comprising 67.78% of total loans for 2017, and SME loans are its largest component followed by large corporate customers with their respective shares of 57.86% and 36.23% of total corporate loans for 2017. The remaining share of 5.92% is for Subsidized and Kafalat loans. Loans to individuals comprised 32.22% of total loans in 2017 compared to 28.91% in 2016 and they grew by 16.48% in 2017. Mortgages form 56.15% of loans to individuals compared to 61.03% in 2016 and they increased by 7.17% during 2017.

Other retail loans rank first in growth among individual loans with a growth rate of 132.31% in 2017, comprising the second largest share of 23.70% of total loans to individuals.

3. Loans by geography

In 2017, LBP 2,212,556 million or 83.63% of total loans were granted in Lebanon compared to 86.44% in 2016. The share of total loans to Arab countries increased from 10.23% in 2016 to 10.91% in 2017 followed by loans granted to European countries, which increased from 2.08% to 3.76% in 2017.

Profitability and Efficiency

1. Interest Margin Analysis

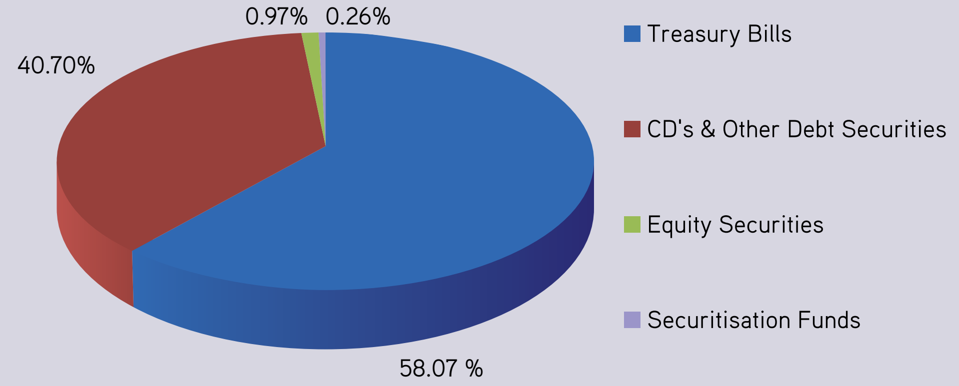
	Total 2017	Total 2016
	(LBP million)	(LBP million)
Average Interest Earning Assets	9,217,976	8,577,417
Interest Paid	388,447	345,296
Interest Received	522,613	492,398
Net Interest Received	164,166	147,102
Cost of Average Interest Earning Assets (in %)	4.21%	4.03%
Return on Average Interest Earning Assets (in %)	5.99%	5.74%
Gross Interest Margin (in %)	**1.78%**	**1.71%**
Net Releases (Provisions) on Loans and Advances	(10,093)	(26,607)
Net Interest Margin (in %)	**1.67%**	**1.40%**
Average Interest Earning Assets to Average Assets (in %)	91.21%	90.54%
Gross Spread (in %)	1.62%	1.55%
Net Spread (in %)	1.52%	1.27%

Net interest received grew by 11.60% in 2017 compared to 14.17% in 2016. This slower growth is attributed to the larger growth of 12.50% in interest paid over 12.23% growth in interest received. While in 2016, interest paid and interest received increased by 9.68% and 10.98% respectively. On the other hand, gross interest margin scored 1.78% in 2017 compared to 1.71% in 2016. This is due to the larger spread in return on average interest earning assets over cost of interest earning assets between 2016 and 2017.

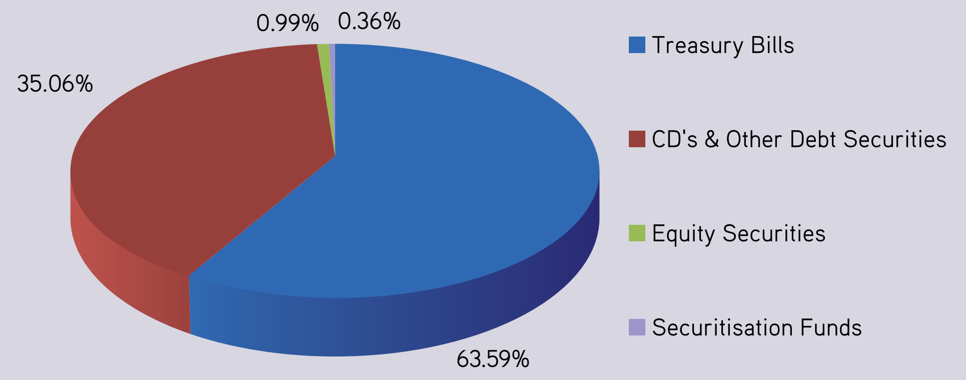
Net interest margin increased from 1.40% in 2016 to 1.67% in 2017. This growth is affected by the lower net provisions on loans and advances in 2017, which decreased by 62.07% in 2017 versus a growth of 251.39% in 2016. As a result, net spread increased to 1.52% in 2017 from a ratio of 1.27% in 2016.

Breakdown of Investment Securities by Type

2016



2017



2. Profit Before Income Tax

In 2017, total operating income, excluding net gains from special swaps with BDL, declined by 6.77% compared to a positive growth of 24.87% in 2016. This is due to the gains on securities at amortized cost and fair value through profit and loss (FVTPL) realized in 2016. Net interest income in 2017 grew by 11.60% versus 14.17% in 2016, while net fee and commission income increased by 14.21% in 2017 compared to 3.38% decline in 2016. Taking net gains from special swaps with BDL into consideration, growth in total operating income would decline to -17.76% in 2017.

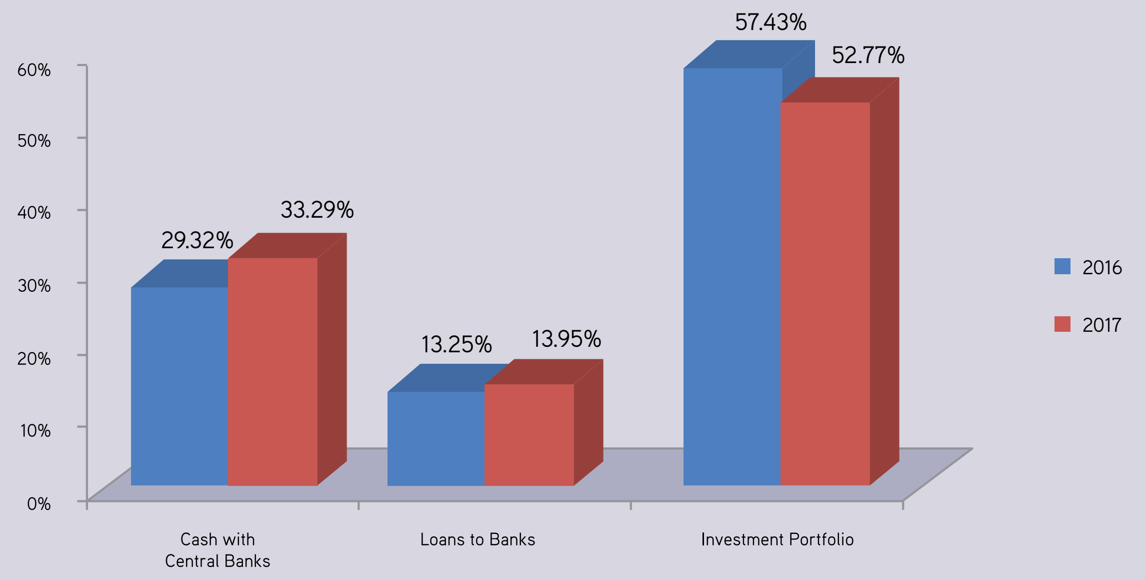
Net operating income was LBP 219,457 million in 2017 against LBP 252,526 million in 2016 with a negative growth of -13.10%. The high net loan impairment charge of LBP 26,607 million in 2016 contributed in minimizing the difference in net operating income; thus, decreasing the negative growth from -17.76% in total operating income to -13.10% in net operating income. Excluding the effect of net gain from special swaps with BDL, the growth in net operating income for 2017 would have been -0.07%.

Total operating expenses in 2017 declined by 1.76% from 2016 figures mainly due to 4.80% decline in other operating expenses. Profit before income tax in 2017 was LBP 92,158 million lagging behind the 2016 value of LBP 122,940 million by 25.04%. The growth in profit before income tax would have been 2.37% in 2017 excluding net gains from special swaps with BDL. Profit for 2017 amounted to LBP 74,075 million against LBP 77,532 million in 2016 with a growth rate of -4.46%..

3. Management Efficiency Ratios

Interest paid to interest received ratio increased from 70.13% in 2016 to 70.29% in 2017 due to the 12.50% growth in interest paid surpassing the 12.23% growth in interest received. As to net commission to income ratio, it increased from 14.33% to 18.83% in 2017 as a result of 14.21% growth in net commission versus a decline of 13.10% in income. Although cost decreased in 2017 by 1.76%, cost to income ratio increased from 51.32% in 2016 to 58.01% in 2017. This is due to the larger decline of 13.10% in income compared to the decline in cost.

Distribution of Liquid Assets



Net Interest and Similar Income

IInterest and similar income witnessed a growth of 12.23% in 2017 against 10.98% in 2016. Interest from loans and advances comprises 51.58% of total interest and similar income, and it increased by 20.73% in 2017 against 14.15% in 2016, mainly due to 70.51% growth in interest income from loans and advances to banks and financial institutions.

The largest contribution to interest and similar income comes from interest from investment securities at amortized cost and combined with interest from investment securities at fair value through profit and loss (FVTPL), they form 48.42% of total interest income.

03

AUDITORS' REPORT

CONTENTS

Independent Auditors' Report to the Shareholders of BBAC S.A.L.

Our opinion

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of BBAC S.A.L. (the ''Bank'') as at 31 December, 2017, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (''IFRS'').

What we have audited

The Bank's separate financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Our audit approach

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

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

Key audit matters

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

Area of focus	*How our audit addressed the key audit matter*
Impairment losses on loans and advances to customers: At 31 December 2017, the gross loans and advances to customers together with the impairment provision thereon amounted to LBP 2.89 trillion and LBP 242 billion respectively (refer to note 7). Impairment provisions represent management's best estimate of the losses incurred within the loan portfolio at the end of each reporting period. They are calculated on a collective basis for portfolios of performing loans of similar credit characteristics ("collective allowance for impairment") and on an individual basis for non-performing loans ("specific allowance for impairment"). We considered this a key audit area because the calculation of both collective and specific impairment provisions is inherently judgmental and dependent on assumptions determined by management and the provisions are considered to be material. Specific impairment allowances are dependent on the identification of impairment events, which differs based upon the type of lending product and customer. Judgement is required to determine whether and when a loss has been incurred. Collective impairment allowances are calculated using models, which generally take account of the historical loss experience, the impact of current economic and credit conditions on portfolios of similar loans. The input to these models are subject to management judgement. Judgement is applied by management to determine appropriate parameters and assumptions used to calculate impairment. For example, the assumption of whether a default has occurred, the valuation of collateral for secured lending and the future cash flows of corporate and SME loans (for the computation of the specific allowance for impairment). Judgement is also required to consider whether historic experience is appropriate when assessing the likelihood of incurred losses in the portfolios (for the computation of the collective allowance for impairment). Information on credit risk and the Bank's credit risk management is provided in note 3. The use of estimates and judgements in respect of impairment of loans and advances to customers is disclosed in note 4. Disclosure of the impairment provisions and net credit impairment charges is given in notes 7 and 24.	

Area of focus	*How our audit addressed the key audit matter*

We understood, evaluated and tested key controls over impairment losses on loans and advances to customers and focused on:

- the identification of impairment events;
- whether the impairment models are being calibrated in a way which is appropriate for the impairment risks in the loan portfolios;
- the transfer of data between underlying source systems and the impairment models;
- the internal credit rating of counterparty facilities; and
- the review and approval models that management has in place for the output of the impairment models.

We performed detailed testing of the models used in calculating both identified and unidentified impairment. This testing typically included testing of the extraction of data used in the models, assessing the appropriateness of the assumptions used, and re-performance of the impairment calculation for a sample of loans.

Where impairment was identified, we selected a sample of loans and examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, including those related to collateral values, challenging the assumptions and comparing estimates to external evidence where available. Where impairment has not been identified by management, we selected a sample of loans and formed our own judgement as to whether that was appropriate including using external evidence in respect of the relevant counterparties.

We have also assessed the adequacy of the Bank's disclosure on the allowance for impairment of loans and advances to customers and the related credit risk disclosures.

Disclosure of the likely impact of IFRS 9 on credit impairment for corporate and retail loans portfolio:

Banks operating in Lebanon are currently applying the requirements of IFRS ٩ as issued in November ٢٠٠٩ (which addressed specifically the classification and measurement of financial assets). In July ٢٠١٦, an updated version of IFRS ٩ was issued that introduces new requirements for (i) the classification and measurement of financial instruments, (ii) credit impairment with the «Expected Credit Loss model» replacing the «Incurred Loss model», and (iii) hedge accounting.

IFRS ٩ adopts a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS ٩ defines three principal classification categories for financial assets: those that are measured at (a) Amortised Cost («AC»); (b) Fair Value through Other Comprehensive Income («FVOCI»); and (c) Fair Value through Profit or Loss («FVPL»).

In addition, IFRS ٩ replaces the «incurred loss model» in IAS ٣٩ with a forward-looking ‹expected credit loss› («ECL») model. The new impairment model will apply to financial assets measured at AC and FVOCI, except for investments in equity instruments.

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk («SICR»);
- choosing appropriate models and assumptions for the measurement of ECL including probability of default («PD»), loss given default («LGD»), and exposure at default («EAD»); and
- establishing the number and relative weightings of forward-looking scenarios and the associated ECL.

There is, therefore, a requirement for new models to be built and implemented to measure the expected credit losses on loans measured at amortised cost. In addition, there is a large increase in data input required by these models, which increases the risk of completeness and accuracy of the data used to develop assumptions and to operate the model.

The Bank has disclosed the impact of the impairment as well as its overall assessment, based on significant judgements made by management, in note ٢ of the separate financial statements.

We have obtained the disclosures and accounting policies prepared by management with respect to the following:

- Classification and measurement of financial instruments; and
- ECL methodology and models.

Our experts were engaged to perform procedures on the initial implementation of ECL. We have used the work performed by our experts to assess the appropriateness of the methodology and disclosures. The work performed included the following:

- examination of the PD/LGD/EAD methodology, in addition to relevant algorithms/formulas, and assumptions applied in the PD/LGD/EAD models;
- verification of applied staging rules in terms of IFRS ٩ requirements based on internal data available;
- quality check of one year PD for corporate loans portfolio based on available historical data;
- examination of lifetime PD estimation results for corporate loans portfolio including methodological and numerical aspects, and the appraisal process;
- testing on sample basis the completeness and accuracy of the data used in calculation of the ECL;
- review of the methodology used in the «stage ١» ECL calculation for the retail loans portfolio;
- review of forward looking information for ١٢ month and lifetime PD;
- validated the disclosures against the requirements of IFRS ٩ and IAS ٨.

Other information

Management is responsible for the other information. The other information consists of the Annual Report, which includes the separate financial statements and our auditors' report thereon. The Bank's 2017 Annual Report is expected to be made available to us after the date of our auditors' report.

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

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

When we read the 2017 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate that fact.

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

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

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

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

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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 Andre Rohayem for PricewaterhouseCoopers and Wissam Safwan for KPMG.

PricewaterhouseCoopers

KPMG

PricewaterhouseCoopers

٩ May, ٢٠١٨
Beirut, Lebanon

١٣٣٠

Balance sheet
at 31 December, 2017

	Note	2017 LL Million	2016 LL Million
ASSETS			
Cash and balances with Central Banks	5	**2,511,289**	2,045,777
Deposits with banks and financial institutions	6	**1,052,215**	924,531
Loans and advances to customers	7	**2,645,669**	2,531,380
Debtors by acceptances	8	**63,067**	78,146
Financial assets:			
- Fair value through profit or loss	9	**206,594**	246,115
- Amortised cost	10	**3,774,577**	3,761,722
Investment in subsidiaries	11	**3,524**	3,524
Investment properties	12	**7,338**	7,338
Property and equipment	13	**86,423**	81,654
Intangible assets	14	**1,913**	2,362
Other assets	15	**55,754**	51,894
		10,408,363	9,734,443
Non-current assets held for sale	16	**36,445**	32,896
Total assets		**10,444,808**	9,767,339
LIABILITIES			
Due to the Central Bank of Lebanon	17b	**179,280**	19,407
Deposits from banks and financial institutions	17a	**169,304**	89,448
Current income tax liabilities	32	**7,096**	35,556
Deposits from customers	18	**9,021,309**	8,602,048
Engagements by acceptances	8	**63,067**	78,146
Retirement benefit obligations	20	**34,881**	32,442
Other liabilities	19	**59,660**	54,608
Total liabilities		**9,534,597**	8,911,655
EQUITY			
Share capital - common shares	21	**148,752**	148,752
Share capital - preferred shares	21	**13,429**	13,429
Share premium reserve - preferred shares	21	**182,547**	182,547
Cash contributions to capital	21	**36**	36
Other reserves	22	**286,416**	208,394
Retained earnings	22	**279,031**	302,526
Total equity		**910,211**	855,684
Total equity and liabilities		**10,444,808**	9,767,339

The separate financial statements on pages 53 to 131 were authorised for issue by the directors on 21 April, 2018, and were signed on their behalf by:

Mr. Ghassan Assaf
Chairman and General Manager

The notes on pages 58 to 131 are an integral part of these separate financial statements

Statement of comprehensive income for the year ended 31 December, 2017

	Note	2017 LL Million	2016 LL Million
Interest and similar income	23	**552,613**	492,398
Interest and similar expenses	23	**(388,447)**	(345,296)
Net interest and similar income		**164,166**	147,102
Net loan impairment charges	24	**(10,093)**	(26,607)
Net interest and similar income after credit impairment charges		**154,073**	120,495
Fee and commission income	25	**47,545**	44,032
Fee and commission expense	25	**(6,229)**	(7,855)
Net fee and commission income		**41,316**	36,177
Dividend income		**3,474**	3,407
Net trading income	26	**16,266**	14,451
Net (loss) gain on investment securities at fair value through profit or loss	27a	**(485)**	13,449
Net gain on investment securities at amortised cost	27b	**2,171**	30,021
Net gains from “special swaps” with the Central Bank of Lebanon	27c	**-**	32,913
Other operating income	28	**2,642**	1,613
Personnel expenses	29	**(68,821)**	(68,983)
Depreciation and amortisation charges	30	**(7,703)**	(7,266)
Other operating expenses	31	**(50,775)**	(53,337)
Profit before income tax		**92,158**	122,940
Income tax expense	32	**(18,083)**	(45,408)
Profit for the year		**74,075**	77,532
Other comprehensive income		**-**	-
Total comprehensive income for the year		**74,075**	77,532

The notes on pages 58 to 131 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December, 2017

	Share Capital						
	common shares LL Million	preferred shares LL Million	Share premium reserve LL Million	Cash contributions to capital LL Million	Other reserves LL Million	Retained earnings LLMillion	Total equity LL Million
At 1 January, 2016	148,752	8,264	112,336	36	188,640	263,271	721,299
Total comprehensive income for the year	-	-	-	-	-	77,532	77,532
Transactions with owners of the Bank:							
Issuance of preferred shares "C" (note 21)	-	5,165	70,211	-	-	-	75,376
Appropriations of retained earnings (note 22)	-	-	-	-	19,754	(19,754)	-
Dividends declared relating to 2015 (note 33)	-	-	-	-	-	(18,522)	(18,522)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	-	(1)	(1)
At 31 December, 2016	**148,752**	**13,429**	**182,547**	**36**	**208,394**	**302,526**	**855,684**
At 1 January 2017	148,752	13,429	182,547	36	208,394	302,526	855,684
Total comprehensive income for the year	-	-	-	-	-	74,075	74,075
Transactions with owners of the Bank:							
Appropriations of retained earnings (note 22)	-	-	-	-	78,022	(78,022)	-
Dividends declared relating to 2016 (note 33)	-	-	-	-	-	(19,546)	(19,546)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	-	(2)	(2)
At 31 December 2017	**148,752**	**13,429**	**182,547**	**36**	**286,416**	**279,031**	**910,211**

The notes on pages 58 to 131 are an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December, 2017

	Note	2017 LL Million	2016 LL Million
Cash flows from operating activities			
Profit before income tax		**92,158**	122,940
Adjustments for non-cash-items:			
Net loan impairment charges	24	**10,093**	26,607
Loan impairment charges taken specifically against the exceptional gain and charged to income statement	27c	**-**	122,660
Depreciation charge	13	**6,663**	6,198
Amortisation charge	14	**1,040**	1,068
Loss on disposal of property and equipment	28	**33**	47
Gain on disposal of assets classified as held for sale	28	**(968)**	-
Net loss (gain) on investment securities at fair value through profit or loss		**1,704**	(6,079)
Net gain on investment securities at amortised cost	27	**(2,171)**	(30,021)
Dividends income		**(3,474)**	(3,407)
Provision for retirement benefit obligations	20	**4,251**	8,036
		109,329	248,049
Change in operating assets and liabilities:			
Balances with Central Banks	5	**(657,825)**	(274,173)
Deposits with banks and financial institutions	6	**13,320**	71,198
Investment securities at fair value through profit or loss	9	**37,817**	(10,678)
Loans and advances to customers	7	**(129,442)**	(210,636)
Investment securities at amortised cost	10	**(10,684)**	(251,662)
Other assets	15	**(3,860)**	(12,246)
Due to the Central Bank of Lebanon	17	**159,873**	3,285
Deposits from banks and financial institutions	17	**79,856**	(180,598)
Deposits from customers	18	**419,261**	550,076
Other liabilities	19	**5,052**	27,616
Dividends received		**3,474**	3,407
Employee benefits paid	20	**(1,812)**	(2,032)
Income taxes paid	32	**(46,543)**	(14,200)
Net cash used in operating activities		**(22,184)**	(52,594)
Cash flows from investing activities			
Purchase of intangible assets	14	**(591)**	(464)
Purchase of property and equipment	13	**(13,475)**	(3,450)
Proceeds from disposal of property and equipment		**2,225**	492
Proceeds from disposal of assets classified as held for sale		**2,264**	140
Net cash used in investing activities		**(9,577)**	(3,282)

The notes on pages 58 to 131 are an integral part of these financial statements.

Statement of cash flows (continued)
for the year ended 31 December, 2017

	Note	2017 LL Million	2016 LL Million
Cash flows from financing activities			
Issuance of preferred shares ("C")	21	**-**	75,376
Interest paid on cash contributions to capital		**(2)**	(1)
Dividends paid	33	**(19,546)**	(18,522)
Net cash (used in) generated from financing activities		**(19,548)**	56,853
Cash and cash equivalents at beginning of year	34	**1,415,452**	1,414,475
Net cash used in operating activities		**(22,184)**	(52,594)
Net cash used in investing activities		**(9,577)**	(3,282)
Net cash (used in) generated from financing activities		**(19,548)**	56,853
Cash and cash equivalents at end of year	34	**1,364,143**	1,415,452

The notes on pages 58 to 131 are an integral part of these financial statements.

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

1 General information

BBAC S.A.L. ("the Bank") provides retail, private and corporate banking services through its head office in Beirut and its network of forty branches across Lebanon, in addition to a branch in Cyprus and three branches in Iraq (Erbil, Baghdad, and Sulaymaniah).

The Bank was incorporated in Lebanon in 1956 and registered at the Commercial Court in Beirut under No. 6196. It is registered under number 28 on the list of Lebanese banks at the Central Bank of Lebanon. The address of its registered office is as follows:
P.O. Box: 11-1536, Clemenceau, Beirut - Lebanon.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements relate to the Bank and are presented on a non-consolidated basis. The Bank also separately prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to banks reporting under IFRS for the Bank and its subsidiaries ("the Group").

The consolidated financial statements can be obtained from BBAC S.A.L. registered office: P.O. Box: 11-1536, Clemenceau, Beirut - Lebanon.

Users of the separate financial statements should read them together with the Group's consolidated financial statements for the year ended 31 December, 2017, in order to obtain full information on the balance sheet, results of operations and changes in balance sheet of the Group as a whole.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to banks reporting under IFRS. The financial statements comply with IFRS as issued by International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore

present the balance sheet and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Bank

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

-Recognition of deferred tax assets for unrealised losses - amendments to IAS 12;
-Disclosure initiative - amendments to IAS 7, 'Statement of Cash Flows';
-Annual Improvements to IFRS Standards 2014 - 2016 Cycle; and
-Transfers of Investment Property - Amendments to IAS 40 'Investment Property'.

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

(b) New standards and interpretations not yet adopted

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

(i) Classification and measurement

The financial assets held by the Bank include (i) debt instruments classified and measured at amortised cost, (ii) debt and equity instruments classified and measured at fair value through profit and loss. Management estimates that up to 8% of its debt and equity securities currently classified at amortised cost and fair value through profit and loss are to be reclassified to fair value through other comprehensive income on 1 January, 2018. This follows a revision of the business model whereby in future the specified portfolio will be held to collect but also to sell under the new hybrid model. The impact of the change, which will be implemented prospectively is to write up the carrying amount of the securities and simultaneously recognise a gain directly in other comprehensive income of LL 5.7 billion approximately.

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

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

(ii) Expected credit losses

IFRS 9 replaces the 'incurred loss' model under IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or fair value through other comprehensive income, which mainly include cash and balances with Central Banks, deposits with banks and financial institutions, loans and advances to customers, investments (other than equity investments), as well as financial guarantees and credit commitments. A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- determining quantitative and qualitative criteria for significant increase in credit risk (SICR);
- choosing appropriate models and assumptions for the measurement of ECL; and
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Financial assets will be categorised into the following three stages in accordance with the IFRS 9 methodology:

- Stage 1 Performing assets: financial assets that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 month Probability of Default (PD);
- Stage 2 Underperforming assets: financial assets that have significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on lifetime PD; and
- Stage 3 Impaired assets: for financial assets that are impaired, for which the Bank will recognise the impairment allowance based on lifetime PD.

(iii) Transitional impact on loss allowance

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

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

Existing provisions:	LL billion
Specific allowance (note 7)	146.14
Collective allowance (note 7)	95.92
	242.06

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

(iv) Disclosures

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

- IFRS 15, 'Revenue from contracts with customers'

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January, 2018. Early adoption is permitted. The Bank does not expect that IFRS 15 will have a significant impact on the separate financial statements.

- IFRS 16, 'Leases'

IFRS 16 was issued in January 2016 and it replaces IAS 17 'Leases'. 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. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will also be required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than 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. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Bank does not expect that IFRS 16 will have a significant impact on the separate financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.

2.2 Investment in subsidiaries

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

The Bank has elected to account for its investments in subsidiaries under the cost method, and accordingly:

If the ownership interest in the subsidiary is reduced but significant influence/control is retained, the difference between the carrying value of the portion sold and the amount received on sale is recognised in profit or loss as 'gain/loss on sale of shares in subsidiary' within 'other operating income/loss'.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the subsidiary is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value, and accordingly the loss is recognised in the profit or loss as 'impairment loss on investment in subsidiary' within 'other operating income/loss'. The Bank does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the subsidiary.

Dividend income is recognised when the right to receive payment is established. A listing of the Bank's subsidiaries is shown in note 11.

2.3 Foreign currency

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Lebanese pounds, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

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

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

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

2.4 Financial assets and liabilities
2.4.1 Classification and measurement

(a) Debt investments

(i) Investment securities at amortised cost

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

(ii) Investment securities at fair value

If either of the two criteria above is not met, the debt instrument is classified as 'fair value through profit or loss'.

(b) Equity investments

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

(c) Recognition, measurement and reclassification

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

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets held at fair value though profit or loss is expensed in the profit or loss.

A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of comprehensive income within 'net (loss) gain on investment securities at fair value through profit or loss' in the period in which they arise.

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

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

The Bank is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

2.4.2 Financial liabilities

The Bank's holding in financial liabilities is in financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost are deposits from banks or customers (even those deposits with embedded derivatives, where the derivative was separated from the host contract and accounted for as a trading derivative), debt securities in issue for which the fair value option is not applied, and subordinated debts.

2.4.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using widely recognised models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, credit default swap spreads) existing at the dates of the balance sheet.

2.4.4 Derecognition

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

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

2.4.5 Sale and repurchase agreements

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

2.5 Reclassification of financial assets

When and only when an entity changes its business model for managing financial assets, it shall reclassify all affected financial assets. An entity shall not reclassify any financial liability nor equity instruments.

If an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses or interest.

If an entity reclassifies a financial asset 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 recognised in profit or loss.

If an entity reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

2.6 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category
(as defined by IFRS 9)</th><th colspan="2">Class
(as determined by the Bank)</th><th rowspan="2">Subclass</th></tr>
<tr></tr>
<tr><td rowspan="9">Financial Assets</td><td rowspan="8">At amortised cost</td><td colspan="3">Deposits with banks and financial institutions</td></tr>
<tr><td rowspan="6">Loans and advances to customers</td><td rowspan="4">Loans to individuals</td><td>- Overdrafts</td></tr>
<tr><td>- Credit cards</td></tr>
<tr><td>- Personal loans</td></tr>
<tr><td>- Housing loans</td></tr>
<tr><td rowspan="2">Loans to corporate entities</td><td>- SMEs</td></tr>
<tr><td>- Large corporate entities</td></tr>
<tr><td colspan="2">Investment securities - debt instruments</td><td>Unlisted and listed</td></tr>
<tr><td>At fair value through profit or loss</td><td colspan="2">Investment securities:
Equity instruments
Debt securities</td><td>Unlisted and listed</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities at amortised cost</td><td colspan="3">Deposits from banks</td></tr>
<tr><td colspan="3">Deposits from customers and financial institutions</td></tr>
<tr><td rowspan="2">Off balance sheet financial instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees and other financial facilities</td></tr>
</table>

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

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

2.8 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'net loan impairment charges' in the statement of comprehensive income.

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

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

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

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

(b) Renegotiated loans

If the terms of a financial asset are renegotiated or modified (mainly applicable on facilities provided to clients, who are facing financial difficulties), then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as final cash flow from the existing financial asset at the time of derecognition. This amount is discounted using the original effective interest rate of the existing financial asset.

2.9 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest and similar income' and 'interest and similar expenses' in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

2.10 Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

2.11 Dividend income

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

2.12 Impairment of non-financial assets

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

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2017 and 2016.

2.13 Cash and cash equivalents

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

2.14 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'non-current assets held for sale'.

2.15 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. These charges are recorded within 'other operating expenses'.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.16 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Bank, are classified as investment properties. Investment properties comprise office buildings and retail parks leased out under operating lease agreements.

Some properties may be partially occupied by the Bank, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Bank can be sold separately, the Bank accounts for the portions separately. The portion that is owner -occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40.

When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Bank considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Bank uses the size of the property measured in square meter. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment, if any.

Land is not depreciated. Depreciation on buildings is calculated using the straight line method to allocate the residual values over their estimated useful lives.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the balance sheet. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the statement of profit or loss.

2.17 Property and equipment

Land and buildings comprise mainly branches and offices and are accounted for using the cost model. All other items in property and equipment are accounted for using the cost model (i.e. at historical cost less accumulated depreciation and net of impairment charges, if any).

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

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

	Years
Buildings	50
Computer equipment	5
Furniture, fixtures and equipment	12 - 13
Vehicles	10
Leasehold improvements	5 - 8

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.12).

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

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.18 Intangible assets

Intangible assets comprise separately identifiable intangible items arising mainly from computer software licences. Intangible assets are recognised at cost. These intangible assets have a definite useful life and are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 5 years.

2.19 Non-current assets classified as held for sale

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

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

2.20 Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

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

(b) Deferred income tax

Deferred income tax is provided in full, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when (i) there is a legally enforceable right to offset current tax assets against current tax liabilities and (ii) when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority and (iii) where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

The Bank is subscribed to the compulsory defined benefit plan of the National Social Security Fund.

IAS 19 'Employee benefits' requirements

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation. The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the NSSF. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability and are denominated in the currency in which the benefits will be paid.

Statutory requirements

With reference to the directives of the National Social Security Fund and Labour laws, the Bank is required to record a provision for staff termination indemnities as if the employment of all staff were to be terminated at the balance sheet date. This provision is calculated as the difference between total indemnities due (a factor of number of years of service and the average monthly salary, based on the last 12 months' remunerations) and the total monthly contributions paid to the NSSF (which represents 8.5% of the paid employee benefits).

The difference between the two bases set out above tends not to be significant. The Bank is therefore materially in compliance with the requirements of IAS 19.

2.22 Provisions

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

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

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

2.23 Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation.

The fee income earned is recognised on a straight-line basis over the life of the guarantee. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

2.24 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.
Preference shares are redeemable at the sole discretion of the issuer and are classified as equity instruments.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the date of the balance sheet are dealt with in the subsequent events note.

(c) Cash contributions to capital

Cash contributions to capital are classified as equity. A part of these cash contributions generates interest charges paid to the respective shareholders.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Bank will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate (notes 19 and 27b).

2.26 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

3 Financial risk management

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

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

The Bank's board of directors provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

The Bank has established the Risk Committee to assist the Board in assessing the different types of risk to which the Bank is exposed, as well as its risk management structure, organisation and processes.

The Board's Risk committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The Board Audit Committee is assisted in its oversight role by the Internal Audit Unit. The Internal Audit Unit undertakes both regular and ad hoc reviews over risk management controls and procedures, the results of which are reported to the Audit Committee.

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

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk and operational risk.

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from corporate and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including non-equity trading portfolio assets, derivatives, settlement balances with market counterparties and repurchase agreements.

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

3.1.1 Credit risk measurement

(a) Loans and advances to customers (including loan commitments and guarantees)

With respect to loans and advances to customers, the Bank rates its counterparties based on its internal rating system (established by reference to the Supervisory Rating Model set by the Central Bank of Lebanon):

Performing loans:

- Normal - the loan is expected to be repaid on a timely and consistent basis;
- Follow-up - the loan is expected to be repaid but the client's file is not complete;
- Special mention - the loan is expected to be repaid but current conditions lead to believe that the probability of repayment would be lowered.

Non-performing loans:

- Sub-standard - client's ability to repay is dependent on the amelioration of financial position or liquidation of collateral(s) on hand;
- Doubtful - probability of loss upon settlement of loan even after taking into consideration liquidation of collateral(s) in place; and
- Bad - the probability of repayment is low and almost nil.

These credit risk classifications are taken into consideration when measuring the impairment allowances required under IAS 39. Impairment losses are based on losses that have been incurred at the balance sheet date (the "incurred loss model").

(b) Debt securities

For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by the Asset and Liability Committee for managing the credit risk exposures.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual borrowers, groups, industries, countries and types of facilities.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are set by the Board of Directors, (in compliance with the requirements of BDL basic circulars no. 48, 62 and 81). In addition, the exposure to any one borrower or related borrowers is further restricted by sub-limits covering on and off-balance sheet exposures, in compliance with the requirement of BDL basic circular no. 48.

Lending limits are reviewed in the light of changing market and economic conditions and yearly credit reviews of outstanding facilities to clients.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

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

- Mortgages over residential properties (housing loans);
- Mortgages over commercial properties (corporate loans);
- Cash collaterals;
- Bank and public sector guarantees;

- Pledged assets such as premises, inventory, accounts receivable, commercial bills, machinery, vehicles, trade rights; and
- Pledged financial instruments such as debt securities and equities.

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

Collateral held as security for financial assets other than loans and advances to customers is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. Reverse repurchase agreements are collateralised by the Central Bank of Lebanon Certificates of Deposit (note 6) for the period of the facility.

(b) Master netting arrangements

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

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

The primary purpose of these conditions is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate, in addition to a cash collateral as set by the credit committee (based on the credit rating of the customer, usually a margin of no less than 15% is requested in compliance with BDL basic circular no. 52), and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

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

3.1.3 Impairment and provisioning policies

Impairment allowances are only recognised for losses that have been incurred at the date of the balance sheet based on objective evidence of impairment (refer to note 2.8). Accordingly, the internal and external rating systems described in note 3.1.1 are used as indicators for impairment.

The impairment allowance shown in the separate financial statements at year-end is derived from each of the six internal supervisory rating grades of loans. The largest component of impairment allowance comes from the doubtful grade. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

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

	2017		2016	
	Credit risk exposure %	Impairment provision %[1]	Credit risk exposure %	Impairment provision %[1]
1. Performing (normal, follow up & special mention)	93%	6%	94%	7%
2. Sub-standard	2%	12%	1%	10%
3. Doubtful	4%	43%	4%	62%
4. Bad	1%	100%	1%	100%
	100%		100%	

The total impairment constitutes 8% (2016 - 10%) of the total gross loans portfolio.

[1] The impairment provision is shown above as a percentage of gross loans in their respective categories.

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

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

	Maximum exposure	
	2017 LL Million	2016 LL Million
Assets		
Balances with Central Banks	2,377,830	1,908,408
Deposits with banks and financial institutions	1,052,215	924,531
Loans and advances to customers		
Loans to individuals		
- Mortgages	478,689	446,684
- Personal	83,022	112,417
- Car	88,735	85,815
- Other retail	201,998	86,952
Loans to corporate entities		
- Large corporate customers	649,599	666,290
- Small and medium size enterprises ("SMEs")	1,037,484	1,017,453
- Subsidised loans	83,013	90,976
- Kafalat loans	23,129	24,793
Debtors by acceptances	63,067	78,146
Investment securities at fair value through profit or loss (debt securities)	167,315	207,084
Investment securities at amortised cost	3,774,577	3,761,722
Other assets	49,931	31,657
At 31 December	10,130,604	9,442,928

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

	2017 LL Million	2016 LL Million
Loan commitment (unused facilities)	611,281	531,761
Letters of guarantee	147,608	280,922
Letters of credit	132,525	122,726
	891,414	935,409

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

The above table shows the split between large corporate and SME loans based on the intermediate BDL circular no. 396 issued on 8 September, 2015.

As shown above, 39% of the total maximum exposure is derived from investment securities (2016 - 42%); 26% is derived from loans and advances to customers (2016 - 27%) and 23% is derived from balances with Central Banks (2016 - 20%).

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

- 64% of the Bank's debt securities portfolio is allocated to Lebanese treasury bills (2016 - 58%), of which 59% is denominated in Lebanese pounds (2016 - 63%), whose risk of default is considered nil, and

- 34% of the Bank's debt securities portfolio classified at amortised cost is allocated to certificates of deposits issued by the Central Bank of Lebanon (2016 - 40%), of which 57% is denominated in Lebanese pounds (2016 - 54%), whose risk of default is considered nil.

- 93% of the loans and advances portfolio is categorised in the top two grades of the internal rating system, i.e. classified as performing (2016 - 94%);

- 49% of the gross loans and advances portfolio is fully collateralised and the net exposure (gross loan amount less provisions and collaterals) represents 1% of the total gross loans and advances portfolio;

- 75% of the loans and advances portfolio are considered to be neither past due nor impaired (2016 - 83%); and

- 36% of balances with Central Banks are placed in local currency (2016 - 41%), whose risk of default is considered nil.

Concentration of risks of financial assets with credit risk exposure

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

	Lebanon LL Million	Arab countries LL Million	United States LL Million	European countries LL Million	Other countries LL Million	Total LL Million
Financial assets						
Balances with Central Banks	2,274,137	102,358	-	1,335	-	2,377,830
Deposits with banks and financial institutions	456,842	9,079	356,000	226,012	4,282	1,052,215
Loans and advances to customers	2,212,556	288,625	1,010	99,588	43,890	2,645,669
Debtors by acceptances	53,337	7,211	-	-	2,519	63,067
Investment securities through profit or loss (debt securities)	167,315	-	-	-	-	167,315
Investment securities at amortised cost	3,721,814	-	16,583	36,180	-	3,774,577
Other assets	48,578	1,141	-	212	-	49,931
At 31 December, 2017	**8,934,579**	**408,414**	**373,593**	**363,327**	**50,691**	**10,130,604**
Financial assets						
Balances with Central Banks	1,805,703	102,040	-	665	-	1,908,408
Deposits with banks and financial institutions	435,944	113,321	242,308	127,793	5,165	924,531
Loans and advances to customers	2,188,000	259,079	1,218	52,638	30,445	2,531,380
Debtors by acceptances	62,373	14,526	-	111	1,136	78,146
Investment securities at fair value through profit or loss (debt securities)	207,084	-	-	-	-	207,084
Investment securities at amortised cost	3,701,422	3,015	15,075	36,180	6,030	3,761,722
Other assets	31,053	45	-	559	-	31,657
At 31 December 2016	**8,431,579**	**492,026**	**258,601**	**217,946**	**42,776**	**9,442,928**

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2017		2016	
	Loans and advances to customers LL Million	**Loans and advances to banks LL Million**	Loans and advances to customers LL Million	Loans and advances to banks LL Million
Neither past due nor impaired	**2,161,780**	**1,052,215**	2,323,753	924,531
Past due but not impaired	**539,173**	**-**	314,665	-
Individually impaired	**186,771**	**-**	171,379	-
Gross	**2,887,724**	**1,052,215**	2,809,797	924,531
Less: allowance for impairment	**(242,055)**	**-**	(278,417)	-
Net	**2,645,669**	**1,052,215**	2,531,380	924,531
Individually impaired	**(146,140)**	**-**	(176,914)	-
Collective allowance	**(95,915)**	**-**	(101,503)	-
Total	**(242,055)**	**-**	(278,417)	-

The total impairment charge for loans and advances is LL 242.06 billion (2016 - LL 278.42 billion) of which LL 146.14 billion (2016 -LL 176.91 billion) represents the individually impaired loans, and the remaining amount of LL 95.92 billion (2016 - LL 101.50 billion) represents the collective allowance. Further information of the impairment allowance for loans and advances with banks and financial institutions and to customers is provided in notes 6 and 7.

During the year ended 31 December, 2017, the Bank's total loans and advances increased by 7% mainly due to the increase in deposits with banks and financial institutions.

(a) Loans and advances neither past due nor impaired

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

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	Small and medium enterprises LL Million	Subsidised LL Million	Kafalat LL Million	Total LL Million
Grades:									
1. Normal	415,098	86,853	80,802	118,666	366,768	700,428	53,644	17,243	1,839,502
2. Follow-up	44	9	17	8,220	23,965	39,081	-	-	71,336
3. Special mention	1,667	421	95	1,698	153,779	92,423	221	638	250,942
At 31 December, 2017	**416,809**	**87,283**	**80,914**	**128,584**	**544,512**	**831,932**	**53,865**	**17,881**	**2,161,780**
Grades:									
1. Normal	431,664	109,260	84,703	50,048	417,664	724,529	89,132	22,763	1,929,763
2. Follow-up	1	12	114	267	58,693	119,729	814	-	179,630
3. Special mention	2,645	148	262	939	113,168	95,858	1,030	310	214,360
At 31 December, 2016	**434,310**	**109,420**	**85,079**	**51,254**	**589,525**	**940,116**	**90,976**	**23,073**	**2,323,753**

(b) Loans and advances past due but not impaired

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

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	Small and medium enterprises LL Million	Subsidised LL Million	Kafalat LL Million	Total LL Million
Past Due:									
1. Up to 30 Days	31,585	632	9,781	72,932	42,048	109,454	30,406	4,039	300,877
2. 30-60 Days	42,530	160	3,333	497	19,882	18,564	1,023	1,081	87,070
3. 60-90 Days	10,870	137	1,217	6,170	9,074	18,344	647	259	46,718
4. Above 90 Days	8,837	357	1,310	517	50,588	42,839	60	-	104,508
At 31 December, 2017	**93,822**	**1,286**	**15,641**	**80,116**	**121,592**	**189,201**	**32,136**	**5,379**	**539,173**
Fair Value of Collateral	**132,090**	**3,061**	**41,728**	**40,108**	**210,435**	**232,919**	**38,032**	**2,653**	**701,026**
Past Due:									
1. Up to 30 Days	24,558	9,086	4,983	22,623	17,781	413	-	-	79,444
2. 30-60 Days	10,171	134	332	15,157	-	8	252	-	26,054
3. 60-90 Days	3,794	69	101	110	11,776	70,812	-	20	86,682
4. Above 90 Days	4,805	301	612	4,255	88,095	23,809	567	41	122,485
At 31 December, 2016	**43,328**	**9,590**	**6,028**	**42,145**	**117,652**	**95,042**	**819**	**61**	**314,665**
Fair Value of Collateral	**60,168**	**13,290**	**8,371**	**69,151**	**129,974**	**131,767**	**1,137**	**85**	**413,943**

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is assessed by reference to market price or by using valuation techniques with updated market data.

(c) Loans and advances individually impaired

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

(i) Loans and advances to customers

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	Small and medium enterprises LL Million	Subsidised LL Million	Kafalat LL Million	Total LL Million
At 31 December, 2017									
Gross amount	**4,943**	**2,358**	**1,498**	**893**	**30,818**	**140,868**	**2,834**	**2,559**	**186,771**
Fair Value of Collateral	**7,293**	**11**	**3,075**	**213**	**33,066**	**122,557**	**5,572**	**1,297**	**173,084**
At 31 December, 2016									
Gross amount	3,775	2,141	1,379	1,357	4,613	149,763	4,770	3,582	171,380
Fair Value of Collateral	2,858	1,621	1,044	822	4,742	113,380	3,611	2,712	130,790

The above table shows the split between large corporate and SME loans based on the intermediate BDL circular no. 396 issued on 8 September, 2015.

(ii) Loans and advances to banks and financial institutions

The total amount of individually impaired balances with banks and financial institutions as at 31 December, 2017, was nil (2016 - nil). No collateral is held by the Bank, except for loans and advances to financial institutions and for reverse repo transactions that are fully secured. No impairment provision has been recognised.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria that, in the judgement of management, indicate that payment will most likely continue. Restructuring is most commonly applied to term loans. As shown below, restructuring is not proving to be effective as the asset continues to be impaired:

	2017	2016
	LL Million	LL Million
Loans and advances to customers - individuals		
Term loans - performing loans	**1,388**	2,422
Term loans - non-performing loans	**3,182**	4,608
	4,570	7,030

3.1.6 Debt securities

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

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Investment securities at fair value through profit or loss (debt securities)	-	-	-	-	-	167,315	167,315
Investment securities at amortised cost	-	-	19,667	33,283	-	3,721,627	3,774,577
At 31 December, 2017	**-**	**-**	**19,667**	**33,283**	**-**	**3,888,942**	**3,941,891**
Investment securities at fair value through profit or loss (debt securities)	-	-	-	-	-	207,084	207,084
Investment securities at amortised cost	-	-	18,198	39,429	3,033	3,701,062	3,761,722
At 31 December, 2016	**-**	**-**	**18,198**	**39,429**	**3,033**	**3,908,146**	**3,968,806**

3.1.7 Repossessed collateral

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

	2017	2016
	LL Million	LL Million
Nature of assets		
Residential property- carrying amount	**4,846**	2,760

Under the requirements of the Central Bank of Lebanon, repossessed properties (against facilities provided locally) should be sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within assets classified as held for sale (note 16).

3.2 Market risk

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

The Board of Directors sets limits for the acceptable level of risks that can be assumed on the trading book. ALCO is responsible of managing the Bank's exposure to the various market risk and to ensure that risks are within acceptable limits.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's investment securities.

3.2.1 Market risk measurement techniques

The major measurement technique used to measure and control market risk is outlined below.

Sensitivity analysis

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

Interest rate risk

If the interest rate increases/decreases by 2%, the net effect [gain/(loss)] is as follows:

	2017		2016	
	USD LL Million	LBP LL Million	USD LL Million	LBP LL Million
Effect on profit	**86**	**5,731**	96	9,027

There is no impact on Lebanese denominated financial instruments as they are held at amortised cost and carry fixed interest rates.

3.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its balance sheet and cash flows. The Board of Directors sets limits on the level of exposure by currency as follows:

- Net exposure by currencies should not exceed 1% of Tier I capital.
- Gross exposure (in absolute terms) by currencies should not exceed 40% of Tier I capital (with reference to BDL circular no. 43).

The above mentioned limits are set with reference to BDL basic circular no. 32. These limits are closely monitored on a daily basis by the Bank's Treasury department on a daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December, 2017 and 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

At 31 December, 2017	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Other LL Million	Total LL Million
Financial assets						
Cash and balances with Central Banks	894,885	1,412,940	132,027	518	70,919	2,511,289
Deposits with banks and financial institutions	65,559	936,801	20,233	12,433	17,189	1,052,215
Loans and advances to customers	679,810	1,797,255	102,798	55,988	9,818	2,645,669
Debtors by acceptances	-	56,214	3,738	912	2,203	63,067
Investment securities at fair value through profit or loss (debt securities)	150,125	47,441	9,028	-	-	206,594
Investment securities at amortised cost	2,116,757	1,577,886	79,934	-	-	3,774,577
Other assets	20,786	28,744	375	-	26	49,931
Total financial assets	**3,927,922**	**5,857,281**	**348,133**	**69,851**	**100,155**	**10,303,342**
Financial liabilities						
Due to the Central Bank of Lebanon	179,280	-	-	-	-	179,280
Deposits from banks and financial institutions	7,765	127,743	33,649	1	146	169,304
Deposits from customers	3,361,585	5,233,786	293,324	71,975	60,639	9,021,309
Engagements by acceptances	-	56,214	3,738	912	2,203	63,067
Other liabilities	26,501	11,051	1,615	-	741	39,908
Total financial liabilities	**3,575,131**	**5,428,794**	**332,326**	**72,888**	**63,729**	**9,472,868**
Net on-balance sheet financial position	**352,791**	**428,487**	**15,807**	**(3,037)**	**36,426**	**830,474**

At 31 December, 2016	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Other LL Million	Total LL Million
Financial assets						
Cash and balances with Central Banks	847,341	1,018,900	88,128	650	90,758	2,045,777
Deposits with banks and financial institutions	18,774	775,859	81,986	20,995	26,917	924,531
Loans and advances to customers	603,442	1,814,963	62,363	47,212	3,400	2,531,380
Debtors by acceptances	-	72,948	3,170	207	1,821	78,146
Investment securities at fair value through profit or loss (debt securities)	180,072	18,838	8,174	-	-	207,084
Investment securities at amortised cost	2,160,978	1,529,441	71,303	-	-	3,761,722
Other assets	8,053	23,237	299	-	68	31,657
Total financial assets	**3,818,660**	**5,254,186**	**315,423**	**69,064**	**122,964**	**9,580,297**
Financial liabilities						
Due to the Central Bank of Lebanon	19,407	-	-	-	-	19,407
Deposits from banks and financial institutions	2,666	43,229	43,509	1	43	89,448
Deposits from customers	3,419,720	4,749,503	261,878	73,665	97,282	8,602,048
Engagements by acceptances	-	72,948	3,170	206	1,822	78,146
Other liabilities	25,274	3,647	1,175	281	1,488	31,865
Total financial liabilities	**3,467,067**	**4,869,327**	**309,732**	**74,153**	**100,635**	**8,820,914**
Net on-balance sheet financial position	**351,593**	**384,859**	**5,691**	**(5,089)**	**22,329**	**759,383**

3.2.3 Interest rate risk

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

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier contractual repricing (for example for floating rate notes) or maturity dates.

At 31 December, 2017	Up to 1 month LL Million	1 - 3 months LL Million	3 - 12 months LL Million	1 - 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
Financial assets							
Cash and balances with Central Banks	72,298	98,802	61,759	900,263	993,801	384,366	2,511,289
Deposits with banks and financial institutions	656,279	141,645	75,996	802	-	177,493	1,052,215
Loans and advances to customers	726,612	390,376	838,284	590,706	70,306	29,385	2,645,669
Debtors by acceptances	1,204	3,210	5,112	-	-	53,541	63,067
Investment securities at fair value through profit or loss (debt securities)	-	-	25,316	68,784	73,215	-	167,315
Investment securities at amortised cost	36,108	36,751	338,851	1,816,664	1,546,203	-	3,774,577
Other assets	1,297	-	-	-	-	48,634	49,931
Total financial assets	**1,493,798**	**670,784**	**1,345,318**	**3,377,219**	**2,683,525**	**693,419**	**10,264,063**
Financial liabilities							
Due to the Central Bank of Lebanon	11,959	-	37,976	-	129,345	-	179,280
Deposits from banks and financial institutions	13,345	6,367	119,136	23,703	-	6,753	169,304
Deposits from customers	5,906,809	776,927	1,223,354	401,391	5,315	707,513	9,021,309
Engagements by acceptances	-	-	-	-	-	63,067	63,067
Other liabilities	556	-	-	-	-	39,351	39,907
Total financial liabilities	**5,932,669**	**783,294**	**1,380,466**	**425,094**	**134,660**	**816,684**	**9,472,867**
Total interest repricing gap	**(4,438,871)**	**(112,510)**	**(35,148)**	**2,952,125**	**2,548,865**		

At 31 December, 2016	Up to 1 month LL Million	1 - 3 months LL Million	3 - 12 months LL Million	1 - 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
Financial assets							
Cash and balances with Central Banks	274,100	125,732	386,200	344,557	473,971	441,217	2,045,777
Deposits with banks and financial institutions	508,725	206,459	82,955	1,203	-	125,189	924,531
Loans and advances to customers	785,232	220,268	901,560	515,724	69,816	38,780	2,531,380
Debtors by acceptances	-	-	-	-	-	78,146	78,146
Investment securities at fair value through profit or loss (debt securities)	-	-	-	76,391	130,693	-	207,084
Investment securities at amortised cost	30,915	137,716	377,490	1,875,805	1,339,796	-	3,761,722
Other assets	-	-	-	-	-	31,657	31,657
Total financial assets	**1,598,972**	**690,175**	**1,748,205**	**2,813,680**	**2,014,276**	**714,989**	**9,580,297**
Financial liabilities							
Due to the Central Bank of Lebanon	-	-	-	19,407	-	-	19,407
Deposits from banks and financial institutions	68,598	6,405	5,985	8,146	-	314	89,448
Deposits from customers	6,100,226	632,418	828,723	345,166	9,915	685,600	8,602,048
Engagements by acceptances	-	-	-	-	-	78,146	78,146
Other liabilities	-	-	-	-	-	31,865	31,865
Total financial liabilities	**6,168,824**	**638,823**	**834,708**	**372,719**	**9,915**	**795,925**	**8,820,914**
Total interest repricing gap	**(4,569,852)**	**51,352**	**913,497**	**2,440,961**	**2,004,361**		

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements (BDL basic circulars no. 72, 73, 84, 86 and 87); and
- Managing the concentration and profile of debt maturities.

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

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

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

At 31 December, 2017	Up to 1 month LL Million	1 - 3 months LL Million	3 - 12 months LL Million	1 - 5 years LL Million	Over 5 years LL Million	Total LL Million
Assets						
Cash and balances with the Central Banks	456,100	98,214	63,062	1,039,666	8,676,739	10,333,781
Deposits with banks and financial institutions	832,067	141,802	76,556	853	-	1,051,278
Investment securities at fair value through profit or loss (debt securities)	466	380	19,619	116,765	88,629	225,859
Investment securities at amortised cost	56,219	81,901	403,668	2,458,723	1,616,033	4,616,544
Total financial assets	**1,344,852**	**322,297**	**562,905**	**3,616,007**	**10,381,401**	**16,227,462**
Liabilities						
Due to the Central Bank of Lebanon	11,875	-	38,272	-	154,383	204,530
Deposits from banks and financial institutions	19,984	6,324	119,802	24,481	-	170,591
Deposits from customers	6,595,610	780,208	1,266,233	442,521	10,152	9,094,724
Engagement by acceptances	63,067	-	-	-	-	63,067
Other liabilities	39,908	-	-	-	-	39,908
Total liabilities	**6,730,444**	**786,532**	**1,424,307**	**467,002**	**164,535**	**9,572,820**
Net financial (liabilities) / assets	**(5,385,592)**	**(464,235)**	**(861,402)**	**3,149,005**	**10,216,866**	**6,654,642**

At 31 December, 2016	Up to 1 month LL Million	1 - 3 months LL Million	3 - 12 months LL Million	1 - 5 years LL Million	Over 5 years LL Million	Total LL Million
Assets						
Cash and balances with the Central Banks	719,747	125,288	390,389	378,080	1,257,098	2,870,602
Deposits with banks and financial institutions	632,473	206,714	83,485	1,335	-	924,007
Investment securities at fair value through profit or loss (debt securities)	615	1,087	10,183	118,915	158,810	289,610
Investment securities at amortised cost	47,909	170,545	554,233	2,483,439	1,619,653	4,875,779
Total financial assets	**1,400,744**	**503,634**	**1,038,290**	**2,981,769**	**3,035,561**	**8,959,998**
Liabilities						
Due to the Central Bank of Lebanon	-	-	-	19,407	-	19,407
Deposits from banks and financial institutions	68,492	6,374	5,995	9,657	-	90,518
Deposits from customers	6,770,266	634,797	849,190	384,669	16,690	8,655,612
Engagement by acceptances	78,146	-	-	-	-	78,146
Other liabilities	31,865	-	-	-	-	31,865
Total liabilities	**6,948,769**	**641,171**	**855,185**	**413,733**	**16,690**	**8,875,548**
Net financial (liabilities) / assets	**(5,548,025)**	**(137,537)**	**183,105**	**2,568,036**	**3,018,871**	**84,450**

3.3.3 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprises:

- Cash and balances with Central Banks;
- Lebanese treasury bills denominated in foreign currency that are easily liquidated in the secondary markets; and
- Secondary sources of liquidity in the form of current accounts and short-term placements (with maturities less than 3 months) with foreign banks.
- Lebanese Treasury bills denominated in local currency that are easily absorbed by the Central Bank of Lebanon in case of exceptional deposits withdrawals.

3.4 Fair value of financial instruments

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations.

(a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Quoted market prices - Level 1

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

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

Valuation technique using observable inputs - Level 2

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

This category includes liquid treasury and corporate bonds, certificates of deposits and balances with banks and the Central Banks.

Valuation technique using significant unobservable inputs - Level 3

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

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

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the assets or paid to transfer the liability in an order by transaction between market participants at the measurement date.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

(b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised at 31 December, 2017.

	Level 1 LL Million	Level 2 LL Million	Total fair values LL Million	Total carrying amount LL Million
At 31 December, 2017				
Assets				
Balances with Central Banks (i)	-	2,664,385	2,664,385	2,377,830
Deposits with banks and financial institutions (i)	-	1,052,215	1,052,215	1,052,215
Loans and advances to customers (ii)	-	2,673,461	2,673,461	2,645,669
Investment securities at amortised cost (iii)	1,616,299	2,172,353	3,788,652	3,774,577
Total financial assets	**1,616,299**	**8,562,414**	**10,178,713**	**9,850,291**
Liabilities				
Due to the Central Bank of Lebanon (iv)	-	179,280	179,280	179,280
Deposits from banks and financial institutions (iv)	-	169,304	169,304	169,304
Deposits from customers (iv)	-	9,037,699	9,037,699	9,021,309
Total financial liabilities	**-**	**9,386,283**	**9,386,283**	**9,369,893**

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised at 31 December, 2016.

	Level 1 LL Million	Level 2 LL Million	Total fair values LL Million	Total carrying amount LL Million
At 31 December, 2016				
Assets				
Balances with Central Banks (i)	-	2,131,942	2,131,942	1,908,408
Deposits with banks and financial institutions (i)	-	924,531	924,531	924,531
Loans and advances to customers (ii)	-	2,575,566	2,575,566	2,531,380
Investment securities at amortised cost (iii)	1,572,532	2,396,705	3,969,237	3,761,722
Total financial assets	**1,572,532**	**8,028,744**	**9,601,276**	**9,126,041**
Liabilities				
Due to the Central Bank of Lebanon (iv)	-	19,407	19,407	19,407
Deposits from banks and financial institutions (iv)	-	89,448	89,448	89,448
Deposits from customers (iv)	-	8,622,576	8,622,576	8,602,048
Total financial liabilities	**-**	**8,731,431**	**8,731,431**	**8,710,903**

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

(i) Balances with Central Banks and deposits with banks and financial institutions

The carrying amount of floating rate placements, overnight deposits, items in the course of collection, and current accounts (i.e. maturity less than 1 year) is a reasonable approximation of fair value.
The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances excluding overdrafts and impaired loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.
The carrying amount of overdrafts is a reasonable approximation of fair value. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral.

(iii) Investment securities at amortised cost

The fair value is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity, and yield characteristics. For more information, refer to step (ii) above.

(iv) Due to the Central Bank of Lebanon, deposits from banks and financial institutions, and deposits from customers.

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.
The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(c) Financial instruments measured at fair value

	Level 1 LL Million	Level 2 LL Million	Total LL Million
At 31 December, 2017			
Investment securities at fair value through profit or loss:			
- Debt securities	18,012	149,303	167,315
- Equity securities	2,127	37,152	39,279
Total assets measured at fair value	**20,139**	**186,455**	**206,594**
At 31 December, 2016			
Investment securities at fair value through profit or loss:			
- Debt securities	27,011	180,073	207,084
- Equity securities	2,254	36,777	39,031
Total assets measured at fair value	**29,265**	**216,850**	**246,115**

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial/reputational loss. The Bank has set its policies and procedures to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Bank as part of overall risk management activities.

Within the risk management framework, the operational risk section performs its functions in accordance with BCC circular no. 252. This section is continuously working on the following areas:

- Update of the comprehensive loss events database and creation of risk registers;
- Risk and controls self-assessments;
- Thorough assessment for all new products introduced by the Bank;
- Business continuity planning; and
- Training and awareness sessions.

Compliance with the Bank's policies and procedures and regulatory requirements are supported by a program of periodic reviews undertaken by the internal audit department. The results of Internal Audit reviews are discussed with the Audit Committee and senior management of the Bank and action plans are set for resolution of any issues. Insurance coverage is used as an external mitigation and is set in line with the Bank's depth of operations.

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly managed by the Bank's management, employing techniques, as requested by the Central Bank of Lebanon (based on the guidelines developed by the Basel Committee). The required information is filed with the regulator on a semi-annual basis.

As per the Central Bank of Lebanon directives, all banks are required to hold a minimum level of regulatory capital of LL 10 billion for the head office and LL 500 million per local branch and LL 1.5 billion per foreign branch. In addition, all the Bank's branches located outside Lebanon are subject to capital requirements of their respective jurisdiction (i.e. Cyprus and Iraq).

The regulatory capital requirements are strictly observed when managing economic capital. The Bank complied with all capital ratios requirements throughout the period.

The table below summarises the composition of regulatory capital ratios for the years ended 31 December, 2017 and 2016. The computation of the capital adequacy ratio was performed in accordance with the directives issued by the Banking Control Commission of Lebanon (BCCL memo no. 5/2016).

	2017	2016
	LL Million	LL Million
Common Equity Tier 1 ("CET 1")		
Share capital and contributions to capital	**149,414**	149,439
Reserves (excluding profit for the year)	**190,376**	168,717
Retained earnings	**316,421**	251,531
Less: regulatory adjustments		
Intangible assets	**(2,431)**	(3,704)
Total CET 1	**653,780**	565,983
Additional Tier 1 Capital ("AT 1")		
Non-cumulative preferred shares and similar financial instruments	**196,001**	196,001
Total qualifying Tier 1 Capital	**849,781**	761,984
Deferred government grant	**14,105**	14,105
Real estate revaluation reserve	**10,000**	10,000
Tier 2 Capital	**24,105**	24,105
Total regulatory capital (Tier 1 + Tier 2)	**873,886**	786,089

	2017	2016
	LL Million	LL Million
Risk-weighted assets		
Credit risk	**5,466,501**	4,756,066
Market risk	**81,031**	126,361
Operational risk	**376,759**	352,410
Total risk-weighted assets	**5,924,291**	5,234,837

The Bank's capital adequacy ratios as compared to supervisory requirements are shown below:

	BBAC		Supervisory		Basel III
	2017	2016	2017	2016	2017
Common Equity Tier 1 Ratio	**11.03%**	10.81%	9%	8.5%	8%
Tier 1 Capital Ratio	**14.34%**	14.56%	12%	11%	10%
Total Capital Ratio	**14.75%**	15.01%	14.5%	14%	12%

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment losses on loans and advances to clients

The Bank reviews its loan portfolios to assess impairment on at least a semi-annual basis. Specific impairment provisions are determined by assessing each client facility individually. The factors taken into consideration for the individual assessment include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances, and the value of collateral and potential repossession.

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 provisions should be established due to incurred loss events for which there is objective evidence but whose effects are not yet evident. In assessing the need for collective provision, the Bank considers factors such as credit quality, portfolio size, concentrations and economic factors.

To estimate the required allowance, assumptions are made to define how inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the collective provisions depends on the model assumptions and parameters used in determining the collective allowance.

Fluctuations in the net present value of estimated cash flows of +/- 5% would give rise to an increase/decrease in impairment loss of LL 13.9 billion.

(b) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using discounted cash flow model. These cash flow models are based on underlying market prices for interest rates. Changes in market rates could affect the reported fair value of financial instruments.

(c) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

(d) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Lebanese government securities that have terms to maturity approximating the terms of the related liability.

Fluctuations in the discount rate of +/- 0.5% would give rise to an increase/decrease in the pension obligation of approximately LL 1.6 billion.

4.2 Critical judgements in applying the Bank's accounting policies

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

Business model

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

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

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

5 Cash and balances with Central Banks

	2017	2016
	LL Million	LL Million
Cash in hand	128,943	133,456
Other money market placements	121,188	311,075
Balances with Central Banks other than mandatory reserve deposits	309,929	307,842
Included in cash and cash equivalents (note 34)	560,060	752,373
Mandatory reserve deposits with Central Banks	976,199	919,488
Mandatory reserve - cash in hand (Central Bank of Iraq)	4,517	3,913
Placements with BDL other than mandatory reserves	959,914	367,890
Less: allowance for impairment	(6,943)	(6,943)
Accrued interest receivable - BDL	17,542	9,056
	1,951,229	1,293,404
	2,511,289	2,045,777
Current	742,148	1,295,214
Non-current	1,769,141	750,563
	2,511,289	2,045,777

The Lebanon operations (i.e. the Head office and the branches operating in Lebanon) along with the foreign branches (i.e. Iraq and Cyprus) are subject to mandatory reserve requirements as applicable in each individual jurisdiction. Mandatory reserves are not available for use in the Bank's day to day operations.

In accordance with the Banking Control Commission (BCC) directive, an allowance for impairment of LL 6.9 billion is carried against the outstanding balance (sight deposits) with the Central Bank of Iraq (Kurdistan Branch).

Cash in hand is interest free, other money market placements are floating rate assets, and placements with BDL (other than mandatory reserves) are at fixed rates.

6 Deposits with banks and financial institutions

	2017	2016
	LL Million	LL Million
Current accounts	**407,451**	346,168
Placements with other banks (with original maturities of less than 3 months) (see below)	**362,103**	287,532
Items in course of collection from other banks	**34,529**	29,379
Included in cash and cash equivalents (note 34)	**804,083**	663,079
Deposits with banks and financial institutions	**3,212**	3,612
Reverse repurchase agreements with a financial institution	**242,268**	255,453
Interest receivable	**2,652**	2,387
	248,132	261,452
	1,052,215	924,531
Current	**1,052,215**	923,331
Non-current	**-**	1,200
	1,052,215	924,531

7 Loans and advances to customers

	2017	2016
	LL Million	LL Million
Performing loans		
Medium and long term loans	**2,212,663**	2,132,680
Overdrafts	**394,651**	385,672
Discounted bills	**25,128**	23,493
Short term loans	**23,322**	57,421
Scheduled loans	**15,276**	18,589
Loans and advances to related parties (note 36)	**9,960**	8,025
Creditors accidentally debtors	**2,237**	1,556
Unpaid bills	**3,562**	2,567
Net debit against credit accounts - speculation accounts	**37**	-
Interest receivable	**14,117**	8,415
Non-performing loans		
- Substandard	**62,170**	29,222
- Doubtful	**111,888**	111,084
- Bad	**12,713**	31,073
Gross loans and advances to customers	**2,887,724**	2,809,797
Less: allowance for impairment (see below)	**(242,055)**	(278,417)
Net loans and advances to customers	**2,645,669**	2,531,380
Current	**964,499**	1,631,431
Non-current	**1,681,170**	899,949
	2,645,669	2,531,380
Allowance for impairment is broken down as follows:		
Unrealised interest		
Facilities rated substandard	**7,659**	3,029
Facilities rated doubtful	**15,288**	30,733
Facilities rated bad	**3,632**	13,068
	26,579	46,830
Specific provision	**119,561**	130,084
Total specific allowance	**146,140**	176,914
Collective allowance		
Facilities provided by Lebanon branches	**87,631**	92,116
Facilities provided by foreign branches ("Iraq")	**6,489**	6,400
Facilities provided to clients operating in Syria	**915**	2,040
Other	**880**	947
Total collective allowance	**95,915**	101,503
	242,055	278,417

Reconciliation of allowance account for loans and advances to customers is as follows:

	2017		2016	
	Specific allowance for impairment LL Million	Collective allowance for impairment LL Million	Specific allowance for impairment LL Million	Collective allowance for impairment LL Million
At 1 January	**176,914**	**101,503**	91,082	32,154
Charge for the year (note 24)	**15,562**	**2,425**	9,115	21,277
Charge for the year netted off against exceptional gain (note 27 (c))	**-**	**-**	74,420	48,240
Unrealised interest	**14,530**	**-**	11,924	-
Reversal of impairment (note 24)	**(7,894)**	**-**	(3,785)	-
Transfer from collective provision	**8,013**	**(8,013)**	-	(168)
Other	**1,987**	**-**		
Write-off of non-performing loans	**(62,972)**	**-**	(5,842)	-
At 31 December	**146,140**	**95,915**	176,914	101,503

8 Debtors and engagements by acceptances

	2017	2016
	LL Million	LL Million
Customers' acceptances	**63,067**	78,146

Customers' acceptances represent term documentary credits that the Bank has committed to settle on behalf of its customers against commitments provided by them, which are stated as a liability in the balance sheet under caption entitled "Engagements by acceptances". Debtors and engagements by acceptances are considered as current assets and liabilities.

9 Financial assets at fair value through profit or loss

	2017	2016
	LL Million	LL Million
Listed debt securities		
Lebanese treasury bills (Eurobonds)	**18,013**	27,012
Unlisted debt securities		
- Lebanese treasury bills	**116,953**	146,901
- Certificates of deposit - BDL	**32,349**	33,171
	149,302	180,072
Total debt securities at fair value through profit or loss	**167,315**	207,084
Equity securities		
- Listed	**2,127**	2,254
- Unlisted	**37,152**	36,777
Total equity securities at fair value through profit or loss	**39,279**	39,031
Total investment securities at fair value through profit or loss	**206,594**	246,115

All debt securities have fixed coupons.

10 Financial assets at amortised cost

	2017	2016
	LL Million	LL Million
Listed debt securities		
- Lebanese treasury bills (denominated in USD)	**1,022,336**	828,877
- Other debt securities	**52,933**	60,986
	1,075,269	889,863
Unlisted debt securities		
- Lebanese treasury bills	**1,374,307**	1,324,499
- Certificates of deposit - BDL (denominated in LBP)	**736,834**	824,580
- Certificates of deposit - BDL (denominated in USD)	**554,684**	679,068
- Certificates of deposit - commercial banks	**-**	15,095
- Securitisation funds	**14,396**	10,287
- Other debt securities	**19,087**	18,330
	2,699,308	2,871,859
Total financial assets at amortised cost	**3,774,577**	3,761,722
Current	**411,710**	546,121
Non-current	**3,362,867**	3,215,601
	3,774,577	3,761,722

All debt securities have fixed coupons.

The movement in financial assets at amortised cost is summarised as follows:

	2017	2016
	LL Million	LL Million
At 1 January	**3,761,722**	3,480,039
Additions	**1,030,955**	1,426,951
Sales	**(445,095)**	(832,658)
Redemptions	**(582,176)**	(309,660)
Exchange differences on financial assets	**9,171**	(2,950)
At 31 December	**3,774,577**	3,761,722

Special swaps with BDL

In 2016, the Bank availed itself of the special swaps with the Central Bank of Lebanon ("BDL"). These involved the sale on highly preferential terms of LL treasury bills and BDL certificates of deposit classified at amortised cost and at fair value through profit or loss amounting to LL 419 billion and LL 137 billion respectively, and a simultaneous purchase of USD denominated treasury bills and BDL certificates of deposit of an equivalent total amount. An exceptional gain was realised on these swaps amounting to LL 205 billion. The accounting treatment for the gain is explained in note 27c.

11 Investment in subsidiaries

	%	2017	2016
	Ownership	LL Million	LL Million
The Capital for Insurance and Reinsurance Company S.A.L. (i)	80%	**3,524**	3,524
Informatics Co. S.A.R.L. (ii)	84%	**-**	-
Société Libanaise de Service S.A.R.L. (iii)	91%	**-**	-
		3,524	3,524

(i) The Capital for Insurance and Reinsurance Company S.A.L. provides life and general insurance services for the local Lebanese market. The Company's equity amounted to LL 24.5 billion (2016 - LL 23.2 billion).

(ii) Informatics Co. S.A.R.L. was established to provide information technology services to the Bank. However, the Company ceased its operations in 1999 and is now only managing its cash balances. The Company's equity amounted to LL 2.3 billion (2016 - LL 2.2 billion).

(iii) Société Libanaise de Service S.A.R.L. manages the properties of the Bank and third parties and provides security and maintenance services. The Company's equity amounted to LL 5.8 billion (2016 - LL 5.6 billion).

12 Investment properties

	2017	2016
	LL Million	LL Million
Land	**5,747**	5,747
Building	**1,591**	1,591
	7,338	7,338

The fair value of this property was assessed in 2015 at an amount of LL 10.28 billion as determined by market prices for similar plots. This is considered as a level 2 fair valuation, as the most significant input into the valuation model is the price per square metre of comparable plots in close proximity. Management believe market prices in 2016 and 2017 are not significantly different from the corresponding prices in 2015.

The following amounts have been recognised in the statement of comprehensive income:

	2017	2016
	LL Million	LL Million
Rental income (note 28)	**78**	91
Maintenance expense (note 31)	**(137)**	(160)
	(59)	(69)

13 Property and equipment

	Land and buildings LL Million	Construction in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improve-ments LL Million	Total LL Million
At 1 January, 2016							
Cost	80,262	1,872	15,574	11,882	659	31,247	141,496
Accumulated depreciation	(21,003)	-	(11,273)	(7,464)	(269)	(16,546)	(56,555)
Net book amount	**59,259**	**1,872**	**4,301**	**4,418**	**390**	**14,701**	**84,941**
Year ended 31 December, 2016							
Opening net book amount	59,259	1,872	4,301	4,418	390	14,701	84,941
Additions	243	365	883	691	73	1,195	3,450
Disposals	-	-	(397)	(112)	(30)	-	(539)
Depreciation charge (note 30)	(2,281)	-	(1,455)	(847)	(90)	(1,525)	(6,198)
Closing net book amount	**57,221**	**2,237**	**3,332**	**4,150**	**343**	**14,371**	**81,654**
At 31 December, 2016							
Cost	80,505	2,237	15,946	12,234	702	32,442	144,066
Accumulated depreciation	(23,284)	-	(12,614)	(8,084)	(359)	(18,071)	(62,412)
Net book amount	**57,221**	**2,237**	**3,332**	**4,150**	**343**	**14,371**	**81,654**

	Land and buildings LL Million	Construction in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improve-ments LL Million	Total LL Million
Year ended 31 December, 2017							
Opening net book amount	57,221	2,237	3,332	4,150	343	14,371	81,654
Additions	7,743	396	2,492	559	145	2,140	13,475
Disposals	(131)	(216)	(1,862)	(49)	-	-	(2,258)
Transfers	-	-	-	-	-	215	215
Depreciation charge (note 30)	(2,431)	-	(1,386)	(921)	(101)	(1,824)	(6,663)
Closing net book amount	**62,402**	**2,417**	**2,576**	**3,739**	**387**	**14,902**	**86,423**
At 31 December, 2017							
Cost	88,013	2,417	15,915	12,682	843	34,797	154,667
Accumulated depreciation	(25,611)	-	(13,339)	(8,943)	(456)	(19,895)	(68,244)
Net book amount	**62,402**	**2,417**	**2,576**	**3,739**	**387**	**14,902**	**86,423**

The different levels for valuation of land and buildings have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is derived from prices) (Level 2).
- Inputs for the assets or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

At 31 December, 2016, the fair value of land and building as determined by independent licensed valuers (appointed by the Bank) shows a revaluation surplus of approximately LL 70 billion (gross of applicable capital gains tax). This revaluation surplus is not reflected in the financial statements since the Bank's accounting policy for property and equipment is historical cost.

14 Intangible assets

	Computer software licenses LL Million
At 1 January, 2016	
Cost	11,349
Accumulated amortisation	(8,383)
Net book amount	**2,966**
Year ended 31 December, 2016	
Opening net book amount	2,966
Additions	464
Amortisation charge (note 30)	(1,068)
Closing net book amount	**2,362**
At 31 December, 2016	
Cost	11,813
Accumulated amortisation	(9,451)
Net book amount	**2,362**
Year ended 31 December, 2017	
Opening net book amount	2,362
Additions	591
Amortisation charge (note 30)	(1,040)
Closing net book amount	**1,913**
At 31 December, 2017	
Cost	12,404
Accumulated amortisation	(10,491)
Net book amount	**1,913**

15 Other assets

	2017	2016
	LL Million	LL Million
Advances on purchases of property and equipment (i)	16,106	17,966
Electronic card facilities - not yet allocated to client accounts (ii)	12,468	9,752
Prepaid expenses	2,578	2,271
Receivable from National Social Security Fund (iii)	3,397	3,014
Other receivables	13,423	11,369
Doubtful receivables (iv)	15,567	15,303
Less: allowance for impairment (iv)	(7,785)	(7,781)
	55,754	51,894
Current	26,245	25,082
Non-current	29,509	26,812
	55,754	51,894

(i) Advances on purchases of property and equipment include an amount of LL 5.4 billion (2016 - LL 5.4 billion) paid to a contractor in respect of the construction of a branch in Beirut Central District. The project was substantially completed at the end of 2015. The property has not yet been delivered to the Bank pending finalisation of negotiations around the contractual price.

(ii) This account represents transactions executed by the clients on their electronic cards but not yet allocated to their accounts.

(iii) This account represents medical expenses advanced by the Bank to the employees prior to collection from the National Social Security Fund.

(iv) This account is broken down as follows: (a) receivable balances due from a money dealer of LL 2.9 billion (2016 - LL 2.9 billion). Management recorded a provision of LL 1.8 billion (2016 - LL 1.8 billion) to cover the expected loss. (b) An amount of LL 3.2 billion (2016 - LL 3.2 billion) that is fully provided for to cover losses incurred in connection with contentious depositors' claims in one of the Bank's branches. (c) Amounts receivable from two previous employees of LL 9.5 billion (2016 - LL 9.2 billion), who were involved in fraudulent activities. Management recorded a provision of LL 2.8 billion (2016 - LL 2.7 billion) against the uncovered exposure.

16 Non-current assets classified as held for sale

The movement of non-current assets classified as held for sale is as follows:

	2017	2016
	LL Million	LL Million
At 1 January	32,896	30,274
Acquisitions during the year	4,845	2,761
Disposals during the year	(1,296)	(139)
At 31 December	36,445	32,896

These assets represent properties acquired against settlement of defaulting clients' facilities. As stipulated by the code of money and credit, banks have two years (from date of acquisition) to liquidate those assets, otherwise they are required to constitute reserves (through appropriation from retained earnings) against these assets, prior to distribution of dividends (note 22).

In 2015, the Bank appointed licensed independent values to revalue the above mentioned assets. The fair value has been measured using observable inputs, being the prices for recent sales of similar properties, and is therefore within level 2 of the fair value hierarchy. The fair value of the above mentioned properties was estimated at LL 37.24 billion. Management believe the prices are still valid and current.

17a Deposits from banks and financial institutions

	2017	2016
	LL Million	LL Million
Deposits from banks	161,167	82,424
Deposits from financial institutions	6,642	6,509
Interest payable	1,495	515
	169,304	89,448
Current	145,819	62,086
Non-current	23,485	27,362
	169,304	89,448

Deposits from banks and financial institutions are classified as liabilities at amortised cost and are set at fixed rates.

17b Due to the Central Bank of Lebanon

	2017	2016
	LL Million	in LBP Million
Term loans from the Central Bank of Lebanon (i)	128,437	-
Loan from the Central Bank of Lebanon (ii)	49,585	19,166
Interest payable	1,258	241
	179,280	19,407

(i) Term loans totaling LL 128 billion as at 31 December, 2017, (2016: nil) were granted by the Central Bank of Lebanon ("BDL") against long term placements denominated in USD with BDL. The term loans are subject to a 2% interest rate payable on an annual basis with maturity of 7 and10 years

(ii) The Central Bank of Lebanon has granted the Bank soft loans in accordance with BDL intermediary circular number 318. The total loan amounts to LL 49.6 billion (2016 - LL 19.2 billion) and relates to housing and environmental loans granted to clients with average interest rates of 4.24% (2016 - 5.36%). This loan is subject to an annual interest rate of 1% and is payable through monthly instalments starting 2 January, 2015, with maturities ranging between 6 and 41 years.

18 Deposits from customers

	2017	2016
	LL Million	LL Million
Term deposits	6,801,204	6,418,408
Current/settlement accounts (a)	1,423,087	1,376,863
Deposits held as collateral (b)	573,283	583,934
Deposits from related parties (note 36)	183,074	190,006
Accrued interest payable	40,661	32,837
Total deposits from customers	9,021,309	8,602,048
Current	8,614,603	8,246,967
Non-current	406,706	355,081
	9,021,309	8,602,048
(a) Current/settlement accounts:		
Checking and current accounts	985,902	951,213
Saving accounts - demand	372,391	373,121
Debtors accidentally creditors	34,116	31,656
Payment orders	29,540	20,445
Public sector deposits	1,138	428
	1,423,087	1,376,863
(b) Deposits held as collateral:		
Blocked accounts against credit facilities	485,807	461,946
Margins against issuance of letters of guarantee	47,638	39,446
Margins against issuance of documentary credits	39,471	81,188
Margins on speculation accounts	367	1,354
	573,283	583,934

Deposits from customers are financial instruments classified as liabilities at amortised cost. All deposits are at fixed interest rates.

19 Other liabilities

	2017	2016
	LL Million	LL Million
Gain on "special swaps" with BDL - deferred portion (note 27c)	14,105	14,105
Due to credit card institution (see below)	6,712	6,978
Cheques in the course of settlement	6,500	-
Withholding taxes and other charges	5,029	3,673
Accrued expenses	4,027	3,676
Due to employees	3,359	2,980
Penalty on currency auctions - Central Bank of Iraq (Baghdad)	-	690
Due to National Social Security Fund	635	687
Dividends payable and interest payable on cash contribution to capital	289	254
Other provisions	14,088	17,694
Other liabilities	4,916	3,871
	59,660	54,608

The amount due to credit card institution of LL 6.71 billion (2016 - LL 6.98 billion) represents transactions executed by the clients through their credit cards and not yet settled by the Bank.

Other liabilities are expected to be settled within no more than 12 months of the date of the balance sheet.

20 Retirement benefit obligations

The movement in provision for retirement benefit obligations can be summarised as follows:

	2017	2016
	LL Million	LL Million
At 1 January	32,442	26,643
Charge for the year (note 29)	4,251	8,036
Payments during the year	(1,812)	(2,237)
At 31 December	34,881	32,442

21 Share capital and share premium

	2017	2016
	LL Million	LL Million
Common shares (i)	148,752	148,752
Preferred shares B (par value) (ii)	8,264	8,264
Preferred shares C (par value) (iii)	5,165	5,165
Total preferred shares	13,429	13,429
Preferred shares B (share premium)	112,336	112,336
Preferred shares C (share premium)	70,211	70,211
Share premium reserve (iv)	182,547	182,547
Cash contributions to capital		
Interest bearing (5.5% per annum)	36	36

(i) The Bank's common shares consist of 144,000,000 fully paid shares with a nominal value of LL 1,033 each.

(ii) The Bank's preferred shares consist of 8,000,000 shares (preferred shares 'B') with a nominal value of LL 1,033 each and an issue price of LL 15,075 (USD 10 per share).

(iii) On 2 September, 2016, an extraordinary general assembly was held to issue 5,000,000 non-cumulative redeemable preferred shares 'C' with a nominal value of LL 1,033 each at an issue price of LL 15,075 (USD 10 per share). These shares were fully issued and paid. Preferred shares (B) and (C) are (a) redeemable at the sole discretion of the issuer (after 5 years from issuance date) (b) are non-cumulative (c) distribution of returns to the holders is contingent on the distribution of dividends to the common stocks and adequacy of regulatory reserves and retained earnings. Under these conditions, the preferred shares are deemed to be equity instruments. BDL circular no. 44 treats such preferred shares as "Additional Tier One Capital" for the purposes of computing the regulatory capital adequacy ratio.

(iv) The share premium reserve of LL 182.55 billion represents the premium on issuance of preferred shares (B) and (C).

22 Other reserves and retained earnings

	2017	2016
	LL Million	LL Million
Other reserves		
Real estate revaluation reserve (a)	**21,061**	21,061
Legal reserve (b)	**92,371**	84,859
Reserve for unspecified banking risks (c)	**118,486**	84,969
Reserve for future increases in capital (d)	**37,288**	3,407
Reserve for liquidation of assets classified as held for sale (e)	**9,687**	8,689
General reserve for retail loans (f)	**5,609**	3,943
Other reserves	**1,914**	1,466
	286,416	208,394
Retained earnings (g)		
Retained earnings - portion that is available for distribution	**263,312**	253,409
Retained earnings - portion that is not available for distribution (BDL circular no. 66) (h)	**-**	32,913
Retained earnings - portion not available for distribution (BCC circular no. 270) (i)	**15,719**	16,204
	279,031	302,526

(a) Real estate revaluation reserve

The revaluation reserve of LL 21.06 billion (2016 - LL 21.06 billion) arose from the revaluation of investment properties and property and equipment. The revaluation was performed by an independent valuer under the provisions of fiscal law 282/93 based on the market values of 31 December, 1993. This reserve is not available for distribution.

(b) Legal reserve

Article 132 of the Code of Money and Credit and the Code of Commerce require 10% of the Bank's net profits to be transferred from retained earnings to legal reserve. This reserve is not available for distribution. The current year appropriation from retained earnings amounted to LL 7.51 billion (2016 - LL 7.86 billion). At 31 December, 2017, the reserve amounted to LL 92.37 billion (2016 - LL 84.85 billion).

(c) Reserve for unspecified banking risks

As per the Central Bank of Lebanon basic circular no. 50, banks are required to appropriate from annual profits an amount between 2 per mil and 3 per mil of risk-weighted assets (on and off balance sheet) as a reserve for unspecified banking risks. This reserve is considered part of Tier I capital and is not available for distribution. The appropriation for the year of LBP 33.52 billion brings the reserve for unspecified banking risks to the maximum required of 2% of risk weighted assets. At 31 December, 2017, the total reserve amounted to LL 118.49 billion (2016 - LL 84.97 billion).

(d) Reserve for future increases in capital

The increase in reserves for future increases in capital of LL 33.88 billion to reach LL 37.29 billion consists of:

- an appropriation of the net exceptional gain on "special swaps" recognised in income in 2016 of LL 32.91 billion (net of specific and collective provisions of LL 122.66 billion and excluding the fair value gains of LL 35.23 billion). The gain is required by BDL intermediary circular no. 446 to be appropriated to a restricted and non-distributable reserve.
- an appropriation of LL 968 million to a reserve for future increases in capital representing gains made on the sale of properties acquired in settlement of debt (note 16). This is as per the requirements of Banking Control Commission circular no. 173.

(e) Reserve for liquidation of assets classified as held for sale

Under BDL intermediary circular no. 51 and BCC Memo 4/2008, banks are required to establish a reserve from annual appropriations from retained earnings in respect of properties acquired in settlement of debt. This reserve is mandatory where the Bank fails to dispose of the property within a period of 2 years from the date of acquisition. The annual appropriation is equal to 5% or 20% respectively of the carrying amount of the property depending on whether the original debt is pre or post 30 June, 2003. This reserve is transferred upon disposal of the property to a restricted reserve that can only be used for future potential increases in share capital. At 31 December, 2017, the reserve amounted to LL 9.69 billion (2016 - LL 8.69 billion). The current year appropriation amounted to LL 998 million (2016 - LL 1.40 billion)

(f) General reserve for retail loans

BCC circular no. 280 required banks to establish a reserve of 1.5% for performing portfolios (i.e. where late settlements do not exceed 30 days) at 31 December 2017. Additional appropriations of 0.5% per annum were required to be made until the reserve reached 3.5% of the total performing loans by 31 December, 2020.

As per article 16 of the Central Bank of Lebanon basic circular no. 143 dated 7 November, 2017, financial institutions are no longer required to constitute a general reserve on the retail portfolio. Accordingly, the general reserve of LL 5.61 billion is now considered to be a general non-distributable reserve. The current year appropriation amounted to LL 1.67 billion (2016 - LL 1.40 billion).

(g) Retained earnings

	2017	2016
	LL Million	LL Million
At 1 January	**302,526**	263,271
Profit for the year	**74,075**	77,532
Dividends declared (note 33)	**(19,546)**	(18,522)
Interest on cash contributions to capital (note 33)	**(2)**	(1)
Transfers to:		
Reserve for future increases in capital (note d)	**(33,881)**	-
Legal reserve (note b)	**(7,512)**	(7,859)
Unspecified banking risks (note c)	**(33,517)**	(9,000)
Reserve for liquidation of assets classified as held for sale (note e)	**(998)**	(1,458)
General reserve for retail loans (note f)	**(1,666)**	(1,405)
Other reserve	**(448)**	(32)
	(78,022)	(19,754)
At 31 December	**279,031**	302,526

The general assembly meeting held on 22 June, 2017, approved the distribution of dividends amounting to LL 19.55 billion (LL 70 per common share, LL 1,055 per preferred share B and LL 204.8 per preferred share C).

The above appropriation of reserves is subject to the approval of the general assembly that is to be held in 2018 to approve the 2017 financial statements.

(h) Retained earnings - portion that is not available for distribution under BDL circular no. 66.

As explained in (note d), the net exceptional gain of LL 32.91 billion was appropriated to a special reserve for future increases in capital.

(i) Retained earnings - portion that is not available for distribution under BCC 270

Cumulative unrealised gains (gross of losses) on revaluation of financial assets at fair value through profit or loss are not available for distribution until their disposal.

Movement on the distributable portion of retained earnings under BCC 270 is summarised as follows:

	2017	2016
	LL Million	LL Million
At 1 January	**16,204**	11,736
Unrealised gain on investment securities at fair value through profit or loss (note 27a)	**2,524**	9,135
Revaluation gains related to investment securities subsequently sold (transferred to realised)	**(3,009)**	(4,667)
At 31 December	**15,719**	16,204

23 Net interest and similar income

	2017	2016
	LL Million	LL Million
Interest and similar income		
Loans and advances:		
- Customers	**184,597**	177,053
- Central Bank of Lebanon	**77,160**	35,513
- Banks and financial institutions	**15,490**	13,545
- Reverse repos	**7,389**	9,614
- Loans and advances to related parties (note 36)	**425**	388
	285,061	236,113
Financial assets at fair value through profit or loss	**12,924**	13,420
Financial assets at amortised cost	**254,628**	242,865
	552,613	492,398
Interest and similar expenses		
Deposits from customers	**(371,791)**	(334,536)
Deposits from banks and financial institutions	**(8,053)**	(1,902)
Deposits from related parties (note 36)	**(8,603)**	(8,858)
	(388,447)	(345,296)

24 Net loan impairment charges

	2017	2016
	LL Million	LL Million
Reversal of impairment (note 7)	**7,894**	3,785
Increase in impairment allowance - specific (note 7)	**(15,562)**	(9,115)
Increase in impairment allowance - collective (note 7)	**(2,425)**	(21,277)
	(10,093)	(26,607)

The above charges for ٢٠١٦ exclude the additional specific and collective provisions taken against the exceptional gain in ٢٠١٦ on special swaps and which were netted off against such gain (note ٢٧ c).

25 Net fee and commission income

	2017	2016
	LL Million	LL Million
Fee and commission income		
Commissions on banking operations	**19,200**	16,439
Credit-related fees and commissions	**12,099**	11,524
Commissions on letters of credit and guarantees	**7,771**	7,958
Commissions on transfers	**4,849**	4,935
Brokerage fees	**3,410**	3,031
Other	**216**	145
	47,545	44,032
Fee and commission expense		
Commissions on banking operations	**(3,357)**	(4,391)
Brokerage fees paid	**(2,488)**	(2,902)
Other	**(384)**	(562)
	(6,229)	(7,855)
Net fee and commission income	**41,316**	36,177

26 Net trading income

	2017	2016
	LL Million	LL Million
Net realised gains on foreign exchange transactions	**10,866**	9,661
Net unrealised gains on foreign exchange translations	**5,400**	4,790
	16,266	14,451

27a Net (loss) gain on investments at fair value through profit or loss

	2017	2016
	LL Million	LL Million
Unrealised loss on revaluation	**(4,228)**	(3,056)
Unrealised gain on revaluation (note 22)	**2,524**	9,135
Net unrealised (loss) gain	**(1,704)**	6,079
Realised gain on sale of investment securities	**1,219**	1,162
Realised gain on "special swaps" with BDL - treasury bills (note 27c)	**-**	6,208
	1,219	7,370
Net realised (loss) gain	**(485)**	13,449

27b Net gain on investment securities at amortised cost

	2017	2016
	LL Million	LL Million
Gain on "special swaps" with BDL - certificates of deposit (27c)	**-**	14,861
Gain on "special swaps" with BDL - treasury bills (27c)	**-**	14,157
Gain on sale of investment securities at amortised cost	**2,171**	1,003
	2,171	30,021

27c Net gain from "special swaps" with the Central Bank of Lebanon

In 2016, the exceptional gain of LL 205 billion arising from the special swaps entered into with the Central Bank has been treated as akin to a government grant due to its exceptional one-off nature. Accordingly, the grant together with the credit losses that it is intended to cover have been fully accounted for and netted off against each other in the income statement, in accordance with IAS 20. However, part of the gain that is still conditional upon the ultimate clearance of and release by the Central Bank and amounting to LL 14.1 billion has been deferred within other liabilities (note 19). This part of the gain is considered to be unearned as at the balance sheet date.

The gain on special swaps and the related provisions that were netted off are shown below:

	2016
	LL Million
Securities at fair value through profit or loss ("FVTPL") - treasury bills	36,117
Securities at fair value through profit or loss ("FVTPL") - certificates of deposit ("CDs")	9,755
Securities at amortised cost - certificates of deposit ("CDs")	76,685
Securities at amortised cost - treasury bills	82,347
Total gains on special swaps	204,904
Less: fair value gains which would have been realised under normal market conditions:	
Gains on securities at FVTPL - treasury bills (note 27a)	6,208
Gains on securities at amortised cost - CDs (note 27b)	14,861
Gains on securities at amortised cost - treasury bills (note 27b)	14,157
Accounted for in the income statement	35,226
	169,678
Less: provisions netted off against exceptional gains:	
Specific impairment allowance taken specifically against the above exceptional gain and charged to income statement (note 7)	74,420
Collective impairment allowance taken specifically against the above exceptional gain and charged to income statement (note 7)	48,240
Total provisions	122,660
	47,018
Dealt with as follows:	
Portion of the gain that is deferred within other liabilities as unearned (note 19)	14,105
Net gain recognised on the face of the income statement	32,913
	47,018

28 Other operating income

	2017	2016
	LL Million	LL Million
Gain on disposal of assets classified as held for sale (note 22)	968	-
Release from provision for liabilities and charges	827	806
Rental income (note 12)	78	91
Loss on disposal of property and equipment	(33)	(47)
Other	802	763
	2,642	1,613

29 Personnel expenses

	2017	2016
	LL Million	LL Million
Wages and salaries	48,007	45,370
Social security costs	6,260	5,754
Pension costs - defined benefit plan (note 20)	4,251	8,036
Scholarship	3,042	3,020
Medical expenses	2,197	1,900
Transportation	1,964	1,877
Training expenses	291	284
Other employee benefits	2,809	2,742
	68,821	68,983

30 Depreciation and amortisation charges

	2017	2016
	LL Million	LL Million
Depreciation charge (note 13)	6,663	6,198
Amortisation charge (note 14)	1,040	1,068
	7,703	7,266

31 Other operating expenses

	2017	2016
	LL Million	LL Million
Professional fees (note 36)	5,847	5,768
Advertising	5,441	3,593
Office supplies and utilities	5,243	4,671
Deposit guarantee premiums	4,088	3,808
Municipality and other taxes	4,033	3,140
Provision for risk and charges	3,263	10,485
Software costs	2,993	3,570
Travel expense and entertainment	2,526	2,628
Repairs and maintenance	2,499	1,945
Operating leases	2,147	2,043
Security	2,075	2,113
Transportation	1,700	1,680
Directors' remuneration (note 36)	1,677	1,346
Subscriptions	1,274	1,561
Insurance (note 36)	1,238	1,123
Donations	976	740
Directors' attendance fees (note 36)	818	654
Maintenance on investment properties (note 12)	137	160
Other	2,800	2,309
	50,775	53,337

32 Income tax expense

During 2017, corporate income tax rates were increased from 15% to 17%. The computation of tax for 2017 is, therefore, split between two periods, 15% for the period from 1 January, 2017, to 26 October, 2017 (''period to October 2017''), and 17% for the period from 27 October, 2017, to 31 December, 2017 ("period to December 2017").

For the period to October 2017, the Bank's tax charge was determined as the higher of corporate tax and tax on interest income withheld. For the period to December 2017 the tax charge is the sum of corporate tax and tax on interest income withheld (read further).

The tax charge of LL 18 billion is comprised of LL 14.7 billion for the period to October 2017 and LL 2.7 billion for the period to December 2017.

The new tax provisions introduced in the budget law increased the tax rate on interest income from 5% to 7%. They also no longer allow the deduction of tax on interest withheld at source from the annual corporate tax charge. In future, the new tax charge will, therefore, consist of both tax on interest and the corporate tax charge.

The notional income tax computation for the year is determined as follows:

	2017	2016
	LL Million	LL Million
Lebanon branches ("Head Office")	14,770	42,472
Foreign branches (Cyprus and Iraq)	3,313	2,936
Tax charge for the year	18,083	45,408

Proof of tax is determined as follows:

	2017	2016
	LL Million	LL Million
Profit before income tax	92,158	122,940
Less: foreign entities	(21,113)	(18,181)
Profit before income tax - local entity	71,045	104,760
Income tax at an effective rate of 15.36% (2016 -15%)	10,913	15,714
Effect of expenses not deductible for tax purposes:		
Differences between accounting and fiscal depreciation	141	893
Net unrealised gain on investment securities and financial liabilities	262	(912)
Impairment allowance - specific	2,390	800
Impairment allowance - specific netted off against exceptional gain	-	3,192
Impairment allowance - collective	359	11,163
Impairment allowance - collective netted off against exceptional gain	-	7,236
Deferred gain	-	2,116
Release of impairment allowance – specific	(2,105)	-
Pension costs - defined benefit plan	653	1,205
Other provisions	501	1,573
Donations and other provisions	150	110
Other	1,506	(618)
Income tax - local entity	14,770	42,472
Income tax - foreign entities	3,313	2,936
Total income tax expense	18,083	45,408

The movement in the current income tax liability is as follows:

	2017	2016
	LL Million	LL Million
At 1 January	35,556	4,348
Charge for the year	18,083	45,408
Payments during the year	(46,543)	(14,200)
At 31 December	7,096	35,556

The breakdown in the current income tax liability is as follows:

	2017	2016
	LL Million	LL Million
Lebanon entity	**2,750**	32,397
Foreign entities (Cyprus and Iraq)	**4,346**	3,159
At 31 December	**7,096**	35,556

The fiscal years from 2015 till 2017 for the local entity remain subject to examination by the income tax authorities.

33 Dividends per share and interest on cash contributions

Dividends declared by the Bank have been accounted for in the financial years as follows:

The general assembly meeting held on 22 June, 2017, approved the distribution of dividends of LL 19,546 million (LL 70 per common share, LL 1,055 per preferred share B and LL 204.8 per preferred share C) and interest on cash contributions to capital of LL 2 million in respect of the financial year ended 31 December, 2016.

	2017	2016
	LL Million	LL Million
LBP 70 (2016 - LBP 70) per common share	**10,080**	10,080
LBP 1,055 (2016 -LBP 1,055) per preferred share (designated "B")	**8,442**	8,442
LBP 204.8 (2016 - Nil) per preferred share (designated "C")	**1,024**	-
	19,546	18,522

In addition, the Bank paid interest on cash contributions of LL 1.4 million (2016 - LL 1.4 million).

34 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks.

	2017	2016
	LL Million	LL Million
Cash and balances with Central Banks (note 5)	**560,060**	752,373
Deposits with banks and financial institutions (note 6)	**804,083**	663,079
	1,364,143	1,415,452

35 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of lawsuits involving claims by and against the Bank at 31 December, 2017, which arose in the ordinary course of business. The Bank does not expect these claims to give rise to any significant liability on the Bank.

(b) Loan commitments, guarantees and other financial facilities

At 31 December, 2017, the following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2017	2016
	LL Million	LL Million
Loan commitment (unused facilities)	**611,281**	531,761
Letters of guarantee (see below)	**147,608**	280,922
Letters of credit	**132,525**	122,726
	891,414	935,409

The nature and the amounts of the letters of guarantee are as follows:

	2017	2016
	LL Million	LL Million
Guarantees given to customers	**26,360**	140,412
Guarantees against bank facilities	**121,248**	140,510
	147,608	280,922

36 Related-party transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon), which owns 46.14% of the ordinary shares, and Fransabank S.A.L. (incorporated in Lebanon), which owns 37.07% of the ordinary shares. The remaining 16.79% of the shares are widely held.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other financial facilities (i.e. loan commitments, guarantees, etc.).

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

(a) Loans and advances to related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2017	2016	**2017**	2016
	LL Million	LL Million	**LL Million**	LL Million
Loans and advances to customers (note 7)	**9,960**	8,025	**-**	-
Interest income (note 23)	**425**	388	**-**	-

No provisions have been recognised in respect of loans given to related parties (2016 - nil).

Loans and advances to related parties comprise loans with fixed rates. The majority of these loans are secured by real estate mortgages.

As stipulated by Code of Money and Credit article 152, loans and advances to related parties are subject to general assembly approval on a yearly basis.

(b) Deposits from related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2017	2016	**2017**	2016
	LL Million	LL Million	**LL Million**	LL Million
Deposits (note 18)	**49,398**	44,744	**133,676**	145,262
Interest expense (note 23)	**2,161**	3,248	**6,442**	5,610

Deposits from related parties are unsecured and comprise deposits with variable rates (repayable on demand), and fixed rates (repayable at maturity) of LL 25 billion (2016 - LL 28 billion) and LL 158 billion (2016 -LL 162 billion) respectively.

(c) Letters of guarantee

	2017	2016
	LL Million	LL Million
The Capital Insurance and Reinsurance Company S.A.L.	**312**	290

(d) Other transactions with related parties

	2017	2016
	LL Million	LL Million
The Capital Insurance and Reinsurance Company S.A.L.		
Commission income	**2,688**	2,466
Dividend income	**1,600**	1,600
Insurance expense - Bank (note 31)	**(1,238)**	(1,123)
Insurance expense - staff	**(332)**	(284)
Other		
Cost of other services received and commission paid	**(691)**	(599)

(e) Key management compensation

	2017	2016
	LL Million	LL Million
Directors' remuneration (note 31)	**1,677**	1,346
Directors' attendance fees (note 31)	**818**	654
Other key management compensation	**5,538**	3,676

(f) Professional fees

Professional fees include remunerations to the audit and risk board members amounting to LL 541 million (2016 - LL 570 million).

04 NETWORK

Correspondent Banks

Abu Dhabi
National Bank of Abu Dhabi

Amman
Jordan Ahli Bank Plc

Colombo
Bank of Ceylon

Copenhagen
Danske Bank A/S

Doha
Qatar National Bank SAQ

Dubai
MashreqBank PSC

Frankfurt
Deutsche Bank AG
Commerzbank AG

Geneva
The Bank of New York Mellon, London

Hong Kong
Standard Chartered Bank

Kuwait
National Bank of Kuwait SAK

London
Barclays Bank Plc
Standard Chartered Bank

Madrid
BBVA SA

Milano
Intesa Sanpaolo SpA
Unicredit Bank

New York
The Bank of New York Mellon
Citibank N.A.
JPMorgan Chase Bank N.A.
Standard Chartered Bank

Oslo
DNB Nor Bank ASA

Paris
Société Générale

Riyadh
Banque Saudi Fransi

Stockholm
Skandinaviska Enskilda Banken AB

Sydney
The Bank of New York, New York

Tokyo
The Bank of New York Mellon, London

Toronto
Bank of Montreal

Vienna
Unicredit Bank Austria AG

Subsidiaries

- **Informatics Co. s.a.r.l.**

It is a software company that offers commercial and technical services. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 84% of the company's shares.

- **Société Libanaise de Service s.a.r.l.**

The company is active in real estate management. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 91% of the company's shares.

- **The Capital Insurance and Reinsurance Co. s.a.l.**

The company provides a full-range of insurance and reinsurance services. It is chaired by Mr. Assad G. Merza. BBAC owns 80% of the company's shares.

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Dora (Dora Highway, St. Jacques Center)
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