BLOM BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

Building a better
working world

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

Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@lb.ey.com
ey.com/mena
C.R. 61

BDO, Semaan, Gholam & Co.
Gholam Building - Sioufi Street
Beirut
P.O.Box: 11-0558, Riad El Solh
Beirut - 1107 2050, Lebanon

Tel: (01) 323676
Fax: (01) 204142
siman@inco.com.lb
C.R. 570

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BLOM BANK SAL

Qualified Opinion

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

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

Basis for Qualified Opinion

As disclosed in note 38 to the consolidated financial statements, during 2016, the Group did not recognize in the consolidated income statement an amount of LL 166,100 million in gains realized from certain transactions on financial instruments with the Central Bank of Lebanon, net of taxes. These balances were deferred and recorded as "Deferred Revenues" under "Provisions for Risks and Charges" in the Statement of Financial Position in compliance with Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016. During the year ended 31 December 2017, the Group released LL 105,552 million gross of tax of this amount to "Other operating income" and charged LL 15,832 million under income tax expense.

Furthermore, the Group recorded excess provisions under "Provisions for Risks and Charges" amounting to LL 260,797 million during the year ended 31 December 2016 and 2017 in order to comply with the requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016.

The Group's accounting for the above-mentioned transactions departs from the requirements of IFRS. Had the Group properly accounted for these transactions, events and conditions, in accordance with IFRS, the effects on the consolidated financial statements would have been as follows:

- Total liabilities as at 31 December 2017 and 31 December 2016 would have decreased, through a decrease in "Provisions for Risks and Charges" by LL 337,177 million and LL 426,897 million respectively; and

- Total equity as at 31 December 2017 and 31 December 2016 would have increased by LL 337,177 million and LL 426,897 million, respectively through:
  - A decrease in net income for the year ended 31 December 2017 by LL 89,720 million through a decrease in "Other operating income" of LL 105,552 million and a decrease in "income tax expense" of LL 15,832 million; and
  - An increase in results of the year ended 31 December 2016 and the balance of retained earnings as of 1 January 2017 by LL 426,897 million.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2017. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide an opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "*Auditors' Responsibilities for the Audit of the consolidated Financial Statements*" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addresses the key audit matter
Impairment of Loans and Advances	
Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgement and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. This includes the analysis of the financial performance of the borrower, historic experience when assessing the likelihood of incurred losses in the portfolios and the adequacy of collateral for secure lending. However, consumer loans generally comprise much smaller value loans to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping by product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of loan loss provision. Note 26 to the consolidated financial statements provides details relating to the impairment of loans and advances.	These risks were addressed by us as follows: For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans. Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances. For consumer loans, specific and collective impairment allowances are calculated using a model, which are based on a percentage of undue balances as well as repayments due but not yet paid. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

Key Audit Matters (continued)

Goodwill impairment	
Goodwill impairment testing of cash generating units ('CGUs') relies on estimates of value-in-use based on estimated future cash flows. Due to the subjective nature of forecasting and discounting future cash flows, this is deemed to be a significant risk. Note 33 to the consolidated financial statements provides details relating to Goodwill which amounted to LL89,720 million when initially recognized. It also provides details pertaining to the impairment testing results.	We assessed the cash flow projections and compared key inputs, such as discount rates and growth rates, to externally available industry, economic and financial data and the acquiree's own historical data and performance. We involved our valuation specialists to assist in testing the assumptions used in goodwill impairment test. We assessed the Group's disclosures relating to goodwill.

Other Information Included in the Group's 2017 Annual Report

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

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

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

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

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

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

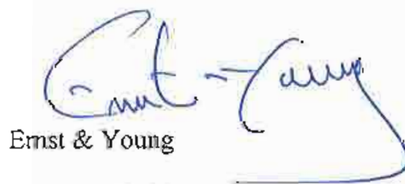
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely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

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

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

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

The partners in charge of the audit resulting in this independent auditors' report are Walid Nakfour for Ernst & Young and Nicolas Barakat for BDO, Semaan, Gholam & Co.



Ernst & Young

BDO, Semaan, Gholam & Co.

27 March 2018
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Notes	2017 LL million	2016 LL million
Interest and similar income	7	**2,783,524**	2,552,773
Interest and similar expense	8	**(1,671,530)**	(1,511,752)
Net interest income		**1,111,994**	1,041,021
Fee and commission income		**263,016**	281,363
Fee and commission expense		**(57,239)**	(54,802)
Net fee and commission income	9	**205,777**	226,561
Net gain from financial instruments at fair value through profit or loss	10	**38,053**	117,289
Net gain from sale of financial assets at amortized cost	11	**60,420**	575,558
Revenue from financial assets at fair value through other comprehensive income	28	**340**	435
Other operating income	12	**129,393**	21,402
Total operating income		**1,545,977**	1,982,266
Net credit losses	13	**(19,101)**	(123,775)
Impairment losses on financial investments	14	**-**	(34,749)
Net operating income		**1,526,876**	1,823,742
Personnel expenses	15	**(317,618)**	(312,046)
Other operating expenses	16	**(170,397)**	(177,307)
Depreciation of property and equipment	29	**(35,368)**	(35,762)
Amortization of intangible assets	30	**(2,003)**	(4,052)
Impairment of goodwill	33	**(89,720)**	(19,415)
Total operating expenses		**(615,106)**	(548,582)
Operating profit		911,770	1,275,160
Provisions for risks and charges	17	-	(260,797)
Foreign currency translation losses on deconsolidation of subsidiaries	18	-	(73,728)
Net loss on disposal of fixed assets		**(403)**	(1,187)
Profit before tax		**911,367**	939,448
Income tax expense	19	**(179,820)**	(241,731)
Profit for the year		**731,547**	697,717
Attributable to:			
Equity holders of the parent		**726,701**	676,443
Non-controlling interests		**4,846**	21,274
		731,547	697,717
		LL	*LL*
Basic/diluted earnings per share attributable to equity holders of the parent for the year	20	**3,394**	3,321

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 *LL million*	*2016* *LL million*
Profit for the year	731,547	697,717
Other comprehensive gain (loss) to be reclassified to consolidated income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**39,338**	(332,104)
Net (loss) gain on hedge of net investment	**(22,693)**	5,433
	16,645	(326,671)
Other comprehensive gain not to be reclassified to consolidated income statement in subsequent periods:		
Net unrealized gain from financial assets at fair value through other comprehensive income	**64**	237
Other comprehensive gain (loss) for the year	**16,709**	(326,434)
Total comprehensive income for the year	**748,256**	371,283
Attributable to:		
Equity holders of the parent	**743,337**	365,819
Non-controlling interests	**4,919**	5,464
	748,256	371,283

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 LL million	2016 LL million
ASSETS			
Cash and balances with central banks	21	**24,630,491**	17,991,169
Due from banks and financial institutions	22	**3,563,253**	3,180,661
Loans to banks and financial institutions	23	**44,513**	60,553
Derivative financial instruments	24	**20,401**	53,180
Financial assets at fair value through profit or loss	25	**363,715**	386,659
Net loans and advances to customers at amortized cost	26	**11,335,975**	10,708,390
Net loans and advances to related parties at amortized cost	48	**28,145**	91,557
Debtors by acceptances		**150,791**	113,492
Financial assets at amortized cost	27	**7,856,375**	10,994,933
Financial assets at fair value through other comprehensive income	28	**4,224**	3,815
Property and equipment	29	**797,875**	703,440
Intangible assets	30	**2,173**	2,482
Assets obtained in settlement of debt	31	**60,680**	49,756
Other assets	32	**199,497**	156,437
Goodwill	33	**1,996**	1,950
Total assets		**49,060,104**	44,498,474
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	34	**2,254,945**	519,021
Repurchase agreements	34	**7,263**	2,930
Due to banks and financial institutions	35	**578,685**	590,808
Derivative financial instruments	24	**34,387**	33,536
Customers' deposits at amortized cost	36	**39,977,019**	37,139,827
Deposits from related parties at amortized cost	48	**185,571**	262,490
Engagements by acceptances		**150,791**	113,492
Other liabilities	37	**817,398**	822,088
Provisions for risks and charges	38	**523,424**	593,652
Total liabilities		**44,529,483**	40,077,844
Equity			
Share capital - common shares	39	**322,500**	258,000
Share capital - preferred shares	39	**-**	24,000
Share premium on common shares	39	**374,059**	374,059
Share premium on preferred shares	39	**-**	277,500
Non distributable reserves	40	**1,312,778**	1,192,652
Distributable reserves	41	**601,207**	559,860
Treasury shares	42	**(8,473)**	(16,941)
Retained earnings	43	**1,520,460**	1,413,258
Revaluation reserve of real estate	44	**14,727**	14,727
Change in fair value of financial assets at fair value through other comprehensive income	45	**614**	550
Foreign currency translation reserve		**(410,141)**	(426,713)
Profit for the year		**726,701**	676,443
Equity attributable to equity holders of parent		**4,454,432**	4,347,395
Non-controlling interests		**76,189**	73,235
Total equity		**4,530,621**	4,420,630
Total liabilities and equity		**49,060,104**	44,498,474

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	2017														
	Attributable to equity holders of the parent														
	Share capital-common shares LL million	Share capital-preferred shares LL million	Share premium on common shares LL million	Share premium on preferred shares LL million	Non distributable reserves LL million	Distributable reserves LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million	Change in fair value of financial assets at fair value through other comprehensive income LL million	Foreign currency translation reserve LL million	Profit for the year LL million	Total LL million	Non-controlling interests LL million	Total equity LL million
Balance at 1 January 2017	258,000	24,000	374,059	277,500	1,192,652	559,860	(16,941)	1,413,258	14,727	550	(426,713)	676,443	4,347,395	73,235	4,420,630
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	726,701	726,701	4,846	731,547
Other comprehensive loss	-	-	-	-	-	-	-	-	-	64	16,572	-	16,636	73	16,709
Total comprehensive income	-	-	-	-	-	-	-	-	-	64	16,572	726,701	743,337	4,919	748,256
Call of preferred shares (note 39)	-	(24,000)	-	(277,500)	-	-	-	-	-	-	-	-	(301,500)	-	(301,500)
Capital increase (note 39)	64,500	-	-	-	(64,500)	-	-	-	-	-	-	-	-	-	-
Transfer from retained earnings to distributable & non-distributable reserves	-	-	-	-	3,367	(4,120)	-	753	-	-	-	-	-	-	-
Dividends distributions (note 47)	-	-	-	-	-	-	-	-	-	-	-	(343,263)	(343,263)	(1,499)	(344,762)
Appropriation of 2016 profits	-	-	-	-	179,455	45,470	-	108,254	-	-	-	(333,179)	-	-	-
Change in non-controlling interest	-	-	-	-	(6)	(3)	-	(9)	-	-	-	(1)	(19)	19	-
Purchase of treasury shares (note 42)	-	-	-	-	-	-	(37,564)	-	-	-	-	-	(37,564)	-	(37,564)
Sale of treasury shares (note 42)	-	-	-	-	-	-	46,032	-	-	-	-	-	46,032	-	46,032
Net gain on sale of treasury shares (note 42)	-	-	-	-	3,408	-	-	-	-	-	-	-	3,408	-	3,408
Other	-	-	-	-	(1,598)	-	-	(1,796)	-	-	-	-	(3,394)	(485)	(3,879)
Balance at 31 December 2017	322,500	-	374,059	-	1,312,776	601,207	(8,473)	1,520,460	14,727	614	(410,141)	726,701	4,454,432	76,189	4,530,621

	2016														
	Attributable to equity holders of the parent														
	Share capital-common shares LL million	Share capital-preferred shares LL million	Share premium on common shares LL million	Share premium on preferred shares LL million	Non distributable reserves LL million	Distributable reserves LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million	Change in fair value of financial assets at fair value through other comprehensive income LL million	Foreign currency translation reserve LL million	Profit for the year LL million	Total LL million	Non-controlling interests LL million	Total equity LL million
Balance at 1 January 2016	258,000	24,000	374,059	277,500	1,062,335	514,515	(180,708)	1,259,719	14,727	333	(190,841)	383,102	3,996,741	106,064	4,102,805
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	676,443	676,443	21,274	697,717
Other comprehensive loss	-	-	-	-	-	-	-	-	-	237	(310,861)	-	(310,624)	(15,810)	(326,434)
Total comprehensive income	-	-	-	-	-	-	-	-	-	237	(310,861)	676,443	365,819	5,464	371,283
Dividends distributions (note 47)	-	-	-	-	-	-	-	-	-	-	-	(273,540)	(273,540)	-	(273,540)
Appropriation of 2015 profits	-	-	-	-	109,490	45,292	-	154,846	-	-	(49)	(309,579)	-	-	-
Purchase of treasury shares (note 42)	-	-	-	-	-	-	(122,590)	-	-	-	-	-	(122,590)	-	(122,590)
Sale of treasury shares (note 42)	-	-	-	-	-	-	286,357	-	-	-	-	-	286,357	-	286,357
Net gain on sale of treasury shares (note 42)	-	-	-	-	22,892	-	-	-	-	-	-	-	22,892	-	22,892
Transfer due to deconsolidated entities	-	-	-	-	(2,076)	(6)	-	792	-	(20)	1,310	-	-	-	-
Deconsolidation of subsidiaries (note 18)	-	-	-	-	-	-	-	-	-	-	73,728	-	73,728	(35,989)	37,739
Dividend distributions in a subsidiary company	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,628)	(1,628)
Other	-	-	-	-	11	59	-	(2,099)	-	-	-	17	(2,012)	(676)	(2,688)
Balance at 31 December 2016	258,000	24,000	374,059	277,500	1,192,652	559,860	(16,941)	1,413,258	14,727	550	(426,713)	676,443	4,347,395	73,235	4,420,630

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

CONSOLIDATED STATEMENT OF CASH FLOWS
31 December 2017

	Notes	2017 LL million	2016 LL million
OPERATING ACTIVITIES			
Profit for the year before income tax		911,367	939,448
Adjustments for:			
Depreciation of property and equipment	29	35,368	35,762
Amortization of intangible assets	30	2,003	4,052
Loss (gain) on disposal of property and equipment		403	(171)
Provision for loans and advances to customers, net	13	19,101	123,775
Excess provisions to comply with the Central Bank of Lebanon	17	-	260,797
Provision for impairment of assets obtained in settlement of debt	31	110	109
Write-back of provision on assets obtained in settlement of debt	31	(749)	(236)
Net provision for risks and charges		14,683	17,492
Gain on disposal of assets obtained in settlement of debt		(1,662)	(171)
Net gain from sale of financial assets at amortized cost	11	(60,420)	(575,558)
Unrealized fair value losses (gains) on financial assets at fair value through profit or loss	10	9,882	(24,986)
Impairment losses on financial investments	14	-	34,749
Impairment of goodwill	33	89,720	19,415
Foreign currency translation losses on deconsolidation of subsidiaries	18	-	73,728
Release of provisions for risks and charges	12	(105,552)	-
Other		(4,184)	(2,688)
		910,070	905,517
Changes in operating assets and liabilities:			
Balances with central banks		(5,283,310)	(3,742,247)
Repurchase agreements		-	-
Due from banks and financial institutions		(47,566)	889,262
Loans to banks and financial institutions		16,040	2,823
Derivative financial instruments – debit		32,779	(12,461)
Financial assets at fair value through profit or loss		13,062	233,592
Net loans and advances to customers at amortized cost		(646,686)	1,092
Net loans and advances to related parties at amortized cost		63,412	(59,341)
Other assets		(43,060)	(11,323)
Due to banks and financial institutions		(79,708)	87,921
Derivative financial instruments – credit		851	(7,268)
Customers' deposits at amortized cost		2,837,192	(159,062)
Deposits from related parties at amortized cost		(76,919)	64,166
Other liabilities		30,678	28,797
Provisions for risks and charges	38	(89,720)	166,100
Cash used in operations		(2,362,885)	(1,612,432)
Taxes paid		(208,704)	(120,515)
Provisions for risks and charges paid		(4,660)	(5,848)
Net cash used in operating activities		(2,576,249)	(1,738,795)
INVESTING ACTIVITIES			
Financial assets at amortized cost		3,198,978	2,407,004
Financial assets at fair value through other comprehensive income		(409)	2,361
Assets obtained in settlement of debt		(8,462)	(18,033)
Purchase of property and equipment	29	(75,699)	(150,829)
Purchase of intangible assets	30	(1,426)	(1,502)
Transfer of property and equipment and intangible assets	29&30	154	3,201
Transfer of assets obtained in settlement of debt	31	7	-
Cash proceeds from the sale of property and equipment and intangible assets		1,691	307
Net cash outflow from deconsolidation of subsidiaries	14	-	(229,622)
Acquisition of a subsidiary net of cash acquired	33	(13,178)	-
Net cash from investing activities		3,101,656	2,012,887
FINANCING ACTIVITIES			
Sale of treasury shares – net		8,468	163,767
Net gain on sale of treasury shares		3,408	22,892
Dividends paid	47	(343,263)	(273,540)
Dividends paid to non-controlling interests in a subsidiary company		(1,499)	(1,628)
Call of preferred shares	39	(301,500)	-
Net cash used in financing activities		(634,386)	(88,509)
Effect of exchange rate changes		(7,825)	(292,704)
Decrease in cash and cash equivalents		(116,804)	(107,121)
Cash and cash equivalents at 1 January		4,967,492	5,074,613
Cash and cash equivalents at 31 December	46	4,850,688	4,967,492
Operational cash flows from interest and dividends			
Interest paid		(1,623,975)	(1,519,493)
Interest received		2,735,959	2,542,240
Dividends received		7,951	8,423

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

1 CORPORATE INFORMATION

BLOM Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1951 and registered under No 2464 at the commercial registry of Beirut and under No 14 on the banks' list published by the Central Bank of Lebanon. The Bank's head office is located in Verdun, Rashid Karameh Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and Luxembourg Stock Exchange.

The Bank, together with its affiliated banks and subsidiaries (collectively the "Group"), provides a wide range of retail, commercial, investment and private banking activities, insurance and brokerage services through its headquarter as well as its branches in Lebanon and its presence in Europe, the Middle East and North Africa. Further information on the Group's structure is provided in note 4.

The consolidated financial statements were authorised for issue in accordance with the Board of Directors' resolution on 16 March 2018.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

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

Presentation of the consolidated financial statements
The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than 1 year after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only in the ordinary course of business, in the event of default, in the event of insolvency or bankruptcy of the Group and/or its counterparties or when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously without being contingent on a future event. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

Non-Controlling interest
Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interest in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests. Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 Changes in accounting policies and disclosures

New standards and interpretations effective after 1 January 2017
The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendment has no impact on the Group's financial statements as all of these changes are cash flow changes.

2 ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements Cycle - 2014-2016
Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

As at 31 December 2017, the Group had no interest in a subsidiary, joint venture or associate classified as held for sale, and as such, these amendments did not affect the Group's financial statements.

2.4 Standards issued but not yet effective

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

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date, along with the provisions of the Central Bank of Lebanon basic circular No. 143 and the Banking Control Commission circular No. 293.

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

Estimated impact of the adoption of IFRS 9 on the opening equity at 1 January 2018:
Based on assessments undertaken to date, the expected increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model (see II below) compared to IAS 39 incurred loss model is estimated at approximately LL 44 billion, which is already covered by the Group's excess collective provisions disclosed in note 38 to the consolidated financial statements. Accordingly, there will be no negative impact on the Group's equity from the adoption of the IFRS 9 impairment requirements.

o

2. ACCOUNTING POLICIES (continued)

2.4. Standards Issued but not Yet Effective (continued)

IFRS 9 Financial Instruments (continued)

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

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

I. Classification and measurement	The Group has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortised cost information, as well as fair value information is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. At the date of application of IFRS 9 (2014), the Group reassessed the classification and measurement category for all financial assets debt instruments that satisfy the contractual cash flow characteristics (SPPI test) and classified them within the category that is consistent with the business model for managing these financial assets on the basis of facts and circumstances that existed at that date. The classification and measurement requirements for equity or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9. There is no expected impact from reclassification of the Group's financial assets as Management believes there are no portfolios that meet the business model criteria of the FVOCI measurement category for debt instruments at the date of initial application.
II. Impairment	The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortised cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current model of IAS 39. The ECL model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. Stage 1 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months.

2. ACCOUNTING POLICIES (continued)

2.4. Standards Issued but not Yet Effective (continued)

IFRS 9 Financial Instruments (continued)

	Stage 2 Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Stage 3 Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets. *Key Considerations* Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are: *Assessment of Significant Increase in Credit Risk* The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group existing risk management processes. Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2: (1) We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition. (2) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk. (3) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39. *Macroeconomic Factors, Forward-Looking Information (FLI) and Multiple Scenarios* The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

2. ACCOUNTING POLICIES (continued)

2.4. Standards Issued but not Yet Effective (continued)

IFRS 9 Financial Instruments (continued)

	PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables. Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Our base case scenario will be based on macroeconomic forecasts published by our internal economics group. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant. Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities. *Definition of Default* The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. *Expected Life* When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions. *Governance* In addition to the existing risk management framework, internal committees provide oversight to the IFRS 9 implementation. These committees comprise senior representatives from Finance and Risk Management and main business lines and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for expected credit losses. The expected impact on the Group's statement of financial position and equity is discussed above.

2. ACCOUNTING POLICIES (continued)

2.4. Standards Issued but not Yet Effective (continued)

IFRS 9 Financial Instruments (continued)

III. Hedge accounting	IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9. The Group does not expect an impact on its financial statements from the adoption of IFRS 9 (2014).
IV. Financial instruments: disclosures (IFRS 7)	The Group will be amending the disclosures for 2018 financial statements to include more extensive qualitative and quantitative disclosures relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

Other Standards Issued but not Yet Effective

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

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

Standard	Description	Effective date
Amendments to IFRS 10 and IAS 28: "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture:	The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.	Indefinite
IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2	The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.	1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after: (i) The beginning of the reporting period in which the entity first applies the interpretation; or (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.	1 January 2018

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

Standard	Description	Effective date
IFRIC Interpretation 23 Uncertainty over Income Tax Treatment	The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following: • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • How an entity considers changes in facts and circumstances An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its Separate financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.	1 January 2019

The Group is currently assessing the impact of adopting the above changes as it plans to adopt the new standards on the required effective dates.

2.5 Summary of significant accounting policies

Foreign currency translation

The consolidated financial statements are presented in Lebanese Lira which is the Bank's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

(i) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain from financial instruments at fair value through profit or loss" in the consolidated income statement.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Foreign currency translation (continued)

(ii) Group companies
On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Financial instruments – classification and measurement

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

(ii) Classification and measurement of financial instruments

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments – classification and measurement (continued)

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

a. Financial assets (continued)

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

Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "Net gain from sale of financial assets at amortized cost" in the consolidated income statement.

Balances with central banks, due from banks and financial institutions, loans to banks and financial institutions and net loans and advances to customers and related parties – at amortized cost
After initial measurement, "Balances with central banks", "Due from banks and financial institutions", "Loans to banks and financial institutions" and "Net loans and advances to customers and related parties" are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in "Net credit losses".

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments – classification and measurement (continued)

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

a. Financial assets (continued)

i. Equity instruments at fair value through profit or loss (continued0

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

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

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

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

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

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

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

Fair value option
The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments – classification and measurement (continued)

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

b. Financial liabilities (continued)

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

As at 31 December 2017, financial liabilities designated at amortized cost held by the Group consist of due to central banks, repurchase agreements, due to banks and financial institutions, and customers' and related parties' deposits.

Due to central banks, repurchase agreements, due to banks and financial institutions, customers' deposits and related parties deposits

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

c. Derivatives recorded at fair value through profit or loss

The Group uses derivatives such as futures, currency swaps, forward foreign exchange contracts and equity swaps and options.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in "Net gain from financial instruments at fair value through profit or loss" in the consolidated income statement.

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

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

(iii) Day 1 profit or loss

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

(iv) Reclassification of financial assets

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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

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

(ii) Financial liabilities

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

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "repurchase agreements", reflecting the transaction's economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position to "Financial assets given as collateral" as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position within "Cash collateral on securities borrowed and reverse purchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Fair value measurement

The Group measures financial instruments, such as, derivatives, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each consolidated statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the notes.

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

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

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

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

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

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

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

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

The Group's management determines the policies and procedures for recurring fair value measurement, such as unquoted financial assets.

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

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

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(i) Financial assets at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, 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.

The amount of any impairment loss identified 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 present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Net credit losses" in the consolidated income statement.

(ii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral repossessed

The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently these properties are measured at the lower of carrying value or net realizable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for capital increase" in the following financial year.

Hedge accounting

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)
At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain from financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

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

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

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

When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

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

On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the consolidated income statement.

Leasing
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Leasing (continued)
The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

(ii) Fee and commission income (continued)

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

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

(iii) Dividend income
Dividend income is recognised when the right to receive the payment is established.

(iv) Net gain from financial instruments at fair value through profit or loss
Results arising from financial assets at fair value through profit or loss include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions. This caption also includes the results arising from trading activities including all gains and losses from changes in fair value and related income or expense and dividends for financial assets held for trading.

(v) Insurance revenue
For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorate temporise method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.
If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

Cash and cash equivalents
Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, due to central banks and due to banks and financial institutions.

Property and equipment
Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

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

Buildings	50 years
Furniture, office installations and computer equipment	(2– 16.67) years
Vehicles	6.67 years

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Property and equipment (continued)

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

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

Assets obtained in settlement of debt

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

Business combinations and goodwill

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

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement.

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

- Key money — lower of lease period or 5 years
- Software development — 2.5 years

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortization recognised in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement in "Net credit losses". The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee in "Net fees and commission income".

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

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Lebanon and in other jurisdictions, arising in the ordinary course of the Group's business.

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

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

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

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

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

(i) Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

(ii) Deferred tax

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated statement of financial position date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Treasury shares

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

Dividends on ordinary shares
Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

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

Segment reporting
The Group's segmental reporting is based on the following operating segments: retail banking; corporate banking; treasury, money and capital markets; and asset management and private banking.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

Business model
In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made.

Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Business model (continued)

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

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

Contractual cash flows of financial assets

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

Deconsolidation of Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) SA and Syria and Overseas Company for Financial Services (SOFS) as at 31 December 2016

The Group proceeded with the deconsolidation of the subsidiaries Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) and Syria and Overseas Company for Financial Services (SOFS), effective as of 31 December 2017. The decision to proceed with the deconsolidation was mainly due to the loss of control over the subsidiaries and the Group's inability to direct the relevant activities of the subsidiaries. The violent and crippling civil war, the international sanctions, the lack of exchangeability between the Syrian Pounds from one side and the US Dollar from the other, combined with other restrictive regulations, have limited the Group's ability to effectively manage the subsidiaries. Given this scenario, which is expected to endure for the foreseeable future, it was considered that the requisite conditions of IFRS 10 have not been met in order for an accounting control to be carried out on the subsidiaries. Therefore, the deconsolidation of the subsidiaries was proceeded with. Given the complexity of the Syrian scenario, the previously summarised considerations and assumptions inevitably relied on complex and subjective assessments and estimates based on historical experience, and are considered reasonable and realistic in the circumstances. These assessments and assumptions resulted in significant overall effects on the consolidated financial statements of the Group. Please refer to notes 14 and 18 for more details on these effects.

Estimates and assumptions

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

Fair value of financial instruments

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment losses on loans and advances

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

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

4 GROUP INFORMATION

The consolidated financial statements of the Group comprise the financial statements of BLOM Bank SAL and the following subsidiaries:

Name	*Country of incorporation*	*Activities*	*% effective equity interest*	
			31 December 2017	*31 December 2016*
			%	*%*
BLOM Bank France SA	France	Banking activities	99.998	99.998
BLOM Bank (Switzerland) SA	Switzerland	Banking activities	99.998	99.998
BLOMInvest Bank SAL	Lebanon	Banking activities	99.920	99.930
BLOM Development Bank SAL	Lebanon	Islamic banking activities	99.918	99.925
Arope Insurance SAL	Lebanon	Insurance activities	89.039	89.039
BLOM Bank Egypt SAE	Egypt	Banking activities	99.419	99.419
BLOM Egypt Securities SAE	Egypt	Brokerage activities	99.665	99.647
BLOMInvest – Saudi Arabia	Saudi Arabia	Financial institution	59.960	59.965
BLOM Bank Qatar LLC	Qatar	Banking activities	99.750	99.750
Arope Life Insurance Egypt SAE	Egypt	Insurance activities	91.116	91.116
Arope Insurance of Properties and Responsibilities Egypt SAE	Egypt	Insurance activities	93.192	93.192
BLOM Securities	Jordan	Financial institution	100.000	100.000
BLOM Asset Management Company SAL	Lebanon	Investment activities	99.997	99.997
BLOM Asset Management Company SAE (**)	Egypt	Investment activities	99.677	-

(*) Effective 31 December 2016, the Group deconsolidated Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) SA and Syria and Overseas Company for Financial Services (SOFS) since it no longer meets the accounting criteria for consolidation (Refer to notes 14 and 18).

(**) BLOM Asset Management Company SAE, an Egyptian joint stock company, was incorporated on 23 October 2016 and licensed on 23 March 2017, with a capital of EGP 10.25 million (LL 853 million).

5 MATERIAL PARTLY – OWNED SUBSIDIARIES

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

Proportion of equity interests held by non-controlling interests:

	2017	*2016*
	%	*%*
Name		
BLOMInvest – Saudi Arabia	**40.040**	40.035
Arope Insurance SAL	**10.961**	10.961

5 MATERIAL PARTLY – OWNED SUBSIDIARIES (continued)

Profit allocated to material non-controlling interests:

	2017 LL million	2016 LL million
BLOMInvest – Saudi Arabia	1,347	3,827
Arope Insurance SAL	3,062	2,998

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

Summarized statement of comprehensive income

	BLOMInvest – Saudi Arabia		Arope Insurance SAL	
	2017 LL million	2016 LL million	2017 LL million	2016 LL million
Net interest income	370	1,000	23,254	21,208
Net fee and commission income	10,779	17,240	30,828	33,067
Net (loss) gain from financial instruments at fair value through profit or loss	(382)	459	154	(262)
Other operating income	-	27	389	10,218
Total operating income	10,767	18,726	54,625	64,231
Net credit losses	-	-	(74)	(109)
Impairment losses on financial investments	-	-	-	(10,109)
Total operating expenses	(7,019)	(8,355)	(24,022)	(24,304)
Net gain (loss) on disposal of other assets	87	-	(1)	2
Profit before tax	3,835	10,371	30,528	29,711
Income tax expense	(470)	(812)	(2,594)	(2,362)
Profit for the year	3,365	9,559	27,934	27,349
Attributable to non-controlling interests	1,347	3,827	3,062	2,998

Summarized statement of financial position

	BLOMInvest – Saudi Arabia		Arope Insurance SAL	
	2017 LL million	2016 LL million	2017 LL million	2016 LL million
ASSETS				
Cash and balances with banks	10	1	32	36
Due from banks and financial institutions	14,455	66,146	323,929	374,568
Due from head office and sister banks	179	153	93,812	27,013
Financial assets at fair value through profit or loss	54,872	30,994	7,975	7,432
Net loans and advances at amortized cost	-	-	25,898	20,590
Financial assets at amortized cost	5,152	5,162	15,749	15,737
Investments in subsidiaries and associates	-	-	36,542	36,542
Property and equipment	23,478	24,265	24,989	24,634
Intangible assets	78	61	345	-
Other assets	42,160	30,821	80,350	70,044
Total Assets	140,384	157,603	609,621	576,596
LIABILITIES				
Due to head office and sister banks	-	21	-	7,597
Other liabilities	12,938	31,346	338,981	322,544
Provisions for risks and charges	705	1,672	57,559	47,627
Total Liabilities	13,643	33,039	396,540	377,768
TOTAL SHAREHOLDERS' EQUITY	126,741	124,564	213,081	198,828
Attributable to non-controlling interests	*50,708*	*49,835*	*23,355*	*21,793*
Total liabilities and shareholders' equity	140,384	157,603	609,621	576,596

5 MATERIAL PARTLY – OWNED SUBSIDIARIES (continued)

Summarized cash flow information

	BLOMInvest – Saudi Arabia		***Arope Insurance SAL***	
Type of activities	***2017***	*2016*	***2017***	*2016*
	LL million	*LL million*	***LL million***	*LL million*
Operating	**(229,845)**	55,683	**19,390**	23,294
Investing	**15,139**	3,020	**(36,854)**	(1,365)
Financing	**-**	-	**(21,277)**	(5,363)
	(214,706)	58,703	**(38,741)**	16,566

6 SEGMENTAL INFORMATION

The Group operates in four major business segments: retail; corporate; treasury and asset management and private banking.

Retail banking provides a diversified range of products and services to meet the personal banking and consumer finance needs of individuals. The range includes deposits, housing loans, consumer loans, credit cards, fund transfers, foreign exchange and other branch related services.

Corporate banking provides a comprehensive product and service offering to corporate and institutional customers, including loans and other credit facilities, deposits and current accounts, trade finance and foreign exchange operations.

Treasury is mostly responsible for the liquidity management and market risk of the Group as well as managing the Group's own portfolio of stocks, bonds and other financial instruments. In addition, this segment provides treasury and investments products and services to investors and other institutional customers.

Asset management and private banking provides investment products and services to institutional investors and intermediaries.

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net operating income. Income taxes, total operating expenses and net loss on disposal of fixed assets are managed on a group basis and are not allocated to operating segments.

Interest income is reported net since Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

6 SEGMENTAL INFORMATION (continued)

The following table presents net operating income, total assets and total liabilities information in respect of the Group's reportable segments:

Profit for the year information

	2017					
	Treasury *LL million*	*Corporate banking* *LL million*	*Retail banking* *LL million*	*Asset management and private banking* *LL million*	*Unallocated(*)* *LL million*	*Total* *LL million*
Net interest income	696,878	205,984	207,957	1,175	-	1,111,994
Net fee and commission income	40,155	40,547	65,155	43,159	16,761	205,777
Net gain from financial instruments at fair value through profit or loss	6,220	-	31,833	-	-	38,053
Net gain from sale of financial assets at amortized cost	60,420	-	-	-	-	60,420
Revenue from financial assets at fair value through other comprehensive income	340	-	-	-	-	340
Other operating income	108,748	1,422	19,223	-	-	129,393
Net credit losses	-	3,259	(22,360)	-	-	(19,101)
Net operating income	912,761	251,212	301,808	44,334	16,761	1,526,876
Extracts of results						
Depreciation and amortization						(37,371)
Unallocated expenses						(578,138)
Income tax expense						(179,820)
Profit for the year						731,547

	2016					
	Treasury *LL million*	*Corporate banking* *LL million*	*Retail banking* *LL million*	*Asset management and private banking* *LL million*	*Unallocated(*)* *LL million*	*Total* *LL million*
Net interest income	618,074	193,256	228,328	1,363	-	1,041,021
Net fee and commission income	40,204	43,189	69,640	52,657	20,871	226,561
Net gain from financial instruments at fair value through profit or loss	77,150	-	40,139	-	-	117,289
Net gain from sale of financial assets at amortized cost	575,558	-	-	-	-	575,558
Revenue from financial assets at fair value through other comprehensive income	435	-	-	-	-	435
Other operating income	10,118	1,738	9,526	-	20	21,402
Net credit losses	-	(94,468)	(29,307)	-	-	(123,775)
Impairment losses on financial investments	(34,749)	-	-	-	-	(34,749)
Net operating income	1,286,790	143,715	318,326	54,020	20,891	1,823,742
Extracts of results						
Depreciation and amortization						(39,814)
Unallocated expenses						(844,480)
Income tax expense						(241,731)
Profit for the year						697,717

(*) *"Unallocated" include insurance premiums' commissions from insurance subsidiaries*

6 SEGMENTAL INFORMATION (continued)

Financial position information

	2017					
	Treasury LL million	Corporate banking LL million	Retail banking LL million	Asset management and private banking LL million	Other (**) LL million	Total LL million
Total assets	36,482,970	6,556,237	4,824,781	133,951	1,062,165	49,060,104
Total liabilities	32,827,463	5,899,318	4,341,349	133,723	1,327,630	44,529,483

	2016					
	Treasury LL million	Corporate banking LL million	Retail banking LL million	Asset management and private banking LL million	Other (**) LL million	Total LL million
Total assets	32,670,970	6,404,673	4,377,682	131.149	914,000	44,498,474
Total liabilities	28,981,156	5,681,338	3,883,273	136,124	1,395,953	40,077,844

(**) Other includes activities related to property and equipment, intangible assets, assets obtained in settlement of debt, other assets and goodwill

Geographic information

The Group operates in two geographic markets based on the location of its markets and customers. The domestic market represents the Lebanese market, and the international market represents markets outside Lebanon. The following table shows the distribution of the Group's external net operating income and non-current assets.

	2017		
	Domestic LL million	International LL million	Total LL million
Total operating income	1,412,111	133,866	1,545,977
Net credit losses	(8,770)	(10,331)	(19,101)
Net operating income[1]	1,403,341	123,535	1,526,876
Non-current assets[2]	591,503	271,221	862,724

	2016		
	Domestic LL million	International LL million	Total LL million
Total operating income	1,661,497	320,769	1,982,266
Net credit losses	(123,373)	(402)	(123,775)
Impairment losses on financial investments	-	(34,749)	(34,749)
Net operating income[1]	1,538,124	285,618	1,823,742
Non-current assets[2]	518,461	239,167	757,628

[1] Net operating income is attributed to the geographical segment on the basis of the location where the income is generated

[2] Non-current assets consist of property and equipment, intangible assets, assets obtained in settlement of debt and goodwill

7 INTEREST AND SIMILAR INCOME

	2017 LL million	2016 LL million
Balances with Central Banks	**1,186,321**	770,615
Due from banks and financial institutions	**76,035**	50,741
Loans and advances to customers at amortized cost	**814,806**	800,468
Loans and advances to related parties at amortized cost	**1,320**	1,021
Financial assets at amortized cost	**705,042**	929,928
	2,783,524	2,552,773

8 INTEREST AND SIMILAR EXPENSE

	2017 LL million	2016 LL million
Due to Central Banks	**13,625**	5,300
Due to banks and financial institutions	**27,889**	14,294
Customers' deposits at amortized cost	**1,622,011**	1,481,468
Deposits from related parties at amortized cost	**8,005**	10,690
	1,671,530	1,511,752

9 NET FEE AND COMMISSION INCOME

	2017 LL million	2016 LL million
Fee and commission income		
General banking income	**45,555**	45,409
Credit-related fees and commissions	**38,689**	39,862
Insurance brokerage income	**35,003**	38,873
Trade finance	**24,624**	27,782
Brokerage and custody income	**19,783**	23,097
Electronic banking	**56,503**	55,855
Asset management and private banking	**25,421**	32,371
Trust and fiduciary activities	**1,680**	1,766
Other fees and commissions	**15,758**	16,348
	263,016	281,363
Fee and commission expense		
General banking Expenses	**(7,080)**	(6,971)
Credit-related fees and commissions	**(1,432)**	(2,183)
Insurance Brokerage fees	**(18,242)**	(18,002)
Brokerage and custody fees	**(2,256)**	(2,811)
Electronic banking	**(21,444)**	(17,442)
Other fees and commissions	**(6,785)**	(7,393)
	(57,239)	(54,802)
	205,777	226,561

10 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	*2016*
	LL million	*LL million*
Interest and similar income from debt instruments and other financial assets at fair value through profit or loss:		
- Government debt securities	4,468	7,407
- Corporate debt securities	740	1,360
- Certificates of deposit	146	659
- Funds	359	205
	5,713	9,631
Net gain from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Government debt securities	(1,197)	(166)
- Corporate debt securities	330	8,110
- Certificates of deposit	45	5,441
- Funds	1,594	(1,030)
- Options	(15)	(27)
- Equity instruments	588	1,114
	1,345	13,442
Net unrealized loss from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Government debt securities	1,302	(1,792)
- Corporate debt securities	142	(4,930)
- Certificates of deposit	(47)	(14)
- Funds	(1,556)	822
- Equity instruments	(9,723)	30,900
	(9,882)	24,986
Dividend income		
- Funds	67	47
- Equity instruments	7,544	7,940
	7,611	7,987
Foreign exchange income	**33,266**	61,243
	38,053	117,289

Foreign exchange income includes gains and losses from spot and forward contracts, other currency derivatives and the revaluation of the daily open trading and structural positions.

11 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

The Group derecognises some debt instruments classified at amortized cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of financial assets by the Central Bank of Lebanon;
- Currency risk management as a result of change in the currency base of deposits; or
- Liquidity for capital expenditures.

The schedule below details the gains and losses arising from derecognition of these financial assets:

	2017		
	Gains	***Losses***	***Total***
	LL million	***LL million***	***LL million***
Lebanese sovereign and Central Bank of Lebanon			
Certificates of deposit	57,435	-	57,435
Government debt securities	14,841	(15,363)	(522)
	72,276	(15,363)	56,913
Other sovereign:			
Government debt securities	9	-	9
Corporate debt securities	4,247	(749)	3,498
	76,532	**(16,112)**	**60,420**

	2016		
	Gains	*Losses*	*Total*
	LL million	*LL million*	*LL million*
Lebanese sovereign and Central Bank of Lebanon			
Certificates of deposit	284,708	-	284,708
Government debt securities	295,358	(4,604)	290,754
	580,066	(4,604)	575,462
Other sovereign:			
Government debt securities	96	-	96
	580,162	(4,604)	575,558

During 2016, the Group entered into certain financial transactions with the Central Bank of Lebanon relating to Treasury bills and certificates of deposits denominated in Lebanese Pounds. These transactions were available to banks provided that they are able to reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or Certificates of Deposit issued by the Central Bank of Lebanon denominated in US Dollars and purchased at their fair values. The gains arising from such trades amounted to LL 554,761 million, of which LL 166,100 million and LL 76,380 million were recorded as deferred revenues as at 31 December 2016 and 31 December 2017, respectively (Note 38).

12 OTHER OPERATING INCOME

	2017 *LL million*	*2016* *LL million*
Release of provisions for risks and charges (note 38)	**105,552**	-
Write back of provisions for risks and charges (note 38)	**4,312**	11,935
Gain from sale of assets obtained in settlement of debt	**1,662**	270
Write back of provisions for assets taken in settlement of debt (note 31)	**749**	236
Other income	**17,118**	8,961
	129,393	21,402

13 NET CREDIT LOSSES

	2017 *LL million*	*2016* *LL million*
Provision for loans and advances:		
Commercial loans (note 26)	**17,097**	115,541
Consumer loans (note 26)	**37,419**	45,179
Sundry debtors (note 32)	**-**	33
Commitment by signature (note 38)	**78**	1,425
	54,594	162,178
Write-back of provisions for loans and advances:		
Commercial loans (note 26)	**(6,999)**	(16,077)
Consumer loans (note 26)	**(13,371)**	(11,966)
Unrealized interest (note 26)	**(7,631)**	(5,691)
Recoveries from loans reflected as off-financial position (note 26)	**(7,492)**	(3,342)
Recoveries from sundry debtors (note 32)	**-**	(33)
Recoveries from commitment by signature (note 38)	**-**	(1,294)
	(35,493)	(38,403)
	19,101	123,775

14 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

	2017 *LL million*	*2016* *LL million*
Impairment losses on financial investments	**-**	34,749

Starting March 2011, Syria has witnessed an extremely violent and crippling civil war between the regime and various opposition groups in different parts of the country. The war has turned into a humanitarian disaster resulting in Syria being ranked number one on the list of the most dangerous countries in the world. In addition, this has led several international bodies and countries (e.g. EU and USA) to set and implement several sanctions and restrictions on dealing with Syria.

The Syrian pound has lost at least 90% of its value against the US Dollar since 2011. The Syrian government has maintained currency controls and has created exchange mechanisms, which have become extremely illiquid over time, resulting in an other-than-temporary lack of exchangeability between the Syrian Pound and US Dollar. The supply of foreign currencies in the market remains structurally well below demand and there are no obvious limits as to how low the Syrian currency can fall.

14 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS (continued)

Sanctions and the war, combined with the lack of exchangeability between the Syrian Pound and US Dollar, have significantly affected Syria's financial system. Banks are largely isolated from the international banking market, being shut-off from the international payment and settlement systems, as well as the credit markets. There was a major flight of deposits as Syrians have reallocated to safer assets. Syria's economy has contracted considerably in real terms since 2011, which has significantly affected the demand for credit facilities and the investment opportunities available for banks inside Syria. Banks are unable to repatriate funds outside the country and end up placing their funds in non-income generating assets, with the Central Bank of Syria and other local commercial or state-owned banks. The negative evolution of the macroeconomic situation limited the Bank's ability to effectively manage its Syrian subsidiaries. In addition, regulatory restrictions, such as foreign exchange controls, import authorization control, interest rates controls, and foreign currency credit facilities controls, have added to the limitations already existing on the significant activities of banks, preventing further the Bank from developing and implementing decisions on the relevant activities of its Syrian subsidiaries. Recently issued regulations requiring board meetings to be held in the Syrian territory and attended by the board members in person have also significantly impacted the Bank due to inability to attend the meetings to make and execute key operational and financial decisions regarding its Syrian operations.

As a result of these factors, which are expected to continue for the foreseeable future, the Group concluded that it no longer met the accounting criteria for consolidation of its Syrian subsidiaries due to a loss of control, and therefore it deconsolidated its Syrian subsidiaries effective as of 31 December 2016. The Group has determined the fair value of its investments in its Syrian subsidiaries to be insignificant based on its expectations of dividend payments in future periods.

The deconsolidation of the subsidiaries resulted in the recognition of a negative impact on the consolidated income statement for the year 2016, in the amount of LL 108,477 million, which includes:

- negative impact of LL 73,728 million resulting from losses from the translation into Lebanese Lira of the financial statements of the subsidiaries previously recognized in equity under foreign currency translation reserve and reclassified to the consolidated income statement (note 18); and
- negative impact of LL 34,749 million due to the full-write off of the net assets of the subsidiaries.

Cash and cash equivalents of the subsidiaries upon deconsolidation amounted to LL 229,622 million and are detailed as follows: LL 229,350 million, LL 140 million and LL 132 million related to Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) SA, and Syria and Overseas Company for Financial Services (SOFS) respectively.

As a consequence of the deconsolidation, effective 1 January 2017, the Group shall no longer include the results of the Syrian subsidiaries in its consolidated financial statements. Further, dividends and inter-bank interest will be recorded as income and expense upon receipt or payment. The Group will monitor the extent of its ability to control its Syrian operations as its current situation in Syria may change over time and lead to consolidation at a future date.

15 PERSONNEL EXPENSES

	2017	*2016*
	LL million	*LL million*
Salaries and related charges	**150,888**	149,463
Social security contributions	**31,743**	28,123
Provisions for retirement benefits obligation (note 38)	**4,923**	11,066
Additional allowances	**46,108**	43,724
Bonuses	**83,956**	79,670
	317,618	312,046

16 OTHER OPERATING EXPENSES

	2017 *LL million*	*2016* *LL million*
Professional fees	**20,727**	18,751
Marketing and advertising	**18,193**	16,548
Maintenance and repairs	**16,185**	16,288
Provision for guarantee of deposits	**15,844**	15,560
Gifts and donations	**10,495**	11,121
Rent and related charges	**10,211**	10,105
Postage and telecommunications	**10,185**	10,348
Fiscal stamps	**6,744**	6,985
Stationary and printings	**6,488**	9,200
Taxes and fees	**6,392**	6,038
Subscriptions	**5,883**	7,157
Electricity and fuel	**5,771**	6,555
Loss on bad debts against real estate (a)	**4,886**	-
Travel expenses	**4,774**	5,448
Card expenses	**4,132**	4,018
Board of directors' attendance fees	**2,164**	2,431
Insurance	**1,614**	1,401
Provision for risks and charges (note 38 (i))	**859**	8,707
Provision on impairment of assets taken in settlement of debt (note 31)	**110**	109
Others	**18,740**	20,537
	170,397	177,307

(a) The Board of Directors of BLOM Bank SAL and BLOMInvest Bank SAL approved on 13 July 2017 and 12 July 2017 respectively to acquire a number of real estate plots mortgaged in favor of BLOM Bank SAL and BLOMInvest Bank SAL in full settlement of the participation loan (90% by BLOM Bank SAL and 10% by BLOMInvest Bank SAL) granted to Zeitoun 1589 SAL in accordance with Article 154 of the Code of Money and Credit. The acquisition amounting to US$ 8,220,894 (LL 12,393 million) was approved by the Banking Control Commission on 2 August 2017. The Group realized a loss of US$ 3,241,118 (LL 4,886 million) as a result of the settlement on this debt.

17 PROVISIONS FOR RISKS AND CHARGES

	2017 *LL million*	*2016* *LL million*
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circulars numbers 439 dated 8 November 2016 and 446 dated 30 December 2016 (note 38)	**-**	260,797

18 FOREIGN CURRENCY TRANSLATION LOSSES ON DECONSOLIDATION OF SUBSIDIARIES

	2017 *LL million*	*2016* *LL million*
Foreign currency translation losses on deconsolidation of subsidiaries	**-**	73,728

Effective 31 December 2016, the Group has deconsolidated its three Syrian subsidiaries, Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) SA, and Syria and Overseas Company for Financial Services (SOFS). Upon deconsolidation of these subsidiaries, the Group incurred foreign currency translation losses amounting to LL 73,728 million (note 14).

19 INCOME TAX EXPENSE

The tax rates applicable to the parent and subsidiaries vary from 0% to 40% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense and are based on the current understanding of the existing tax laws and regulations and tax practices.

Reconciliation of total tax charge

The relationship between taxable profit and accounting profit is as follow:

	2017	*2016*
	LL million	*LL million*
Profit before income tax	**911,367**	939,448
Less: Results of the subsidiary insurance company located in Lebanon (*)	**(30,528)**	(29,711)
Accounting profit before income tax	**880,839**	909,737
Add:		
Non-tax deductible provisions	**110,026**	371,904
Unrealized losses from revaluation of debt instruments and other financial assets at fair value through profit or loss	**9,423**	27
Net loss on disposal of fixed assets	**623**	-
Other non-tax deductible charges	40,780	40,740
	1,041,691	1,322,408
Less:		
Unrealized gains from revaluation of debt instruments and other financial assets at fair value through profit or loss	-	(19,938)
Dividends received and previously subject to income tax	**(11,346)**	(10,696)
Remunerations already taxed	**(19,791)**	(15,547)
4% of a subsidiary's capital eligible to be tax deductible	**(400)**	(400)
Release of provisions previously subject to income tax	**(4,358)**	(16,946)
Net gain on disposal of fixed assets	-	(106)
Other non-taxable income	**(3,536)**	(3,945)
Taxable profit	**1,002,260**	1,254,830
Effective income tax rate	**19.73%**	25.73%
Income tax expense in the consolidated income statement	**179,820**	241,731

(*) The insurance company in Lebanon is subject to income tax at the rate of 15% calculated based on gross insurance premiums weighted differently for each class of business.

20 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

The following table shows the income and share data used in the basic earnings per share calculations:

	2017	*2016*
	LL million	*LL million*
Net profit for the year	**731,547**	697,717
Less: Proposed dividends on preferred shares	-	(21,105)
Non-controlling interests	**(4,846)**	(21,274)
Net profit attributable to ordinary equity holders of the parent	**726,701**	655,338

20 EARNINGS PER SHARE (continued)

Weighted average number of ordinary shares for basic earnings per share		**214,108,030**	197,356,940
Basic earnings per share	*LL*	**3,394**	3,321

No figure for diluted earnings per share has been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of approval of these consolidated financial statements.

21 CASH AND BALANCES WITH CENTRAL BANKS

	2017 *LL million*	*2016* *LL million*
Cash on hand	266,712	232,633
Current accounts with Central Banks	1,676,025	1,918,128
Deposits with the Central Banks	22,687,754	15,840,408
	24,630,491	17,991,169

Cash and balances with the Central Banks include non-interest bearing balances held by the Group at the Central Bank of Lebanon in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Lira as required by the Lebanese banking rules and regulations. This obligatory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments, after taking into account certain waivers relating to subsidized loans denominated in Lebanese Lira. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Lira.

In addition to the above, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements at the rate of 15% of total deposits in foreign currencies regardless of nature.

Foreign subsidiaries are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

Balances available against obligatory reserves are as follows:

	2017		
	Lebanese Pounds LL million	***Foreign currency LL million***	***Total LL million***
Obligatory reserve			
Central Bank of Lebanon	**329,579**	**3,508,810**	**3,838,389**
Other central banks	**-**	**432,194**	**432,194**
	329,579	**3,941,004**	**4,270,583**

	2016		
	Lebanese Pounds LL million	*Foreign currency LL million*	*Total LL million*
Obligatory reserve			
Central Bank of Lebanon	632,564	3,018,038	3,650,602
Other central banks	-	385,059	385,059
	632,564	3,403,097	4,035,661

22 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2017 *LL million*	*2016* *LL million*
Current accounts		
Current accounts	**1,546,760**	1,244,830
Time deposits		
Time deposits	**2,016,493**	1,935,831
Doubtful accounts with banks	**1,752**	1,694
Less: Impairment allowance for doubtful accounts	**(1,752)**	(1,694)
	2,016,493	1,935,831
	3,563,253	3,180,661

Movement of impairment allowance for doubtful accounts with banks is as follows:

	2017 *LL million*	*2016* *LL million*
Balance at 1 January	**1,694**	2,086
Unrealized interest	**58**	57
Deconsolidation of subsidiaries	**-**	(375)
Foreign exchange difference	**-**	(74)
Balance at 31 December	**1,752**	1,694

23 LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	2017 *LL million*	*2016* *LL million*
Loans to banks and financial institutions	**44,182**	60,108
Accrued interest receivable	**331**	445
Balance at 31 December	**44,513**	60,553

24 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of neither the market risk nor the credit risk.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

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

24 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group has positions in the following types of derivatives:

	2017			2016		
	Assets LL million	*Liabilities LL million*	*Total notional amount LL million*	*Assets LL million*	*Liabilities LL million*	*Total notional amount LL million*
Derivatives held-for-trading						
Currency options	9,980	9,980	40,040	15,182	15,182	120,530
Forward foreign exchange contracts	10,420	16,245	3,605,538	15,386	14,815	2,693,130
Equity swaps and options	1	1	2,260	2.106	2.106	591,326
Currency swaps	-	5,544	563,397	15.233	1,433	829,594
Interest rate swaps	-	-	2,186	-	-	-
	20,401	31,770	4.213,421	47,907	33,536	4,234,580
Hedge of net investment in foreign operations						
Forward foreign exchange contracts	-	2.617	194,939	5,273	-	172,246
	20,401	34,387	4,408,360	53,180	33,536	4,406,826

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Derivative financial instruments held-for-trading purposes

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for hedging purposes which do not meet the IAS 39 hedge accounting criteria.

Derivative financial instruments held for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks.

The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks.

Hedge of net investment in foreign operations

During 2017, the Group renewed its Forward foreign exchange contracts designated to hedge the net investment in its subsidiary in France. The notional amount of these contracts amounted to Euro 107,904 thousand (LL 194,939 million) as at 31 December 2017 (2016: LL 172,246 million). The forward foreign exchange contracts were revalued as of 31 December 2017 and resulted in unrealized loss of LL 2,617 million (2016: unrealized gain of LL 5,273 million). The contracts mature on 7 March 2018 at the latest.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the year.

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 LL million	2016 LL million
Equity instruments at fair value through profit or loss	**197,762**	185,196
Debt and other instruments at fair value through profit or loss	**165,953**	201,463
	363,715	386,659

Financial assets at fair value through profit or loss consist of the following:

	2017 LL million	2016 LL million
Quoted equity securities	**181,102**	171,138
Unquoted equity securities	**16,660**	14,058
Quoted government debt securities	**41,270**	80,880
Unquoted government debt securities	**7,713**	18,877
Quoted corporate debt securities	**7,624**	45,855
Unquoted corporate debt securities	**1,970**	2,029
Funds	**107,376**	50,523
Unquoted certificates of deposit – Central Banks	-	3,299
	363,715	386,659

26 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2017 LL million	2016 LL million
Commercial loans	**6,873,260**	6,793,812
Consumer loans (*)	**4,906,477**	4,450,660
	11,779,737	11,244,472
Less:		
Individual impairment allowances	**(207,722)**	(325,628)
Collective impairment allowances	**(102,887)**	(92,367)
Unrealized interest	**(133,153)**	(118,087)
	11,335,975	10,708,390

(*) Included under consumer loans as at 31 December 2017, an amount of LL 3,100,085 million (31 December 2016: LL 2,656,277 million) representing housing loans.

26 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

Movement of unrealized interest on substandard and doubtful loans during the years ended 31 December was as follows:

	2017 *LL million*	*2016* *LL million*
Balance at 1 January	**118,087**	94,584
Add:		
Unrealized interest for the year	**42,551**	48,161
Transferred from HSBC Bank Middle East Limited - Lebanon	**23,543**	-
Transferred from commercial individual impairment allowances	**155**	-
	184,336	142,745
Less:		
Recoveries of unrealized interest (note 13)	**(7,563)**	(5,691)
Amounts written-off	**(867)**	(12,827)
Transferred to off-financial position	**(41,485)**	(2,271)
Transferred to impairment allowances on consumer loans	**(1,144)**	-
Deconsolidation of subsidiaries	**-**	(1,579)
Foreign exchange difference	**(124)**	(2,290)
Balance at 31 December	**133,153**	118,087
Unrealized interest on substandard loans	**30,920**	16,370
Unrealized interest on doubtful loans	**102,233**	101,717
	133,153	118,087

A reconciliation of the allowance for impairment losses for loans and advances, by class, is as follows:

	2017			*2016*		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*	*Commercial loans LL million*	*Consumer loans LL million*	*Total LL million*
Balance at 1 January	345,290	72,705	417,995	276,248	85,016	361,264
Add						
Charge for the year (note 13)	17,097	37,419	54,516	115,541	45,179	160,720
Transferred from provisions for risks and charges (note 38 (i))	-	-	-	849	-	849
Transferred from HSBC Bank Middle East Limited– Lebanon	11,079	4,292	15,371	-	-	-
Transferred from commercial to consumer loans	-	1	1	-	1,135	1,135
Transferred from unrealized interest	-	1,144	1,144	-	-	-
Foreign exchange difference	2,398	352	2,750	2,678	-	2,678
	375,864	115,913	491,777	395,316	131,330	526,646
Less						
Provisions written-off	1,597	2,969	4,566	250	1,404	1,654
Write-back of provisions (note 13)	6,999	13,371	20,370	16,077	11,966	28,043
Transferred to off financial position	130,344	22,939	153,283	12,522	25,354	37,876
Transferred to provisions for risks and charges	2,782	11	2,793	-	-	-
Transferred to unrealized interest	155	-	155	-	-	-
Transferred from commercial to consumer loans	1	-	1	1,135	-	1,135
Reversal of provisions transferred from provisions for risks and charges related to a deconsolidated subsidiary (note 38)	-	-	-	16,339	13,575	29,914
Deconsolidation of subsidiaries	-	-	-	3,703	884	4,587
Foreign exchange difference	-	-	-	-	5,442	5,442
	141,878	39,290	181,168	50,026	58,625	108,651
Balance at 31 December	233,986	76,623	310,609	345,290	72,705	417,995

26 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

	2017			2016		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*	*Commercial loans LL million*	*Consumer loans LL million*	*Total LL million*
Individual impairment	160,780	46,942	207,722	276,923	48,705	325,628
Collective impairment	73,206	29,681	102,887	68,367	24,000	92,367
	233,986	76,623	310,609	345,290	72,705	417,995
Gross amount of loans individually determined to be impaired	275,756	93,617	369,373	394,172	80,982	475,154

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 648,311 million as of 31 December 2017 (2016: LL 313,563 million).

The fair value of collateral that the Group holds relating to loans and advances to commercial customers individually determined to be impaired amounts to LL 99,084 million as of 31 December 2017 (LL 215,389 million as of 31 December 2016). The collateral consists of cash, securities, letters of guarantee and properties.

The movement of allowance for impairment losses and allowance for unrealized interest against fully impaired loans included in the off financial position accounts is as follows:

	2017 LL million	*2016 LL million*
Balance at 1 January	313,563	338,476
Add:		
Unrealized interest for the year	36,318	18,628
Provision and unrealized interest transferred from the statement of financial position	194,768	40,147
Transferred from HSBC Bank Middle East Limited – Lebanon	109,895	-
Foreign exchange difference	2,426	-
	656,970	397,251
Less:		
Provisions written-back (note 13)	(7,492)	(3,342)
Unrealized interest written-back (note 13)	(68)	-
Amounts written-off	(1,099)	(2,840)
Deconsolidation of subsidiaries	-	(18,295)
Foreign exchange difference	-	(59,211)
	(8,659)	(83,688)
Balance at 31 December	648,311	313,563

27 FINANCIAL ASSETS AT AMORTIZED COST

	2017 LL million	*2016 LL million*
Quoted:		
Government debt securities	541,867	2,005,012
Corporate debt securities	832,221	1,310,318
	1,374,088	3,315,330

27 FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

	2017 *LL million*	*2016* *LL million*
Unquoted:		
Government debt securities	**2,991,927**	4,456,770
Government debt securities – denominated in LL, given as collateral (*)	**1,392,525**	-
Corporate debt securities	**32,704**	54,340
Certificates of deposit – Central Banks	**2,066,744**	2,806,799
Certificates of deposit – Commercial banks and financial institutions	**4,024**	366,674
	6,487,924	7,684,583
Allowance for impaired financial assets	**(5,637)**	(4,980)
	7,856,375	10,994,933

The movement of allowance for impaired financial assets is as follows:

	2017 *LL million*	*2016* *LL million*
Balance at 1 January	**4,980**	5,138
Translation difference	**657**	(158)
	5,637	4,980

(*) This balance represents Lebanese treasury bills pledged as collateral against loans obtained from the Central Bank of Lebanon (note 34).

28 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2017 *LL million*	*2016* *LL million*
Equity securities	**2,059**	2,093
Funds	**2,165**	1,722
	4,224	3,815

The table below details the financial assets at fair value through other comprehensive income as at 31 December:

	2017			*2016*		
	Carrying amount *LL million*	*Cumulative fair value changes* *LL million*	*Dividend income* *LL million*	*Carrying amount* *LL million*	*Cumulative fair value changes* *LL million*	*Dividend income* *LL million*
Equity securities	**2,059**	**(410)**	**340**	2,093	(92)	435
Funds	**2,165**	**1,024**	**-**	1,722	642	-
	4,224	**614**	**340**	3,815	550	435

Dividend income amounted to LL 340 million for the year ended 31 December 2017 (2016: LL 435 million) and resulted from equity instruments held at year end (2016: the same).

29 PROPERTY AND EQUIPMENT

	Freehold land and buildings LL million	*Vehicles LL million*	*Furniture, office installations and computer equipment LL million*	*Advances on acquisition of fixed assets and construction in progress LL million*	*Total LL million*
Cost					
At 1 January 2017	520,365	6,405	308,547	131,519	966,836
Additions	23,743	1,198	19,632	31,126	75,699
Disposals	(1,216)	(648)	(4,645)	-	(6,509)
Transfers	33,835	706	11,695	(46,737)	(501)
Transferred from HSBC Bank Middle East Limited-Lebanon	45,626	-	2,481	-	48,107
Translation difference	8,114	67	2,310	108	10,599
At 31 December 2017	630,467	7,728	340,020	116,016	1,094,231
Depreciation					
At 1 January 2017	71,097	3,094	189,205	-	263,396
Charge for the year	10,155	1,474	23,739	-	35,368
Relating to disposals	-	(490)	(3,903)	-	(4,393)
Transfers	-	465	(591)	-	(126)
Translation difference	690	54	1,367	-	2,111
At 31 December 2017	81,942	4,597	209,817	-	296,356
Net carrying value					
At 31 December 2017	**548,525**	**3,131**	**130,203**	**116,016**	**797,875**

	Freehold land and buildings LL million	*Vehicles LL million*	*Furniture, office installations and computer equipment LL million*	*Advances on acquisition of fixed assets and construction in progress LL million*	*Total LL million*
Cost					
At 1 January 2016	496,053	7,070	333,950	85,019	922,092
Additions	56,387	1,077	14,013	79,352	150,829
Disposals	-	(722)	(2,141)	-	(2,863)
Transfers	13,683	-	7,089	(24,044)	(3,272)
Deconsolidation of subsidiaries	(7,391)	(70)	(4,082)	(3,963)	(15,506)
Translation difference	(38,367)	(950)	(40,282)	(4,845)	(84,444)
At 31 December 2016	520,365	6,405	308,547	131,519	966,836
Depreciation					
At 1 January 2016	74,018	3,206	200,754	-	277,978
Charge for the year	10,003	1,378	24,381	-	35,762
Relating to disposals	-	(694)	(2,033)	-	(2,727)
Transfers	247	-	(247)	-	-
Deconsolidation of subsidiaries	(1,502)	(46)	(3,456)	-	(5,004)
Translation difference	(11,669)	(750)	(30,194)	-	(42,613)
At 31 December 2016	71,097	3,094	189,205	-	263,396
Net carrying value					
At 31 December 2016	449,268	3,311	119,342	131,519	703,440

Certain freehold land and buildings purchased prior to 1 January 1999 were restated in previous years for the changes in the general purchasing power of the Lebanese Lira giving rise to a net surplus amounting to LL 14,727 million, which was credited to equity under "revaluation reserve of real estate".

30 INTANGIBLE ASSETS

	Software development LL million	*Key money LL million*	*Advances on acquisition of intangible assets LL million*	*Total LL million*
Cost				
At 1 January 2017	21,856	3,400	24	25,280
Additions	1,415	-	11	1,426
Disposals	(552)	-	-	(552)
Transfers	256	-	(35)	221
Translation difference	356	217	-	573
At 31 December 2017	23,331	3,617	-	26,948
Amortization				
At 1 January 2017	19,503	3,295	-	22,798
Charge for the year	1,950	53	-	2,003
Relating to disposals	(552)	-	-	(552)
Translation difference	310	216	-	526
At 31 December 2017	21,211	3,564	-	24,775
Net carrying value				
At 31 December 2017	**2,120**	**53**	**-**	**2,173**

	Software development LL million	*Key money LL million*	*Advances on acquisition of intangible assets LL million*	*Total LL million*
Cost				
At 1 January 2016	21,095	3,860	52	25,007
Additions	1,444	-	58	1,502
Disposals	(127)	-	-	(127)
Transfers	156	-	(85)	71
Deconsolidation of subsidiaries	(154)	(265)	-	(419)
Translation difference	(558)	(195)	(1)	(754)
At 31 December 2016	21,856	3,400	24	25,280
Amortization				
At 1 January 2016	16,308	3,509	-	19,817
Charge for the year	3,984	68	-	4,052
Relating to disposals	(127)	-	-	(127)
Deconsolidation of subsidiaries	(150)	(153)	-	(303)
Translation difference	(512)	(129)	-	(641)
At 31 December 2016	19,503	3,295	-	22,798
Net carrying value				
At 31 December 2016	2,353	105	24	2,482

31 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	2017	*2016*
	LL million	*LL million*
Cost		
At 1 January	**55,019**	43,200
Additions	**14,577**	20,676
Disposals	**(4,453)**	(2,472)
Transfers	**(7)**	-
Deconsolidation of subsidiaries	-	(21)
Translation difference	**179**	(6,600)
At 31 December	**65,315**	54,783
Impairment		
At 1 January	**(5,263)**	(5,162)
Charge for the year (note 16)	**(110)**	(109)
Write-back (note 12)	**749**	236
Translation difference	**(11)**	8
At 31 December	**(4,635)**	(5,027)
Net carrying value		
At 31 December	**60,680**	49,756

32 OTHER ASSETS

	2017	*2016*
	LL million	*LL million*
Reinsurer's share of technical reserves	**61,375**	52,089
Prepaid expenses	**28,492**	20,473
Insurer deffered acquisition cost	**18,975**	17,956
Sundry debtors (ii)	**16,101**	14,083
Payments on behalf of HSBC Bank Middle East Limited– Lebanon (*)	**8,461**	-
Compulsory deposits (i)	**6,175**	6,168
Customers' transactions between head office and branches	**4,035**	925
Other revenues to be collected	**3,972**	3,115
Precious metals and stamps	**1,046**	1,130
Other assets	**50,865**	40,498
	199,497	156,437

(*) The above balance represents receivables from HSBC Bank Middle East Limited– Lebanon for payments made by BLOM Bank Lebanon on behalf of HSBC Bank Middle East Limited– Lebanon in accordance with the Protocol Terms of the Sale and Purchase Agreement. This balance was collected subsequently on 23 January 2018.

32 OTHER ASSETS (CONTINUED)

(i) Compulsory deposits represent amounts deposited with local authorities based on local regulations of the countries in which the subsidiaries are located, and are detailed as follows:

	2017	*2016*
	LL million	*LL million*
BLOMInvest Bank SAL	**1,500**	1,500
BLOM Development Bank SAL	**4,500**	4,500
BLOM Bank France SA	**121**	114
BLOM Securities	**54**	54
	6,175	6,168

(ii) Sundry debtors

	2017	*2016*
	LL million	*LL million*
Sundry debtors	**17,511**	15,493
Less: Provision against sundry debtors	**(1,410)**	(1,410)
	16,101	14,083

The movement of provision against sundry debtors is summarized as follows:

	2017	*2016*
	LL million	*LL million*
Balance at 1 January	**1,410**	1,410
Charge for the year (note 13)	**-**	33
Write-back of provisions (note 13)	**-**	(33)
Balance at 31 December	**1,410**	1,410

33 BUSINESS COMBINATIONS AND GOODWILL

(a) Goodwill

	2017	*2016*
	LL million	*LL million*
Cost:		
At 1 January	**21,365**	47,876
Goodwill arising on acquisition (b)	**89,720**	-
Translation difference	**46**	(26,511)
At 31 December	**111,131**	21,365
Impairment:		
At 1 January	**(19,415)**	-
Impairment for the year	**(89,720)**	(19,415)
At 31 December	**(109,135)**	(19,415)
Net book value:		
At 31 December	**1,996**	1,950

33 BUSINESS COMBINATIONS AND GOODWILL (continued)

(a) Goodwill (continued)

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganization. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity, and the impacts of regulatory change. The Group performed its annual impairment test in December 2017 and 2016.

As at 31 December, the carrying amount of goodwill was allocated to the following CGUs:

	2017 LL million	*2016 LL million*
Asset management and private banking - Switzerland	1,226	1,181
Asset management and private banking – Egypt	770	769
	1,996	1,950

These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

Goodwill Impairment Test

The Group recognised impairment losses as follows during the year ended 31 December:

	2017 LL million	*2016 LL million*
Commercial Banking – Egypt	-	19,415
Commercial Banking (HSBC) – Lebanon	89,720	-
	89,720	19,415

Commercial Banking (HSBC) – Lebanon

The Commercial Banking CGU in Lebanon is a separate business that generates largely independent cash flows from operations in the Lebanese market. The acquisitions resulted in operational synergies at the level of the acquired head office and branches. The business is reported mainly under the Commercial and Retail Banking business segment and the Lebanon geographical segment. The recoverable amount of this CGU of LL 135,240 million was determined based on a value in use calculation using updated cash flow projections from financial budgets covering a five-year period, with a terminal growth rate of 2.7 %. The projected cash flows were discounted at a pre-tax rate of 18.5%. As a result, an impairment loss on goodwill amounting to LL 89,720 million was recognised for the year ended 31 December 2017.

Commercial Banking – Egypt

The Commercial Banking CGU in Egypt is a separate legal entity offering Commercial Banking activities to its customers and is reported mainly under the treasury, Corporate and retail Banking business segments and the International geographical segment. The recoverable amount of this CGU of LL 183,934 million was determined based on a value in use calculation using updated cash flow projections from financial budgets covering a five-year period, with a terminal growth rate of 3%. The projected cash flows were discounted at a pre-tax rate of 18.5%. As a result, an impairment loss on goodwill amounting to LL 19,415 million was recognised for the year ended 31 December 2016.

33 BUSINESS COMBINATIONS AND GOODWILL (continued)

(a) Goodwill (continued)

Key Assumptions Used in Value in Use Calculations and Sensitivity to Changes in Assumptions
The calculation of value in use is most sensitive to interest rate margins, cost of equity and the projected growth rates used to extrapolate cash flows beyond the budget period.

The cost of equity assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated. Projected terminal growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for the jurisdictional area where the operations reside.

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the units to exceed their recoverable amount. These are summarised in the table below, which shows the details of the sensitivity of the above measures on the Bank's CGU's value in use (VIU):

Commercial Banking (HSBC) – Lebanon (31 December 2017)

Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.10% causes a decrease in the value in use by 4.12% (LL 5,576 million).
Cost of equity	The cost of equity is the return required for an investment to meet capital return requirements; it is often used as a capital budgeting threshold for required rate of return.	A decrease of 0.25% causes an increase in the value in use by 1.63% (LL 2,205 million).
Growth rate	Growth rate is the percentage change of the compounded annualized rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.	A decrease of 0.5% causes a decrease in the value in use by 1.82% (LL 2,458 million).

Commercial Banking – Egypt (31 December 2016)

Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.05% causes a decrease in the value in use by 4.53% (LL 8,336 million).
Cost of equity	The cost of equity is the return required for an investment to meet capital return requirements; it is often used as a capital budgeting threshold for required rate of return.	A decrease of 0.25% causes an increase in the value in use by 1.70% (LL 3,130 million).
Growth rate	Growth rate is the percentage change of the compounded annualized rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.	A decrease of 0.5% causes a decrease in the value in use by 1.92% (LL 3,526 million).

33 BUSINESS COMBINATIONS AND GOODWILL (continued)

(b) Business Combinations

Acquisition of HSBC Bank Middle East Limited – Lebanon Branch

On 17 June 2017, the Group acquired 100% of the assets and liabilities of HSBC Bank Middle East Limited – Lebanon Branch, for a total consideration of LL 219,562 million. HSBC Bank Middle East Limited – Lebanon Branch is engaged in providing a wide range of banking services to its customers through its Head Office and branches located in Lebanon. The transaction was accounted for under the acquisition method. The consolidated financial statements include the results of HSBC Bank Middle East Limited – Lebanon Branch from the acquisition date. If the acquisition had taken place at the beginning of the year 2017, net income for the year ended 31 December 2017 would have increased by LL 5,900 million.

The fair value of the identifiable assets and liabilities acquired arising as at the date of acquisition was:

	Fair value recognised on acquisition LL million	*Carrying value LL million*
Assets		
Cash and balances with central banks	206,384	206,384
Due from banks and financial institutions	62,277	62,277
Financial assets at fair value through profit or loss	180	180
Net loans and advances to customers at amortized cost	698,877	698,877
Debtors by acceptances	66,890	66,890
Financial assets at amortized cost	196,345	196,345
Property and equipment	48,107	19,802
Other assets	17,913	17,913
	1,296,973	1,268,668
Liabilities		
Due to banks and financial institutions	188,693	188,693
Customers' deposits at amortized cost	891,774	891,774
Engagements by acceptances	66,890	66,890
Other liabilities	14,609	14,609
Provisions for risks and charges	5,165	5,165
	1,167,131	1,167,131
Total identifiable net assets	129,842	101,537

33 BUSINESS COMBINATIONS AND GOODWILL (continued)

(b) Business Combinations (continued)

Acquisition of HSBC Bank Middle East Limited – Lebanon Branch (continued)

	LL million
Acquisition percentage	100%
Fair value of net assets acquired	129,842
Cost of acquisition	219,562
Goodwill arising from acquisition	89,720

Cash outflow on acquisition of the subsidiary:	***LL million***
Cash paid	(219,562)
Cash acquired with the subsidiary	206,384
Net cash outflow	(13,178)

34 DUE TO CENTRAL BANKS AND REPURCHASE AGREEMENTS

	2017 LL million	*2016 LL million*
Central Bank of Lebanon (a)	511,856	493,762
Central Bank of Lebanon (b)	1,707,573	-
Central Bank of Jordan	22,845	20,398
Accrued interest payable	12,671	4,861
	2,254,945	519,021
Central Bank of Egypt – repurchase agreements	7,263	2,930
	2,262,208	521,951

(a) Following its issued Intermediate Circulars, the Central Bank of Lebanon offered the commercial banks facilities capped at LL 1,500 billion to be granted to customers and with a time limit ending on 15 October 2017. Facilities obtained are subject to an interest rate of 1% per annum payable on a monthly basis with the first payment due on 2 January 2018. As of 31 December 2017, the Group obtained facilities amounting to LL 511,856 million (31 December 2016: LL 493,762 million).

(b) During 2017, the Group obtained loans from the Central Bank of Lebanon amounting to LL 1,707,573 million. Out of these loans, LL 1,392,525 million are secured by the pledge of Lebanese treasury bills having maturities ranging between the years 2022 and 2027 and are included under financial assets at amortized cost as of 31 December 2017 (note 27) and the balance is secured by a term deposit.

35 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2017 *LL million*	*2016* *LL million*
Current accounts	276,549	282,609
Time deposits	248,524	273,390
Loans	53,612	34,809
	578,685	590,808

36 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2017 *LL million*	*2016* *LL million*
Customers' deposits at amortized cost:		
Sight deposits	5,631,782	4,909,865
Time deposits	19,512,803	16,740,727
Saving accounts	12,959,282	13,234,520
Credit accounts and deposits against debit accounts	1,806,653	2,213,873
Margins on letters of credit	66,499	40,842
	39,977,019	37,139,827

Customers' deposits include coded deposit accounts in BLOM Bank SAL and BLOMInvest Bank SAL amounting to LL 24,223 million as of 31 December 2017 (2016: LL 34,648 million).

37 OTHER LIABILITIES

	2017 *LL million*	*2016* *LL million*
Unearned premiums and liability related to insurance contracts	323,981	304,362
Sundry creditors	94,230	96,116
Current tax liabilities	146,174	210,736
Accrued expenses	68,867	56,735
Regularization accounts	98,835	108,953
Other taxes due	61,587	32,393
Dividends payable	1,543	796
Other liabilities	22,181	11,997
	817,398	822,088

38 PROVISIONS FOR RISKS AND CHARGES

	2017 LL million	2016 LL million
Deferred revenues (*)	**76,380**	166,100
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circulars number 439 dated 8 November 2016 and 446 dated 30 December 2016 (**) (note 17)	**260,797**	260,797
Provision for risks and charges (i)	**49,646**	54,106
Provision for outstanding claims and IBNR reserves related to subsidiary-insurance companies	**52,176**	41,789
Retirement benefits obligation (ii)	**69,882**	65,919
Provision on commitment by signature (iii)	**3,956**	3,883
Other provisions	**10,587**	1,058
	523,424	593,652

(*) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, caped to the extent of the losses recorded to comply with recent regulatory provisioning requirements, the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and the shortage needed to comply with the capital adequacy requirements, if any. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One. The remaining balance of the gain net of tax should be maintained within deferred revenue and qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

For the year ended 31 December 2016, the Group did not recognise in its consolidated income statement LL 166,100 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon. This amount was recorded as "Deferred revenue" and the related taxes amounting to LL 29,312 million were recorded directly in current tax liability as of 31 December 2016. Besides, during 2017, the Group released an amount of LL 89,720 million (net of tax) from "Deferred revenue" whereby LL 105,552 million gross of tax were recognised in the Income Statement for the year ended 31 December 2017 under "Other operating income" and LL 15,832 million under "Income tax expense".

(**) During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective provisions equivalent to 2% of consolidated risk weighted loans and advances to customers. As such, provisions for risks and charges as at 31 December 2016 and 2017 include an amount of LL 260,797 million in excess of the provisioning requirements of IAS 39.

38 PROVISIONS FOR RISKS AND CHARGES (CONTINUED)

(i) Provision for risks and charges

	2017 *LL million*	2016 *LL million*
Balance at 1 January	**54,106**	43,997
Charge for the year (note 16)	**859**	8,707
Provisions paid during the year	**(128)**	(429)
Provisions written-back during the year (note 12)	**(4,312)**	(11,935)
Provisions written-off during the year	**(89)**	-
Transfers from provisions on commitment by signature	-	8
Provision transferred to specific impairment on commercial loans (note 26)	-	(849)
Transfer from impairment allowance provisions (note 26)	-	29,914
Reversal of transfer to provision on commitment by signature related to a deconsolidated subsidiary (iii)	-	413
Deconsolidation of subsidiaries	-	(6,183)
Exchange difference	(790)	(9,537)
Balance at 31 December	**49,646**	54,106

(ii) Retirement benefits obligation

	2017 *LL million*	2016 *LL million*
Balance at 1 January	65,919	64,265
Charge for the year (note 15)	4,923	11,066
Transferred from HSBC Bank Middle East Limited – Lebanon Branch	3,400	-
Benefits paid	(4,532)	(3,956)
Exchange difference	172	(5,456)
Balance at 31 December	69,882	65,919

(iii) Provision on commitment by signature

	2017 *LL million*	2016 *LL million*
Balance at 1 January	3,883	12,341
Charge for the year (note 13)	78	1,425
Transfers to excess provisions to comply with the Central Bank of Lebanon Intermediate Circulars number 439 dated 8 November 2016 and 446 dated 30 December 2016	(8)	-
Provisions written-back during the year (note 13)	-	(1,294)
Provisions written-off	-	(66)
Transfers to provision for risks and charges	-	(8)
Reversal of provisions transferred from provisions for risks and charges related to a deconsolidated subsidiary	-	(413)
Deconsolidation of subsidiaries	-	(7,694)
Exchange difference	3	(408)
Balance at 31 December	**3,956**	3,883

39 SHARE CAPITAL AND PREMIUMS

	2017		2016	
	Share capital LL million	*Share premium LL million*	*Share capital LL million*	*Share premium LL million*
Common shares – Authorized, issued and fully paid				
215,000,000 shares at LL 1,500 per share as of 31 December 2017 (31 December 2016: 215,000,000 shares at LL 1,200 per share)	322,500	374,059	258,000	374,059

	2017		2016	
	Share capital LL million	*Share premium LL million*	*Share capital LL million*	*Share premium LL million*
Preferred shares – Authorized, issued and fully paid (*)				
20,000,000 preferred shares (2011 issue) at LL 1,200 per share as of 31 December 2016	-	-	24,000	277,500

According to the provisions of Law no 308 dated 3 April 2001, the Extraordinary General Assembly Meeting of Shareholders held on 4 April 2011, resolved to issue preferred shares at the following conditions:

	2011 issue
Number of shares	20,000,000
Par value of issued shares (LL 1,200 share)	LL 24,000 million
Premium (denominated in USD)	LL 277,500 million (USD 184,080 thousands)
Non cumulative benefits	2011 distributions to be based on a fixed amount of USD 0.7 per share (subject to the approval of the Shareholders' General Assembly Meeting and the availability of a non-consolidated distributable net income for the year)

These preferred shares are redeemable 60 days after the annual general assembly dealing with the accounts for the year 2016 at the discretion of the Bank at the issue price.

(*) Based on the resolution of the Extraordinary General Assembly of BLOM Bank SAL dated 28 April 2017, the Group decided to call and cancel all preferred shares (2011 issue) consisting of 20,000,000 shares of par value LL 1,200 per share, for a purchase price of LL 301,500 million representing share capital of LL 24,000 million and share premium of LL 277,500 million; with the simultaneous transfer of an amount of LL 64,500 million from "Reserve for increase of share capital" to "share capital- common shares"; so that the balance of the share capital- common shares increases from LL 258,000 million to LL 322,500 million; through the increase in the par value per share from LL 1,200 per share to LL 1,500. The approval of the Central Council of the Central Bank of Lebanon was obtained on 6 June 2017.

All of the Bank's common shares are listed in the Beirut Stock Exchange starting 20 June 2008. Out of the total common shares, 73,896,010 shares are listed as Global Depository Receipts (GDRs) in the Luxembourg Stock Exchange (2016: the same).

40 NON DISTRIBUTABLE RESERVES

	Reserve for general banking risks LL million	*Legal reserve LL million*	*Reserve for increase of share capital LL million*	*Other reserves LL million*	*Total LL million*
At 1 January 2016	409,185	486,823	102,542	63,785	1,062,335
Appropriation of 2015 profits	33,744	52,513	18,062	5,171	109,490
Net gain on sale of treasury shares	-	-	22,892	-	22,892
Transfer due to deconsolidated entities	(1,008)	(929)	-	(139)	(2,076)
Other adjustments	1	9	1	-	11
At 31 December 2016	441,922	538,416	143,497	68,817	1,192,652
Capital increase (note 39)	-	-	(64,500)	-	(64,500)
Appropriation of 2016 profits	34,957	64,316	75,190	4,992	179,455
Transfer from retained earnings to non-distributable reserves	-	-	-	3,367	3,367
Change in non-controlling interests	(1)	(3)	(2)	-	(6)
Net gain on sale of treasury shares	-	-	3,408	-	3,408
Other adjustments	-	-	(1,598)	-	(1,598)
At 31 December 2017	476,878	602,729	155,995	77,176	1,312,778

Reserve for general banking risks
According to the Central Bank of Lebanon regulations, banks in Lebanon are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off statement of financial position items based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 2 percent by the year 2017. This reserve is part of the Group's equity and cannot be distributed as dividends.

The appropriation in 2017 from the profits of the year 2016 amounted to LL 34,957 million (2016: LL 33,744 million).

Legal reserve
According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2017, the Group appropriated LL 64,316 million from 2016 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolution (2016: LL 52,513 million).

Reserve for increase of share capital
The balance amounting to LL 155,995 million (2016: LL 143,497 million) represents a regulatory reserve pursuant to regulatory circulars. This reserve cannot be distributed as dividends.

Details of the reserve for increase of share capital are as follows:

	2017 LL million	*2016 LL million*
Recoveries of provisions for doubtful debts and reserves for assets taken in recovery of debts	**95,768**	86,678
Revaluation reserves for fixed assets sold	**668**	668
Gain on sale of treasury shares	**59,456**	56,048
Transfer from other reserves	**102**	102
Other adjustments	**1**	1
	155,995	143,497

40 NON DISTRIBUTABLE RESERVES (continued)

Other reserves
Other reserves consist mainly of reserves for retail loans for banks operating in Lebanon pursuant to BCC Circular no. 280 dated 2 January 2015, and of non-distributable reserves of subsidiaries appropriated from retained earnings as required by the regulators where the Group operates. During 2017, the Group transferred an amount of LL 4,992 million from retained earnings to other reserves (2016: LL 5,171 million).

41 DISTRIBUTABLE RESERVES

	2017 ***LL million***	*2016* *LL million*
General reserves	**601,207**	559,860

General reserves
The Group appropriates general reserves from its retained earnings to strengthen its equity. This reserve amounting to LL 601,207 million (2016: LL 559,860 million) is available for dividend distribution.

42 TREASURY SHARES

Movement of treasury shares recognized in the consolidated statement of financial position is as follows:

	2017	
	No. of common shares	***Amount LL million***
At 1 January	**9,220,651**	**16,941**
Purchase of treasury shares	**2,290,192**	**37,564**
Sale of treasury shares	**(2,943,793)**	**(46,032)**
At 31 December	**8,567,050**	**8,473**

	2016	
	No. of common shares	*Amount LL million*
At 1 January	13,631,486	180,708
Purchase of treasury shares	15,456,819	122,590
Sale of treasury shares	(19,867,654)	(286,357)
At 31 December	9,220,651	16,941

The treasury shares represent 774,034 Global Depositary Receipts (GDR) and 7,793,016 ordinary shares owned by the Group as at 31 December 2017 (2016: 557,484 Global Depository Receipts (GDR) and 8,663,167 ordinary shares).

The Group realized a gain of LL 3,408 million from the sale of treasury shares during the year 2017 (2016: gain of LL 22,892 million). Gains and losses are reflected in the "Non-distributable reserves".

43 RETAINED EARNINGS

As of 31 December, retained earnings include the following non-distributable amounts:

	2017	*2016*
	LL million	*LL million*
Group's share of accumulated unrealized gain on revaluation of structural position of subsidiary bank (*)	**13,008**	11,724
Unrealized gain on financial assets at fair value through profit or loss	**79,669**	54,915
Earnings distributable subject to Central Bank of Egypt approval	**13,120**	6,344
	105,797	72,983

(*) This related to BLOM Bank France SA – Romania Branch as at 31 December 2017 (2016: the same).

Proposed dividends

In its meeting held on 16 March 2018, the Board of Directors of the Bank resolved to propose to the annual Ordinary General Assembly the distribution of dividends of LL 1,700 per common share before any deduction for taxes. These dividends are subject to the General Assembly's approval.

44 REVALUATION RESERVE OF REAL ESTATE

	2017	*2016*
	LL million	*LL million*
Revaluation reserve accepted in Tier II capital	14,727	14,727

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

Movement of the change in fair value of financial assets at fair value through other comprehensive income during the year was as follows:

	2017	*2016*
	LL million	*LL million*
At 1 January	550	333
Net changes in fair values during the year	64	237
Translation difference	-	(20)
Balance at 31 December	**614**	550

46 CASH AND CASH EQUIVALENTS

	2017	*2016*
	LL million	*LL million*
Cash and balances with central banks	**2,485,030**	2,855,865
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	**2,857,593**	2,522,567
	5,342,623	5,378,432
Less:		
Due to central banks	**(24,435)**	(15,358)
Repurchase agreements	**(7,263)**	(2,930)
Due to banks and financial institutions (whose original maturities are less than 3 months)	**(460,237)**	(392,652)
	4,850,688	4,967,492

47 DIVIDENDS DECLARED AND PAID

According to the resolution of the General Assembly meeting held on 7 April 2017 the following dividends were declared and paid, from the 2016 profits.

	2017		
	Number of shares	***Dividends per share in LL***	***Total LL million***
Dividends on preferred shares – 2011 issue	**20,000,000**	**1,055.25**	**21,105**
Dividends on common shares	**214,771,805**	**1,500.00**	**322,158**
			343,263

The dividends on common shares, declared on 7 April 2017, were paid net of the treasury shares as of that date.

According to the resolution of the General Assembly meeting held on 14 April 2016 the following dividends were declared and paid, from the 2015 profits.

	2016		
	Number of shares	*Dividends per share in LL*	*Total LL million*
Dividends on preferred shares – 2011 issue	20,000,000	1,055.25	21,105
Dividends on common shares	201,947,911	1,250.00	252,435
			273,540

The dividends on common shares, declared on 14 April 2016, were paid net of the treasury shares as of that date.

48 RELATED PARTY TRANSACTIONS

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

A list of the Group's principal subsidiaries is shown in note 4. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's consolidated financial statements.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Loans to related parties, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others and (c) did not involve more than a normal risk of collectability or present other unfavorable features.

Related party balances included in the Group's Statement of Financial Position are as follows as of 31 December:

48 RELATED PARTY TRANSACTIONS (continued)

	Outstanding balance as at 31 December 2017		
	Key management personnel	***Other related parties***	***Total***
	Outstanding balance LL million	***Outstanding balance LL million***	***Outstanding balance LL million***
Deposits	**113,964**	**71,607**	**185,571**
Net loans and advances	**12,882**	**15,263**	**28,145**
Guarantees given	**3,781**	**2,155**	**5,936**

	Outstanding balance as at 31 December 2016		
	Key management personnel	*Other related parties*	*Total*
	Outstanding balance LL million	*Outstanding balance LL million*	*Outstanding balance LL million*
Deposits	122,419	140,071	262,490
Net loans and advances	74,520	17,037	91,557
Guarantees given	4,238	55	4,293

Related party transactions included in the Group's Income Statement are as follows for the year ended 31 December:

	2017		
	Key management personnel LL million	***Other related parties LL million***	***Total LL million***
Interest paid on deposits	**2,285**	**5,720**	**8,005**
Interest received from net loans and advances	**437**	**883**	**1,320**
Rent expense	**-**	**615**	**615**

	2016		
	Key management personnel LL million	*Other related parties LL million*	*Total LL million*
Interest paid on deposits	2,286	8,404	10,690
Interest received from net loans and advances	425	596	1,021
Rent expense	-	775	775

Key Management Personnel

Total remuneration awarded to key management personnel represents the awards made to individuals that have been approved by the Board Remuneration Committee as part of the latest pay round decisions. Figures are provided for the period that individuals met the definition of key management personnel.

	2017 LL million	*2016 LL million*
Short-term benefits	**56,512**	56,124
Post-employment benefits (charge for the year)	**646**	5,860

Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other benefits.

49 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit – related commitments and contingent liabilities

To meet the financial needs of customers, the Group enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognized on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

	2017		
	Banks LL million	*Customers LL million*	*Total LL million*
Guarantees issued	**29,498**	**855,640**	**885,138**
Commitments			
Documentary credits	243,727	**-**	**243,727**
Loan commitments	-	**2,149,378**	**2,149,378**
Of which revocable	-	***1,706,366***	***1,706,366***
Of which irrevocable	-	***443,012***	***443,012***
Securities pledged with the Central Bank of Lebanon	1,407,524	-	**1,407,524**
Other commitments	509,712	**63,531**	**573,243**
	2,190,461	**3,068,549**	**5,259,010**

	2016		
	Banks LL million	*Customers LL million*	*Total LL million*
Guarantees issued	33,671	647,302	680,973
Commitments			
Documentary credits	142,930	-	142,930
Loan commitments	-	1,565,677	1,565,677
Of which revocable	-	*1,214,231*	*1,214,231*
Of which irrevocable	-	*351,446*	*351,446*
Other commitments	1,327,664	52,763	1,380,427
	1,504,265	2,265,742	3,770,007

Guarantees issued

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

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These include mainly performance and tender guarantees.

Documentary credits

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

Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be cancelled at any time (without giving a reason) subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

49 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims. Based on advice from legal counsel, management believes that legal claims will not result in any material financial loss to the Group

Capital expenditures and lease payments that were not provided for as of the consolidated statement of financial position date are as follows:

	2017 LL million	2016 LL million
Capital commitments		
Property and equipment	**15,124**	15,379
Operating lease commitments – Group as lessee		
Future minimum lease payments under operating leases:		
During one year	**4,699**	1,964
More than 1 year and less than five years	**14,149**	5,165
More than five years	**12,474**	3,218
Total operating lease commitments at the consolidated statement of financial position date	**31,322**	10,347

Other commitments and contingencies

The books of the Head Office and Lebanese branches of the Bank were reviewed by the tax authorities for the years 2012 to 2014 (inclusive). The tax authorities have issued a final report on 27 February 2018 resulting in additional taxes of LL 3,460 million. The Bank's books in Lebanon remain subject to the review by the tax authorities for the period from 1 January 2015 until 31 December 2017. Management believes that the ultimate outcome of any review by the tax authorities on the Bank's books for this period will not have a material impact on the financial statements.

The books of the Head Office and Lebanese Branches of the Bank were reviewed by the National Social Security Fund (NSSF) and were subject to a discharge for the period from 1 March 1998 until 31 October 2014. The Bank's books in Lebanon remain subject to the review by the NSSF for the period from 1 November 2014 to 31 December 2017. Management believes that the ultimate outcome of any review by the NSSF on the Bank's books for this period will not have a material impact on the financial statements.

In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

50 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2017 LL million	2016 LL million
Assets held in custody and under administration	**11,820,643**	10,736,739

The Group provides safekeeping and servicing activities on behalf of clients, in addition to various support functions including the valuation of portfolios of securities and other financial assets, which complements the custody business.

51 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

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

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

Valuation technique using significant unobservable inputs – Level 3
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. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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

	2017			
		Valuation techniques		
	Level 1 *LL million*	*Level 2* *LL million*	*Level 3* *LL million*	*Total* *LL million*
Financial assets:				
Derivative financial instruments:				
Currency swaps and options	-	9,980	-	9,980
Forward foreign exchange contracts	-	10,420	-	10,420
Equity swaps and options	-	1	-	1
Financial assets at fair value through profit or loss:				
Quoted equity securities	181,102	-	-	181,102
Unquoted equity securities	-	16,660	-	16,660
Quoted government debt securities	41,270	-	-	41,270
Unquoted government debt securities	-	7,713	-	7,713
Quoted corporate debt securities	7,624	-	-	7,624
Unquoted corporate debt securities	-	1,970	-	1,970
Funds	-	-	107,376	107,376
Financial assets at fair value through other comprehensive income:				
Unquoted equity securities	-	2,059	-	2,059
Funds	-	-	2,165	2,165
Financial liabilities:				
Derivative financial instruments:				
Currency swaps and options	-	15,524	-	15,524
Forward foreign exchange contracts	-	16,245	-	16,245
Equity swaps and options	-	1	-	1
Forward foreign exchange contracts used for hedging purposes	-	2,617	-	2,617

51 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

	2016			
	Valuation techniques			
	Level 1 LL million	*Level 2 LL million*	*Level 3 LL million*	*Total LL million*
Financial assets:				
Derivative financial instruments:				
Currency swaps and options	-	30,415	-	30,415
Forward foreign exchange contracts	-	15,386	-	15,386
Equity swaps and options	-	2,106	-	2,106
Forward foreign exchange contracts used for hedging purposes	-	5,273	-	5,273
Financial assets at fair value through profit or loss:				
Quoted equity securities	171,138	-	-	171,138
Unquoted equity securities	-	14,058	-	14,058
Quoted government debt securities	80,880	-	-	80,880
Unquoted government debt securities	-	18,877	-	18,877
Quoted corporate debt securities	45,855	-	-	45,855
Unquoted corporate debt securities	-	2,029	-	2,029
Funds	-	-	50,523	50,523
Unquoted certificates of deposit – Central Banks	-	3,299	-	3,299
Financial assets at fair value through other comprehensive income:				
Unquoted equity securities	-	2,093	-	2,093
Funds	-	-	1,722	1,722
Financial liabilities:				
Derivative financial instruments:				
Currency swaps and options	-	16,615	-	16,615
Forward foreign exchange contracts	-	14,815	-	14,815
Equity swaps and options	-	2,106	-	2,106

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

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

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

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

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

51 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

The fair value of financial instruments that are carried at amortized cost is as follows:

	2017		*2016*	
	Carrying value LL million	*Fair value LL million*	*Carrying value LL million*	*Fair value LL million*
Financial assets				
Cash and balances with central banks	24,630,491	25,848,354	17,991,169	18,256,952
Due from banks and financial institutions	3,563,253	3,562,815	3,180,661	3,180,464
Loans to banks and financial institutions	44,513	45,263	60,553	61,457
Net loans and advances to customers at amortized cost	11,335,975	11,367,681	10,708,390	10,749,331
Net loans and advances to related parties at amortized cost	28,145	28,215	91,557	91,869
Debtors by acceptances	150,791	150,791	113,492	113,492
Financial assets at amortized cost	7,856,375	7,776,915	10,994,933	10,961,301
Government debt securities	*4,920,682*	*4,882,512*	*6,456,802*	*6,465,251*
Certificates of deposit – Central Banks	*2,066,744*	*2,001,965*	*2,806,799*	*2,749,408*
Corporate debt securities	*864,925*	*888,414*	*1,364,658*	*1,385,456*
Certificates of deposit – Commercial banks and financial institutions	*4,024*	*4,024*	*366,674*	*361,186*
Financial liabilities				
Due to central banks	2,254,945	2,254,945	519,021	346,092
Repurchase agreements	7,263	7,263	2,930	2,930
Due to banks and financial institutions	578,685	578,682	590,808	590,785
Customers' deposits at amortized cost	39,977,019	40,157,487	37,139,827	37,244,454
Deposits from related parties at amortized cost	185,571	185,710	262,490	262,914
Engagements by acceptances	150,791	150,791	113,492	113,492

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

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), the Group assumed that the carrying values approximate the fair values. This assumption is also applied to demand deposits which have no specific maturity and financial instruments with variable rates.

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

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

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

51 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

Deposits from banks and customers

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

	2017			
	Valuation techniques			
	Level 1 *LL million*	*Level 2* *LL million*	*Level 3* *LL million*	*Total* *LL million*
Assets for which fair values are disclosed:				
Cash and balances with central banks	266,712	25,581,642	-	25,848,354
Due from banks and financial institutions	-	3,562,815	-	3,562,815
Loans to banks and financial institutions	-	45,263	-	45,263
Net loans and advances to customers at amortized cost	-	-	11,367,681	11,367,681
Net loans and advances to related parties at amortized cost	-	-	28,215	28,215
Financial assets at amortized cost:				
Government debt securities	520,795	4,361,717	-	4,882,512
Certificates of deposit - Central Banks	-	2,001,965	-	2,001,965
Corporate debt securities	855,540	32,874	-	888,414
Certificates of deposit - Commercial banks and financial institutions	-	4,024	-	4,024
Liabilities for which fair values are disclosed:				
Due to central banks	-	2,254,945	-	2,254,945
Repurchase Agreements	-	7,263	-	7,263
Due to banks and financial institutions	-	578,682	-	578,682
Customers' deposits at amortized cost	-	40,157,487	-	40,157,487
Deposits from related parties at amortized cost	-	185,710	-	185,710

	2016			
	Valuation techniques			
	Level 1 *LL million*	*Level 2* *LL million*	*Level 3* *LL million*	*Total* *LL million*
Assets for which fair values are disclosed:				
Cash and balances with central banks	232,633	18,024,319	-	18,256,952
Due from banks and financial institutions	-	3,180,464	-	3,180,464
Loans to banks and financial institutions	-	61,457	-	61,457
Net loans and advances to customers at amortized cost	-	-	10,749,331	10,749,331
Net loans and advances to related parties at amortized cost	-	-	91,869	91,869
Financial assets at amortized cost:				
Government debt securities	1,961,282	4,503,969	-	6,465,251
Certificates of deposit - Central Banks	-	2,749,408	-	2,749,408
Corporate debt securities	1,331,037	54,419	-	1,385,456
Certificates of deposit - Commercial banks and financial institutions	-	361,186	-	361,186
Liabilities for which fair values are disclosed:				
Due to central banks	-	346,092	-	346,092
Repurchase Agreements	-	2,930	-	2,930
Due to banks and financial institutions	-	590,785	-	590,785
Customers' deposits at amortized cost	-	37,244,454	-	37,244,454
Deposits from related parties at amortized cost	-	262,914	-	262,914

52 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

The maturity profile of the Group's assets and liabilities as at 31 December is as follows:

	2017		
	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	3,494,014	21,136,477	24,630,491
Due from banks and financial institutions	3,467,623	95,630	3,563,253
Loans to banks and financial institutions	25,884	18,629	44,513
Derivative financial instruments	20,401	-	20,401
Financial assets at fair value through profit or loss	1,392	362,323	363,715
Net loans and advances to customers at amortized cost	8,809,194	2,526,781	11,335,975
Net loans and advances to related parties at amortized cost	17,712	10,433	28,145
Debtors by acceptances	150,791	-	150,791
Financial assets at amortized cost	1,948,584	5,907,791	7,856,375
Financial assets at fair value through other comprehensive income	-	4,224	4,224
Property and equipment	-	797,875	797,875
Intangible assets	-	2,173	2,173
Assets obtained in settlement of debt	-	60,680	60,680
Other assets	187,818	11,679	199,497
Goodwill	-	1,996	1,996
TOTAL ASSETS	18,123,413	30,936,691	49,060,104
LIABILITIES			
Due to central banks	395,166	1,859,779	2,254,945
Repurchase Agreements	7,263	-	7,263
Due to banks and financial institutions	578,685	-	578,685
Derivative financial instruments	34,387	-	34,387
Customers' deposits at amortized cost	39,334,425	642,594	39,977,019
Deposits from related parties at amortized cost	177,475	8,096	185,571
Engagements by acceptances	150,791	-	150,791
Other liabilities	709,988	107,410	817,398
Provisions for risks and charges	58,767	464,657	523,424
TOTAL LIABILITIES	41,446,947	3,082,536	44,529,483
NET	(23,323,534)	27,854,155	4,530,621

	2016		
	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	3,912,272	14,078,897	17,991,169
Due from banks and financial institutions	3,116,429	64,232	3,180,661
Loans to banks and financial institutions	19,194	41,359	60,553
Derivative financial instruments	53,180	-	53,180
Financial assets at fair value through profit or loss	45,767	340,892	386.659
Net loans and advances to customers at amortized cost	8,493,654	2,214,736	10,708,390
Net loans and advances to related parties at amortized cost	78,833	12,724	91,557
Debtors by acceptances	104,595	8,897	113,492
Financial assets at amortized cost	2,135,446	8,859,487	10,994,933
Financial assets at fair value through other comprehensive income	-	3,815	3.815
Property and equipment	-	703,440	703,440
Intangible assets	-	2,482	2.482
Assets obtained in settlement of debt	-	49,756	49,756
Other assets	145,972	10,465	156,437
Goodwill	-	1,950	1,950
TOTAL ASSETS	18,105,342	26,393,132	44,498,474
LIABILITIES			
Due to central banks	73,237	445,784	519,021
Repurchase Agreements	2,930	-	2,930
Due to banks and financial institutions	555,394	35,414	590,808
Derivative financial instruments	33,536	-	33,536
Customers' deposits at amortized cost	36,649,515	490,312	37,139.827
Deposits from related parties at amortized cost	262,315	175	262,490
Engagements by acceptances	104,595	8,897	113,492
Other liabilities	720,070	102,018	822,088
Provisions for risks and charges	48,499	545,153	593,652
TOTAL LIABILITIES	38,450,091	1,627,753	40,077,844
NET	(20,344,749)	24,765,379	4,420,630

53 RISK MANAGEMENT

The Group manages its business activities within risk management guidelines as set by the Group's "Risk Management Policy" approved by the Board of Directors. The Group recognizes the role of the Board of Directors and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that ultimate responsibility for establishment of effective risk management practices and culture lies with the Board of Directors as does the establishing of the Group's risk appetite and tolerance levels. The Board of Directors delegates through its Risk Management Committee the day–to–day responsibility for establishment and monitoring of risk management process across the Group to the Chief Risk Officer, who is directly appointed by the Board of Directors, in coordination with executive management at BLOM Bank SAL.

The Group is mainly exposed to credit risk, liquidity risk, market risk and operational risk.

The Board's Risk Management Committee has the mission to periodically (1) review and assess the risk management function of the Group, (2) review the adequacy of the Group's capital and its allocation within the Group, and (3) review risk limits and reports and make recommendations to the Board.

The Chief Risk Officer undertakes his responsibilities through the "Risk Management Division" in Beirut which also acts as Group Risk Management, overseeing and monitoring risk management activities throughout the Group. The Chief Risk Officer is responsible for establishing the function of Risk Management and its employees across the Group.

BLOM Bank's Group Risk Management aids executive management in monitoring, controlling and actively managing and mitigating the Group's overall risk. The Division mainly ensures that:

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

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

In addition to the Group's Risk Management in Lebanon, risk managers and / or risk officers were assigned within the Group's foreign subsidiaries or branches to report to the Group Risk Management and executive senior management in a manner that ensures:

- Standardization of risk management functions and systems developed across the Group.
- Regional consistency of conducted business in line with the Board's approved risk appetite.

The major objective of risk management is the implementation of sound risk management practices and the Basel II and Basel III frameworks as well as all related regulatory requirements within the Group. Pillar I capital adequacy calculations have been generated since December 2004, while preparations for moving on to the more advanced approaches of pillar I have been initiated. Group Risk Management is progressively complying with the requirements of pillars II and III and is periodically updating and submitting the Internal Capital Adequacy Assessment Process (ICAAP) for BLOM Bank on an individual and consolidated basis. The Group has documented a Board approved Disclosure Policy.

Excessive risk concentration

Concentrations arise when the Group has significant exposure to one borrower or a group of related borrowers or to a number of counter parties engaging in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. The Group applies stress testing on its concentrations in order to assess their effect on the Group financial standing and capital adequacy in a stressed situation.

53 RISK MANAGEMENT (continued)

53.1 Credit risk

Credit risk is the risk that one party or group of related parties fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continuously assessing the creditworthiness of counter parties.

The Group manages credit risk in line with the guidelines set by the Basel Framework and regulatory guidance. The Group has set a credit risk policy which lays down norms for credit risk governance, methodologies and procedures for credit risk management and measurement. It consists of the following:

- The permissible activities, segments, programs and services that the Group intends to deliver and the acceptable limits;
- The mechanism of the approval on credit-facilities;
- The mechanism for managing and following up credit-facilities; and
- The required actions for analyzing and organizing credit files.

The debt securities included in investments are mainly sovereign risk and standard grade securities. For details of the composition of the net loans and advances refer to note 26. Information on credit risk relating to derivative instruments is provided in note 24 and for commitments and contingencies in note 49. The information on the Group's net maximum exposure by economic sectors is given in note (A) below.

The Group's Risk Management is designed to identify and to set appropriate risk limits and to monitor the risk adherence to limits. Actual exposures against limits are monitored daily, monthly and periodically. Group Risk

Management is responsible for monitoring the risk profile of the Group's loan portfolio by producing internal reports highlighting any exposure of concern in corporate, commercial and consumer lending. The Group examines the level of concentration whether by credit quality, client groupings or economic sector and collateral coverage. Further, the Group monitors non-performing loans and takes the required provisions for these loans.

The Group in the ordinary course of lending activities holds collaterals and guarantees as security to mitigate credit risk in the net loans and advances. Collaterals and guarantees are continuously monitored and revaluated. These collaterals mostly include cash collateral, quoted shares and debt securities, real estate mortgages, personal guarantees and others. In addition, the Recovery Unit in the Group dynamically manages and takes remedial actions for non-performing loans.

The Group applies the BDL risk rating classifications in addition to an internal rating system for its Corporate and Small and Medium Enterprises (SMEs) that provides a rating at client level and at transaction level. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial as well as qualitative inputs. The BDL classification system includes six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "1" and "2" and special mention – watch list: risk rating "3"), one grade relates to substandard loans (risk rating "4") and two grades relate to non-performing loans (risk ratings "5" and "6"). Credit cards, personal loans, car loans, housing loans and other retail loans are classified as regular as they are performing and have timely repayment with no past dues; except for those loans that have unsettled payments due for more than 90 days. The associated loss estimate norms for each grade have been calculated based on the Group's historical default rates for each rating. These risk ratings are reviewed on a regular basis.

Introduction of the Moody's Risk Analyst credit analysis and internal ratings system in the domestic market has provided the Group with an additional tool to enhance risk measurement and assessment of the corporate and commercial loan portfolios. This system was extended to all group entities.

At the same time, implementation of consumer loan application scorecards will aid significantly in meeting Basel II requirements for the retail portfolio as well as making available new quality management resources.

Non-performing loans are closely monitored and well provisioned as required with remedial actions taken and managed proactively by a dedicated Recovery Unit. In line with Basel II, the Group considers payments that are past due for more than 90 days as being non-performing.

53 RISK MANAGEMENT (continued)

53.1 Credit risk (continued)

A- Analysis of risk concentration

The following table shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, by geography of counterparty before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

	2017		
	Domestic ***LL million***	***International*** ***LL million***	***Total*** ***LL million***
Financial assets			
Balances with central banks	22,769,453	1,594,326	24,363,779
Due from banks and financial institutions	551,684	3,011,569	3,563,253
Loans to banks and financial institutions	18,868	25,645	44,513
Derivative financial instruments	9,980	10,421	20,401
Financial assets at fair value through profit or loss	119,620	244,095	363,715
- Government debt securities	*48,982*	*1*	*48,983*
- Corporate debt securities	*273*	*9,321*	*9,594*
- Funds	*52,106*	*55,270*	*107,376*
- Shares	*18,259*	*179,503*	*197,762*
Net loans and advances to customers at amortized cost	7,557,830	3,778,145	11,335,975
- Commercial loans	*3,830,691*	*2,684,553*	*6,515,244*
- Consumer loans	*3,727,139*	*1,093,592*	*4,820,731*
Net loans and advances to related parties at amortized cost	17,476	10,669	28,145
Debtors by acceptances	136,226	14,565	150,791
Financial assets at amortized cost	5,081,697	2,774,678	7,856.375
- Government debt securities	*3,177,256*	*1,743,426*	*4,920,682*
- Corporate debt securities	*37,749*	*827,176*	*864,925*
- Certificates of deposit Central Banks	*1,862,668*	*204,076*	*2,066,744*
- Certificates of deposit Commercial banks and financial institutions	*4,024*	-	*4,024*
Financial assets at fair value through other comprehensive income	-	4,224	4,224
Total credit exposure	36,262,834	11,468,337	47,731,171

	2016		
	Domestic *LL million*	*International* *LL million*	*Total* *LL million*
Financial assets			
Balances with central banks	16,145,295	1,613,241	17,758,536
Due from banks and financial institutions	513,322	2,667,339	3,180,661
Loans to banks and financial institutions	26.779	33,774	60,553
Derivative financial instruments	21.133	32,047	53,180
Financial assets at fair value through profit or loss	138,979	247,680	386,659
- Government debt securities	*99,757*	-	*99,757*
- Corporate debt securities	*273*	*47,611*	*47,884*
- Certificates of deposit- Central Banks	*3,299*	-	*3,299*
- Funds	*19,156*	*31,367*	*50,523*
- Shares	*16,494*	*168,702*	*185,196*
Net loans and advances to customers at amortized cost	7,376,685	3,331.705	10,708,390
- Commercial loans	*3,911,130*	*2,425,995*	*6,337,125*
- Consumer loans	*3,465,555*	*905,710*	*4,371,265*
Net loans and advances to related parties at amortized cost	19,684	71,873	91 557
Debtors by acceptances	95,183	18,309	113.492
Financial assets at amortized cost	8,196,967	2,797,966	10,994,933
- Government debt securities	*5,026,996*	*1,429,806*	*6,456,802*
- Corporate debt securities	*37,730*	*1,326,928*	*1,364,658*
- Certificates of deposit Central Banks	*2,765,567*	*11,232*	*2,806,799*
- Certificates of deposit Commercial banks and financial institutions	*366,674*	-	*366,674*
Financial assets at fair value through other comprehensive income	-	3,815	3,815
Total credit exposure	32,534,027	10,817,749	43,351,776

53 RISK MANAGEMENT (continued)

53.1 Credit risk (continued)

A- Analysis of risk concentration (continued)

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

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

	2017						
	Maximum exposure LL million	*Cash LL million*	*Securities LL million*	*Letters of credit / guarantees LL million*	*Real estate LL million*	*Other LL million*	*Net credit exposure LL million*
Balances with central banks	24,363,779	-	1,407,524	-	-	-	22,956,255
Due from banks and financial institutions	3,563,253		4,000	-	-	-	3,559,253
Loans to banks and financial institutions	44,513	-	-	-	-	-	44,513
Derivative financial instruments	20,401	-	-	-	-	-	20,401
Financial assets at fair value through profit or loss	58,577		-	-	-	-	58,577
Net loans and advances to customers at amortized cost	11,335,975	1,354,977	220,501	146,442	5,007,258	2,445,914	2,160,883
Commercial loans	*6,515,244*	*1,294,372*	*220,501*	*146,442*	*2,043,190*	*980,749*	*1,829,990*
Consumer loans	*4,820,731*	*60,605*	-	-	*2,964,068*	*1,465,165*	*330,893*
	39,386,498	**1,354,977**	**1,632,025**	**146,442**	**5,007,258**	**2,445,914**	**28,799,882**
Net loans and advances to related parties at amortized cost	28,145	8,232	123	-	7,998	65	11,729
Debtors by acceptances	150,791	-	-	-	-	-	150,791
Financial assets at amortized cost	7,856,375	-	-	-	-	-	7,856,375
	47,421,809	**1,363,209**	**1,632,148**	**146,442**	**5,015,256**	**2,445,977**	**36,818,777**
Guarantees received from banks, financial institutions and customers							
Utilized collateral		1,363,209	1,632,148	146,442	5,015,256	2,445,977	10,603,032
Surplus of collateral before undrawn credit lines		741,883	162,996	42,126	4,276,233	6,125,269	11,348,507
		2,105,092	**1,795,144**	**188,568**	**9,291,489**	**8,571,246**	**21,951,539**

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,149,378 million as at 31 December 2017.

	2016						
	Maximum exposure LL million	*Cash LL million*	*Securities LL million*	*Letters of credit guarantees LL million*	*Real estate LL million*	*Other LL million*	*Net credit exposure LL million*
Balances with central banks	17,758,536	-	15,000	-	-	-	17,743,536
Due from banks and financial institutions	3,180,661	-	4,000	-	-	-	3,176,661
Loans to banks and financial institutions	60,553	-	-	-	-	-	60,553
Derivative financial instruments	53,180	-	-	-	-	-	53,180
Financial assets at fair value through profit or loss	150,940	-	-	-	-	-	150,940
Net loans and advances to customers at amortized cost	10,708,390	1,572,187	332,047	93,015	4,571,007	2,298,448	1,841,686
Commercial loans	*6,330,438*	*1,520,174*	*332,047*	*93,015*	*1,836,952*	*925,354*	*1,622,896*
Consumer loans	*4,377,952*	*52,013*	-	-	*2,734,055*	*1,373,094*	*218,790*
	31,912,260	1,572,187	351,047	93,015	4,571,007	2,298,448	23,026,556
Net loans and advances to related parties at amortized cost	91,557	63,829	3,271	-	11,555	10,452	2,450
Debtors by acceptances	113,492	-	-	-	-	-	113,492
Financial assets at amortized cost	10,994,933	-	-	-	-	-	10,994,933
	43,112,242	1,636,016	354,318	93,015	4,582,562	2,308,900	34,137,431
Guarantees received from banks, financial institutions and customers							
Utilized collateral		1,636,016	316,318	93,015	4,582,562	2,308,900	8,936,811
Surplus of collateral before undrawn credit lines		862,318	692,280	26,785	3,264,869	4,895,341	9,741,593
		2,498,334	1,008,598	119,800	7,847,431	7,204,241	18,678,404

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 1,565,677 million as at 31 December 2016.

53 RISK MANAGEMENT (continued)

53.1 Credit risk (continued)

A- Analysis of risk concentration (continued)

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

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

The main types of collateral obtained are as follows:

Securities:
The balances shown above represent the fair value of the securities and are net of any surplus collateral.

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

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

Other:
The Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of insurance proceeds and revenues. The balances shown above represent the notional amount of these types of guarantees held by the Group and are net of any surplus collateral.

B- Credit quality by class of financial assets

The credit quality of financial assets is managed by the Group using external credit ratings. The credit quality of loans and advances is managed using the internal credit ratings as well as Supervisory ratings in accordance with Central Bank of Lebanon main circular 58.

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's credit rating system. The amounts presented are gross of impairment allowances.

	2017					
	Sovereign	*Non-sovereign*				
	Neither past due nor impaired	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*		
	Regular and special mention LL million	*Regular and special mention LL million*	*Regular and special mention LL million*	*Sub-standard LL million*	*Non performing LL million*	*Total LL million*
Balances with central banks	24,363,779	-	-	-	-	24,363,779
Due from banks and financial institutions	-	3,563,253	-	-	1,752	3,565,005
Loans to banks and financial institutions	-	44,513	-	-	-	44,513
Derivative financial instruments	-	20,401	-	-	-	20,401
Financial assets at fair value through profit or loss	48,983	9,594	-	-	-	58,577
- Government debt securities	*48,983*	-	-	-	-	*48,983*
- Corporate debt securities	-	*9,594*	-	-	-	*9,594*
Net loans and advances to customers at amortized cost	-	10,830,159	436,569	143,636	369,373	11,779,737
- Commercial loans	-	*6,339,349*	*136,569*	*121,586*	*275,756*	*6,873,260*
- Consumer loans	-	*4,490,810*	*300,000*	*22,050*	*93,617*	*4,906,477*
Net loans and advances to related parties at amortized cost	-	28,145	-	-	-	28,145
Financial assets at amortized cost	6,987,426	868,949	-	-	5,637	7,862,012
- Government debt securities	*4,920,682*	-	-	-	*5,637*	*4,926,319*
- Corporate debt securities	-	*864,925*	-	-	-	*864,925*
- Certificates of deposit Central Banks	*2,066,744*	-	-	-	-	*2,066,744*
- Certificates of deposit Commercial banks and financial Institutions	-	*4,024*	-	-	-	*4,024*
	31,400,188	15,365,014	436,569	143,636	376,762	47,722,169

53 RISK MANAGEMENT (continued)

53.1 Credit risk (continued)

B- Credit quality by class of financial assets (continued)

	2016					
	Sovereign	Non-sovereign				
	Neither past due nor impaired	Neither past due nor impaired	Past due but not impaired	Individually impaired		
	Regular and special mention LL million	Regular and special mention LL million	Regular and special mention LL million	Sub-standard LL million	Non performing LL million	Total LL million
Balances with central banks	17,758,536	-	-	-	-	17,758,536
Due from banks and financial institutions	-	3,180,661	-	-	1,694	3,182,355
Loans to banks and financial institutions	-	60,553	-	-	-	60,553
Derivative financial instruments	-	53,180	-	-	-	53,180
Financial assets at fair value through profit or loss	103,056	47,884	-	-	-	150,940
- Government debt securities	*99,757*	-	-	-	-	*99,757*
- Corporate debt securities		*47,884*	-	-	-	*47,884*
-Certificates of deposit-Central Banks	*3,299*	-	-	-	-	*3,299*
Net loans and advances to customers at amortized cost	-	10,395,325	249,528	124,465	475,154	11,244,472
- Commercial loans		*6,178,896*	*108,103*	*112,641*	*394,172*	*6,793,812*
- Consumer loans	-	*4,216,429*	*141,425*	*11,824*	*80,982*	*4,450,660*
Net loans and advances to related parties at amortized cost	-	91,557	-	-	-	91,557
Financial assets at amortized cost	9,263,601	1,731,332	-	-	4,980	10,999,913
- Government debt securities	*6,456,802*	-	-	-	*4,980*	*6,461,782*
- Corporate debt securities	-	*1,364,658*	-	-	-	*1,364,658*
- Certificates of deposit Central Banks	*2,806,799*	-	-	-	-	*2,806,799*
- Certificates of deposit Commercial banks and financial institutions	-	*366,674*	-	-	-	*366,674*
	27,125,193	15,560,492	249,528	124,465	481,828	43,541,506

C- Aging analysis of past due but not impaired financial assets, by class

	2017				
	Less than 30 days LL million	*30 to 60 days LL million*	*61 to 90 days LL million*	*More than 90 days LL million*	*Total LL million*
Commercial loans	6,740	6,686	22,677	100,466	136,569
Consumer loans	160,331	93,809	31,215	14,645	300,000
	167,071	100,495	53,892	115,111	436,569

	2016				
	Less than 30 days LL million	*30 to 60 days LL million*	*61 to 90 days LL million*	*More than 90 days LL million*	*Total LL million*
Commercial loans	70,093	6,462	30,220	1,328	108,103
Consumer loans	28,644	70,301	28,713	13,767	141,425
	98,737	76,763	58,933	15,095	249,528

See note 26 for more detailed information with respect to the allowance for impairment losses on net loans and advances to customers.

Renegotiated loans

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

53 RISK MANAGEMENT (continued)

53.1 Credit risk (continued)

C- Aging analysis of past due but not impaired financial assets, by class (continued)

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

	2017	*2016*
	LL million	*LL million*
Commercial loans	**361,758**	389,244

53.2 Liquidity risk and funding management

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains statutory deposits with Central Banks. As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

Regulatory ratios and limits
In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10%. The net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposit and acceptances and other debt instruments issued by the Group and loans from the public sector that mature within one year.

Besides the regulatory requirements, the liquidity position is also monitored through internal limits, such as the loans-to-deposits ratio, the core funding ratio and the liquidity tolerance level of the Group, also referred to as Liquidity Coverage Ratio.

Liquidity ratios		***2017***	*2016*
Loans to deposit ratios		*%*	*%*
	Year-end	**28.30%**	28.88%
	Average	**28.42%**	29.00%
	Maximum	**28.85%**	29.30%
	Minimum	**28.16%**	28.88%

53 RISK MANAGEMENT (continued)

53.2 Liquidity risk and funding management (continued)

53.2.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities have been determined based on the period remaining to reach maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately. Concerning deposits, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

	31 December 2017					
	Up to 1 month LL million	*Less than 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	2,853,646	547,080	1,614,859	12,113,739	24,032,154	41,161,478
Due from banks and financial institutions	2,938,696	350,764	179,342	95,758	-	3,564,560
Loans to banks and financial institutions	10,853	309	16,204	19,418	-	46,784
Derivative financial instruments	17,093	3,307	1	-		20,401
Financial assets at fair value through profit or loss	607	1,145	3,452	81,205	308,992	395,401
Net loans and advances to customers at amortized cost	3,448,885	1,621,071	4,097,679	2,338,608	756,338	12,262,581
Net loans and advances to related parties at amortized cost	15,476	125	2,839	6,261	6,945	31,646
Debtors by acceptances	54,681	97,911	5,091	8,252	3,225	169,160
Financial assets at amortized cost	375,368	898,188	1,126,154	4,355,350	3,545,919	10,300,979
Financial assets at fair value through other comprehensive income	-	-	-	-	4,224	4,224
Total undiscounted financial assets	9,715,305	3,519,900	7,045,621	19,018,591	28,657,797	67,957,214
Financial liabilities						
Due to central banks	16,322	35,591	379,745	948,712	1,073,880	2,454,250
Repurchase Agreements	7,355	-	-	-	-	7,355
Due to banks and financial institutions	461,358	63,492	55,417	-		580,267
Derivative financial instruments	26,699	7,686	2	-	-	34,387
Customers' deposits at amortized cost	8,623,205	26,471,577	4,565,442	670,888	29,467	40,360,579
Deposits from related parties at amortized cost	176,543	618	1,055	8,455	-	186,671
Engagements by acceptances	53,821	96,437	1,336	3,227		154,821
Total undiscounted financial liabilities	9,365,303	26,675,401	5,002,997	1,631,282	1,103,347	43,778,330
Net undiscounted financial assets / (liabilities)	350,002	(23,155,501)	2,042,624	17,387,309	27,554,450	24,178,884

	31 December 2016					
	Up to 1 month LL million	*Less than 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	3,110,030	497,253	1,209,572	8,218,722	14,185,019	27,220,596
Due from banks and financial institutions	2,509,458	354,645	253,788	64,482	-	3,182,373
Loans to banks and financial institutions	346	7,923	12,758	44,230	-	65,257
Derivative financial instruments	26,386	24,573	2,221	-	-	53,180
Financial assets at fair value through profit or loss	1,845	2,983	49,026	76,047	322,833	452,734
Net loans and advances to customers at amortized cost	3,309,381	1,608,930	3,879,631	1,999,562	671,466	11,468,970
Net loans and advances to related parties at amortized cost	79,094	271	1,227	9,071	6,841	96,504
Debtors by acceptances	38,503	66,865	6,243	14,957	1,834	128,402
Financial assets at amortized cost	314,987	646,828	1,842,399	6,208,013	5,281,165	14,293,392
Financial assets at fair value through other comprehensive income	-	-	-	-	3,815	3,815
Total undiscounted financial assets	9,390,030	3,210,271	7,256,265	16,635,084	20,472,973	56,964,623
Financial liabilities						
Due to central banks	13,745	23,245	40,663	163,360	300,291	541,304
Repurchase Agreements	-	2,930	-	-	-	2,930
Due to banks and financial institutions	457,390	19,932	83,385	36,260	-	596,967
Derivative financial instruments	18,872	13,875	789	-	-	33,536
Customers' deposits at amortized cost	21,725,526	11,833,025	3,293,807	534,047	23,005	37,409,410
Deposits from related parties at amortized cost	261,157	599	950	208	-	262,914
Engagements by acceptances	37,751	65,636	1,208	8,617	280	113,492
Total undiscounted financial liabilities	22,514,441	11,959,242	3,420,802	742,492	323,576	38,960,553
Net undiscounted financial assets / (liabilities)	(13,124,411)	(8,748,971)	3,835,463	15,892,592	20,149,397	18,004,070

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2017					
	On demand LL million	***Less than 3 months LL million***	***3 to 12 months LL million***	***1 to 5 years LL million***	***Over 5 years LL million***	***Total LL million***
Guarantees issued	**885,138**	-	-	-	-	**885,138**
Documentary credits	-	**243,727**	-	-	-	**243,727**
Loan commitments	-	**2,149,378**	-	-	-	**2,149,378**
Other commitments	-	**573,243**	-	672,287	735,237	1,980,767
Total	**885,138**	**2,966,348**	-	672,287	735,237	5,259,010

53 RISK MANAGEMENT (continued)

53.2 Liquidity risk and funding management (continued)

53.2.1 Analysis of financial assets and liabilities by remaining contractual maturities

	2016					
	On demand *LL million*	*Less than 3 months* *LL million*	*3 to 12 months* *LL million*	*1 to 5 years* *LL million*	*Over 5 years* *LL million*	*Total* *LL million*
Guarantees issued	680,973	-	-	-	-	680,973
Documentary credits	-	142,930	-	-	-	142,930
Loan commitments	-	1,565,677	-	-	-	1,565,677
Other commitments	-	1,380,427	-	-	-	1,380,427
Total	680,973	3,089,034	-	-	-	3,770,007

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

53.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate as well as equity positions, 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 and foreign exchange rates.

Group Risk Management is responsible for generating internal reports quantifying the Group's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Group's trading portfolio of fixed income securities to changes in market prices and / or market parameters. Interest rate sensitivity gaps are reported to executive management and to the Banking Control Commission unconsolidated on a monthly basis and consolidated (Group level) on a semi- annual basis. The Group's Asset and Liability Management (ALM) Policy assigns authority for its formulation, revision and administration to the Asset / Liability Management Committee (ALCO) of BLOM Bank SAL. Group Risk Management is responsible for monitoring compliance with all limits set in the ALM policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits.

53.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-financial position items that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management.

Interest rate sensitivity

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

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

2017 **Currency**	***Increase in basis points***	***Sensitivity of net interest income*** ***LL million***
Lebanese Lira	**+0.5%**	**(13,356)**
United States Dollar	**+0.5%**	**(5,332)**
Euro	**+0.25%**	**(2,291)**

53 RISK MANAGEMENT (continued)

53.3 Market risk (continued)

53.3.1 Interest rate risk (continued)

2016 Currency	*Increase in basis points*	*Sensitivity of net interest income* *LL million*
Lebanese Lira	+0.5%	(17,557)
United States Dollar	+0.5%	(3,359)
Euro	+0.25%	(2,536)

An equivalent decrease would have resulted in an equivalent but opposite impact for the years ended 31 December 2017 and 31 December 2016.

Interest rate sensitivity gap

The Group's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December was as follows:

	2017							
	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*(1 – 2) years LL million*	*(2 – 5) years LL million*	*More than 5 years LL million*	*Non interest sensitive LL million*	*Total LL million*
ASSETS								
Cash and balances with central banks	1,462,914	1,699,074	324,545	834,746	3,515,356	14,538,693	2,255,163	24,630,491
Due from banks and financial institutions	1,254,191	453,062	207,747	61,911	33,484	-	1,552,858	3,563,253
Loans to banks and financial institutions	10,572	4,600	29,060	-	-	-	331	44,563
Derivative financial instruments	-	-	-	-	-	-	20,401	20,401
Financial assets at fair value through profit or loss	256	-	358	246	11,698	45,242	305,915	363,715
Net loans and advances to customers at amortized cost	4,356,118	2,250,831	2,756,953	877,596	767,030	83,294	244,153	11,335,975
Net loans and advances to related parties at amortized cost	16,756	3,434	55	10	3,863	4,009	18	28,145
Debtors by acceptances	-	-	-	-	-	-	150,791	150,791
Financial assets at amortized cost	331,172	752,606	834,983	333,127	2,723,434	2,772,434	108,619	7,856,375
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	4,224	4,224
TOTAL ASSETS	7,431,929	5,163,607	4,153,701	2,107,636	7,054,865	17,443,672	4,642,473	47,997,883
LIABILITIES								
Due to central banks	946	27,349	347,977	40,463	787,880	1,002,525	47,805	2,254,945
Repurchase Agreements	-	-	-	-	-	-	7,263	7,263
Due to banks and financial institutions	180,039	64,411	56,179	-	-	-	278,056	578,685
Derivative financial instruments	-	-	-	-	-	-	34,387	34,387
Customers' deposits at amortized cost	25,228,927	4,293,543	4,193,804	48,976	35,258	132	6,176,379	39,977,019
Deposits from related parties at amortized cost	98,752	290	8,227	274	-	-	78,028	185,571
Engagements by acceptances	-	-	-	-	-	-	150,791	150,791
Other liabilities	-	-	-	-	-	-	817,398	817,398
Provisions for risks and charges	-	-	-	-	-	-	523,424	523,424
TOTAL LIABILITIES	25,508,664	4,385,593	4,606,187	89,713	823,138	1,002,657	8,113,531	44,529,483
Total interest rate sensitivity gap	(18,076,735)	778,014	(452,486)	2,017,923	6,231,727	16,441,015	(3,471,058)	3,468,400

	2016							
	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*(1 – 2) years LL million*	*(2 – 5) years LL million*	*More than 5 years LL million*	*Non interest sensitive LL million*	*Total LL million*
ASSETS								
Cash and balances with central banks	1,641,073	1,138,674	224,794	21,570	3,424,201	9,178,388	2,362,169	17,991,169
Due from banks and financial institutions	1,250,518	362,434	252,283	26,727	37,283	-	1,251,416	3,180,661
Loans to banks and financial institutions	-	13,843	31,379	14,885	-	-	446	60,553
Derivative financial instruments	-	-	-	-	-	-	53,180	53,180
Financial assets at fair value through profit or loss	23,133	529	12,043	707	17,686	46,259	241,302	341,659
Net loans and advances to customers at amortized cost	3,896,362	2,358,778	2,751,582	782,758	704,102	122,015	89,793	10,705,390
Net loans and advances to related parties at amortized cost	77,913	3,303	58	75	3,873	6,333	2	91,557
Debtors by acceptances	-	-	-	-	-	-	113,492	113,492
Financial assets at amortized cost	241,183	458,126	1,305,279	1,685,899	2,690,913	4,456,961	154,562	10,994,933
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	3,815	3,815
TOTAL ASSETS	7,132,182	4,335,697	4,577,418	2,532,621	6,878,058	13,854,956	4,273,477	43,584,409
LIABILITIES								
Due to central banks	2,233	25,256	28,675	38,678	117,675	301,642	4,862	519,021
Repurchase Agreements	-	-	-	-	-	-	2,930	2,930
Due to banks and financial institutions	183,112	49,799	46,093	-	-	-	311,804	590,808
Derivative financial instruments	-	-	-	-	-	-	33,536	33,536
Customers' deposits at amortized cost	24,373,449	3,973,795	3,320,855	177,467	289,305	21,286	4,983,678	37,139,827
Deposits from related parties at amortized cost	172,683	590	933	-	171	-	88,113	262,490
Engagements by acceptances	-	-	-	-	-	-	113,492	113,492
Other liabilities	-	-	-	-	-	-	822,088	822,088
Provisions for risks and charges	-	-	-	-	-	-	593,652	593,652
TOTAL LIABILITIES	24,731,468	4,049,441	3,396,556	216,145	407,151	322,928	6,954,155	40,077,844
Total interest rate sensitivity gap	(17,599,286)	286,256	1,180,862	2,316,476	6,470,907	13,532,028	(2,680,678)	3,506,565

53 RISK MANAGEMENT (continued)

53.3 Market risk (continued)

53.3.2 Currency risk

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

The Central Bank of Lebanon allows the Bank to maintain a net open FX position, receivable or payable, that does not exceed at any time 1% of total net equity on condition that the global open FX position does not exceed 40% of total net equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required solvency rate.

The following tables present the breakdown of assets and liabilities by currency:

	2017					
		Foreign currencies in Lebanese Lira				
	LL million	*US Dollars in LL million*	*Euro in LL million*	*Other foreign currencies LL million*	*Total foreign currencies LL million*	*Total LL million*
ASSETS						
Cash and balances with central banks	9,413,645	11,526,799	2,255,940	1,434,107	15,216,846	24,630,491
Due from banks and financial institutions	78,143	1,732,506	856,414	896,190	3,485,110	3,563,253
Loans to banks and financial institutions	15,868	25,645	-	-	25,645	41,513
Derivative financial instruments	9,980	539	3,472	6,410	10,421	20,401
Financial assets at fair value through profit or loss	12,576	285,518	387	55,234	341,139	353,715
Net loans and advances to customers at amortized cost	2,577,655	6,005,138	383,968	2,369,214	8,758,320	11,335,975
Net loans and advances to related parties at amortized cost	4,344	13,246	4,554	6,001	23,801	28,145
Debtors by acceptances	-	125,712	18,604	6,475	150,791	150,791
Financial assets at amortized cost	2,930,930	3,219,174	28,513	1,677,758	4,925,445	7,856,375
Financial assets at fair value through other comprehensive income	-	646	27	3,551	4,224	4,224
Property and equipment	551,285	148	39,766	206,676	246,590	797,875
Intangible assets	619	366	98	1,090	1,554	2,173
Assets obtained in settlement of debt	(501)	39,738	-	21,443	61,181	60,680
Other assets	85,367	40,344	7,850	65,936	114,130	199,497
Goodwill	(88,655)	88,655	-	1,996	90,651	1,996
TOTAL ASSETS	15,604,256	23,104,174	3,599,593	6,752,081	33,455,848	49,060,104
LIABILITIES						
Due to central banks	2,196,787	35,134	-	23,024	58,158	2,254,945
Repurchase Agreements	-	-	-	7,263	7,263	7,263
Due to banks and financial institutions	5,163	379,530	94,981	99,011	573,522	578,685
Derivative financial instruments	19,156	14,564	86	581	15,231	34,387
Customers' deposits at amortized cost	10,094,160	22,621,166	2,650,726	4,610,967	29,882,859	39,977,019
Deposits from related parties at amortized cost	51,151	53,402	13,285	47,733	134,420	185,571
Engagements by acceptances	-	125,712	18,604	6,475	150,791	150,791
Other liabilities	343,121	329,640	19,210	125,427	474,277	817,398
Provisions for risks and charges	458,914	44,068	350	20,092	64,510	523,424
Total liabilities	13,168,452	23,603,216	2,817,242	4,940,573	31,361,031	44,529,483
NET EXPOSURE	2,435,804	(499,042)	782,351	1,811,508	2,094,817	4,530,621

	2016					
		Foreign currencies in Lebanese Lira				
	LL million	*US Dollars in LL million*	*Euro in LL million*	*Other foreign currencies LL million*	*Total foreign currencies LL million*	*Total LL million*
ASSETS						
Cash and balances with central banks	7,378,307	7,169,063	1,981,912	1,461,887	10,612,862	17,991,169
Due from banks and financial institutions	73,915	1,420,456	546,807	1,139,483	3,106,746	3,180,661
Loans to banks and financial institutions	26,779	29,876	3,898	-	33,774	60,553
Derivative financial instruments	21,133	30,895	-	1,152	32,047	53,180
Financial assets at fair value through profit or loss	40,375	307,537	1,238	37,509	346,284	386,659
Net loans and advances to customers at amortized cost	2,357,895	6,088,112	277,930	1,984,423	8,350,465	10,708,360
Net loans and advances to related parties at amortized cost	5,007	77,311	2,011	7,228	86,550	91,557
Debtors by acceptances	-	90,860	18,767	3,865	113,492	113,492
Financial assets at amortized cost	4,454,899	5,176,382	25,013	1,338,639	6,540,034	10,994,933
Financial assets at fair value through other comprehensive income	-	641	24	3,150	3,815	3,815
Property and equipment	490,527	242	36,328	176,343	212,913	703,440
Intangible assets	1,188	36	87	1,171	1,294	2,482
Assets obtained in settlement of debt	(1,225)	27,955	-	23,026	50,981	49,756
Other assets	70,615	23,391	5,633	56,798	85,822	156,437
Goodwill	-	-	-	1,950	1,950	1,950
TOTAL ASSETS	14,919,415	20,442,787	2,899,648	6,236,624	29,579,059	44,498,474
LIABILITIES						
Due to central banks	498,452	-	-	20,569	20,569	519,021
Repurchase Agreements	-	-	-	2,930	2,930	2,930
Due to banks and financial institutions	16,874	361,541	76,203	136,190	573,934	590,808
Derivative financial instruments	15,182	17,203	-	1,151	18,354	33,536
Customers' deposits at amortized cost	11,247,673	19,236,537	2,595,445	4,060,172	25,892,154	37,139,827
Deposits from related parties at amortized cost	71,008	100,261	21,956	69,265	191,482	262,490
Engagements by acceptances	-	90,860	18,767	3,865	113,492	113,492
Other liabilities	394,194	317,963	18,560	91,371	427,894	822,088
Provisions for risks and charges	526,660	46,719	221	20,052	66,992	593,652
Total liabilities	12,770,043	20,171,084	2,731,152	4,405,565	27,307,801	40,077,844
NET EXPOSURE	2,149,372	271,703	168,496	1,831,059	2,271,258	4,420,630

53 RISK MANAGEMENT (continued)

53.3 Market risk (continued)

53.3.2 Currency risk (continued)

Group's sensitivity to currency exchange rates
The table below shows the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, on the consolidated income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities). A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

Currency	***Change in currency rate % 2017***	***Effect on profit before tax 2017 LL million***	*Change in currency rate % 2016*	*Effect on profit before tax 2016 LL million*
USD	**+ 1%**	**8,723**	+ 1%	14,135
EUR	**+ 3%**	**3,255**	+ 3%	6,373

53-3-3 Equity price risk
Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 percent increase in the value of the Group's equities at 31 December 2017 would have increased other comprehensive income by LL 103 million and net income by LL 9,888 million (2016: LL 105 million and LL 9,260 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

53-3-4 Prepayment risk
Prepayment risk is the risk that the Group incurs a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as housing loans when interest rates fall.
Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

53-4 Operational risk
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

54 CAPITAL MANAGEMENT

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

To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the following ratios of total regulatory capital to risk-weighted assets:

54 CAPITAL MANAGEMENT (continued)

	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2016	8.50%	11.00%	14.00%
Year ended 31 December 2017(*)	9.00%	12.00%	14.50%
Year ended 31 December 2018(*)	10.00%	13.00%	15.00%

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

	2017	*2016*
	LL million	*LL million*
Risk weighted assets:		
Credit risk	**19,059,611**	17,658,520
Market risk	**1,102,302**	832,533
Operational risk	**2,475,921**	2,362,146
Total risk weighted assets	**22,637,834**	20,853,199

The regulatory capital as of 31 December is as follows:

	Excluding net income for the year		*Including net income for the year less proposed dividends*	
	2017	*2016*	*2017*	*2016*
	LL million	*LL million*	***LL million***	*LL million*
Tier 1 Capital	**3,646,580**	3,609,936	**4,013,425**	3,956,065
Of which: Common Tier 1	***3,643,672***	*3,306,449*	***4,010,517***	*3,652,529*
Tier 2 Capital	**94,071**	182,430	**94,071**	182,578
Total Capital	**3,740,651**	3,792,366	**4,107,496**	4,138,643

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

	Excluding net income for the year		*Including net income for the year less proposed dividends*	
	2017	*2016*	***2017***	*2016*
Capital adequacy – Common Tier 1	**16.10%**	15.86%	**17.72%**	17.52%
Capital adequacy - Tier 1	**16.11%**	17.31%	**17.73%**	18.97%
Capital adequacy -Total Capital	**16.52%**	18.19%	**18.14%**	19.85%

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