

BANKMED S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2018

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Deloitte & Touche
Arabia House
131 Phoenicia Street
Ain Mreisseh, Beirut
P.O. Box 11-961
Lebanon

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BANKMED S.A.L.**

Tel: +961 (0) 1 364 7000
Fax: +961 (0) 1 364 7001
www.deloitte.com



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

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

Opinion

We have audited the accompanying consolidated financial statements of Bankmed S.A.L. (the “Bank”) and its subsidiaries (collectively the “Group”), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 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 Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the 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 opinion.

Emphasis of a matter

As explained under Note 12 to the accompanying consolidated financial statements, the Group restated the comparative financial statements with regards to its investment in Cedar Cellular Notes from “Financial assets at fair value through profit or loss” to “Financial assets at amortized cost” on the consolidated statement of financial position, with the corresponding decrease in fair value from “Net results on financial instruments at fair value through profit or loss” to “provision for impairment of other assets” in the consolidated statement of profit or loss. Our opinion is not qualified in this respect.

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 December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For 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 those 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 audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addresses the key audit matter

Allowances for Expected Credit Losses

Refer to note 3 of the consolidated financial statements for a description of the accounting policy and note 49 for analysis of credit risk.

Due to the inherently judgmental nature of the computation of expected credit losses (“ECL”) for financial assets, there is a risk that the amount of ECL may be misstated. On adoption, the Group has applied the requirements of the IFRS 9 retrospective without restating the comparatives.

The key areas of judgement include:

1. The identification of exposure with a significant deterioration in credit quality.
2. Judgments, assumptions and estimates, which includes adopting a ‘default’ definition and developing PDs at origination, lifetime-PDs, and macroeconomic models with a number of scenarios and probabilities for each scenario and other post-model adjustments and management overlays.

In assessing the impairment, we performed the following procedures:

1. Evaluate the appropriateness of key technical decisions, judgements and accounting policy elections made by the Group to ensure compliance with IFRS 9 impairment requirements.
2. Evaluate the reasonableness of management’s key judgments and estimates made in the ECL calculation, including but not limited to the selection of methods, validation and governance, models, assumptions and data sources both current and historical.
3. We examined a sample of exposures and performed procedures to determine whether significant increase in credit risk had been identified on a timely basis.
4. We reperformed the ECL computation for sample of financial assets.
5. We assessed the accuracy of disclosures in the consolidated financial statements.

Impairment of Goodwill

Goodwill impairment testing of cash generating units (‘CGUs’) relies on estimates of value-in-use based on estimated future cash flows. Due to the uncertainty of forecasting and discounting future cash flows, this is deemed significant risk.

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 Group's own historical data and performance and also compared the inputs applied in market comparability approach for similar business.

Other Information Included in the Group's 2018 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditors' report thereon. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs, within the framework of local banking laws, 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.
- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The partners in charge of the audit resulting in this independent auditors' report are Yamen Maddah for Deloitte & Touche and Nadim Dimashkieh for Ernst & Young.

Beirut, Lebanon
April 25, 2019



Deloitte & Touche



Ernst & Young

BANKMED S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Cash and deposits with central banks	6	8,259,888,048	3,417,214,279
Deposits with banks and financial institutions	7	1,209,271,781	2,440,416,403
Financial assets at fair value through profit or loss	8	44,833,385	216,102,824
Reverse repurchase agreements and loans to banks	9	19,992,341	322,595,041
Loans and advances to customers at amortized cost	10	5,373,375,178	6,521,112,888
Loans and advances to related parties at amortized cost	11	82,021,832	171,313,343
Investment securities	12	11,518,223,656	10,196,409,882
Customers' acceptance liability	13	497,683,126	376,565,600
Investments in associates and other investments	14	60,308,167	62,373,200
Assets acquired in satisfaction of loans	15	957,411,469	649,340,745
Goodwill	16	101,594,913	101,997,758
Property and equipment	17	286,568,194	284,025,765
Other assets	18	<u>276,784,994</u>	<u>303,188,494</u>
Total Assets		<u>28,687,957,084</u>	<u>25,062,656,222</u>
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS	41		
Guarantees and standby letters of credit		1,617,611,290	1,987,674,091
Documentary and commercial letters of credit		153,062,585	287,415,593
Forward exchange contracts		1,041,851,750	822,950,564
FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT	42	1,392,608,884	1,489,221,270

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANKMED S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

<u>LIABILITIES</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Deposits from banks and financial institutions	19	751,215,967	840,223,525
Customers' deposits at amortized cost	20	19,862,129,038	19,242,305,556
Related parties' deposits at amortized cost	21	239,196,688	418,612,398
Acceptances payable	13	499,324,114	376,565,600
Borrowings from banks and financial institutions and central banks	22	4,804,105,796	1,180,813,500
Certificates of deposit	23	34,653,520	11,661,228
Provisions	24	126,079,199	128,470,573
Perpetual subordinated convertible loan	25	157,156,875	157,156,875
Other liabilities	26	298,750,421	343,126,318
Total liabilities		<u>26,772,611,618</u>	<u>22,698,935,573</u>
 <u>EQUITY</u> 			
Share capital	27	652,500,000	652,500,000
Preferred shares	28	618,075,000	618,075,000
Legal reserve	29	196,004,238	175,504,889
Other reserves	29	277,819,983	424,488,834
Retained earnings		298,264,617	399,461,893
Cumulative change in fair value of financial assets through other comprehensive income	30	(70,063,685)	(53,944,305)
Currency translation adjustment		(204,982,506)	(178,244,606)
Profit for the year		89,448,080	172,512,984
Equity attributable to the equity holders of the Parent		1,857,065,727	2,210,354,689
Non-controlling interest	31	58,279,739	153,365,960
Total equity		<u>1,915,345,466</u>	<u>2,363,720,649</u>
Total Liabilities and Equity		<u>28,687,957,084</u>	<u>25,062,656,222</u>

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANKMED S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31,	
		2018	2017
		LBP'000	LBP'000
Interest income	32	1,657,659,023	1,555,222,066
Less: Tax on interest	32	(64,035,177)	(2,589,927)
Interest income, net of tax		1,593,623,846	1,552,632,139
Interest expense	33	(1,278,887,670)	(1,056,092,123)
Net interest income		<u>314,736,176</u>	<u>496,540,016</u>
Fee and commission income	34	118,331,742	131,163,822
Fee and commission expense	35	(19,285,474)	(18,157,813)
Net fee and commission income		<u>99,046,268</u>	<u>113,006,009</u>
Net results on financial instruments at fair value through profit or loss	36	(479,710)	24,903,822
(Loss)/gain from financial assets measured at amortized cost	12	(12,211)	55,835,825
Other operating income (net)	37	88,692,074	448,622,373
Net operating revenues		<u>501,982,597</u>	<u>1,138,908,045</u>
Provision for ECL/credit losses (net of write-back)	39	(41,393,900)	(157,277,648)
Collection/(loss) from write-off of loans		119,656	(15,856,149)
Net operating revenues after credit losses		<u>460,708,353</u>	<u>965,774,248</u>
Staff costs			
Administrative expenses	38	(236,701,844)	(268,766,330)
Depreciation and amortization	15, 17&18	(158,380,645)	(207,992,763)
Impairment of assets acquired in satisfaction of loans (net)	15	(23,877,219)	(24,694,568)
Provision for contingencies (net of write-back)	24	(4,163,942)	(404,473)
Allowance for goodwill impairment	16	(643,149)	(27,906,351)
Write-back of/(provision for) impairment of other assets	12, 18 & 39	-	(81,884,834)
		<u>12,577,467</u>	<u>(130,061,961)</u>
Profit before taxes		49,519,021	224,062,968
Income tax expense	26	(2,420,834)	(34,256,000)
Capital gain tax	26	-	(32,354,700)
Profit for the year		<u>47,098,187</u>	<u>157,452,268</u>
Attributable to:			
Equity holders of the Parent		89,448,080	172,512,984
Non-controlling interest		(42,349,893)	(15,060,716)
		<u>47,098,187</u>	<u>157,452,268</u>
Earnings per share:			
Basic earnings per share	40	0.73	2.18
Diluted earnings per share	40	<u>0.87</u>	<u>2.23</u>

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANKMED S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<u>Notes</u>	Year Ended	
		December 31,	
		2018	2017
		LBP'000	LBP'000
Profit for the year		<u>47,098,187</u>	<u>157,452,268</u>
Other comprehensive income (“OCI”)			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net loss on equity securities at fair value through other comprehensive income	30	(19,906,522)	(79,816,437)
Income tax relating to components of OCI	30	6,512,404	11,844,629
Net gain on equity securities at fair value through other comprehensive income recycled to retained earnings		(463,847)	-
Remeasurement of defined benefit obligation		(445,489)	(425,115)
		<u>(14,303,454)</u>	<u>(68,396,923)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net loss on debt instruments at fair value through other comprehensive income		(3,183,444)	-
Income tax relating to components of OCI	30	541,185	-
Allowance for ECL		380,844	-
Currency translation adjustment		(73,084,599)	(21,613,102)
		<u>(75,346,014)</u>	<u>(21,613,102)</u>
Other comprehensive loss for the year		<u>(89,649,468)</u>	<u>(90,010,025)</u>
Total comprehensive (loss)/income for the year		<u>(42,551,281)</u>	<u>67,442,243</u>
Attributable to:			
Equity holders of the Parent		41,869,926	93,963,203
Non-controlling interest		(84,421,207)	(26,520,960)
		<u>(42,551,281)</u>	<u>67,442,243</u>

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANKMED S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity Attributable to the Bank												
	Share Capital	Preferred Shares	Legal Reserve	Property Revaluation Reserve	Reserves for General Banking Risks and Other Reserves	Reserve for Assets Acquired in Satisfaction of Loans	Retained Earnings	Cumulative Change in Fair Value of Financial Assets through Other Comprehensive Income	Currency Translation Adjustment	Profit for the Year	Total	Non-Controlling Interest	Total Equity
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1, 2017	630,000,000	565,312,500	155,566,642	3,213,000	264,239,480	90,214,537	403,995,733	14,027,503	(168,091,748)	193,445,111	2,151,922,758	177,065,709	2,328,988,467
Total comprehensive income 2017	-	-	-	-	-	-	(425,115)	(67,971,808)	(10,152,858)	172,512,984	93,963,203	(26,520,960)	67,442,243
Capital increase (Note 27)	22,500,000	-	-	-	-	-	(22,500,000)	-	-	-	-	-	-
Issuance of preferred shares (Note 28)	-	391,950,000	-	-	-	-	-	-	-	-	391,950,000	-	391,950,000
Redemption of preferred shares (Note 28)	-	(339,187,500)	-	-	-	-	-	-	-	(339,187,500)	-	-	(339,187,500)
Difference of exchange	-	-	-	-	-	-	-	-	-	-	281,017	-	281,017
Allocation of 2016 profit	-	-	19,938,247	-	43,402,129	23,419,688	106,685,047	-	-	(193,445,111)	-	-	-
Disposal of assets acquired in satisfaction of loans	-	-	-	-	1,700,709	(1,700,709)	-	-	-	-	-	-	-
Dividends distributed (Notes 27 and 28)	-	-	-	-	-	-	(82,818,281)	-	-	(82,818,281)	-	-	(82,818,281)
Disposal of a subsidiary (Note 45)	-	-	-	-	-	-	(6,203,268)	-	-	(6,203,268)	-	-	(6,203,268)
Acquisition of subsidiaries (Note 45)	-	-	-	-	-	-	-	-	-	-	-	2,821,211	2,821,211
Other	-	-	-	-	-	-	446,760	-	-	-	446,760	-	446,760
Balance at December 31, 2017	652,500,000	618,075,000	175,504,889	3,213,000	309,342,318	111,933,516	399,461,893	(53,944,305)	(178,244,606)	172,512,984	2,210,354,689	153,365,960	2,363,720,649
ECL impact on retained earnings and reserve for general banking risks and other reserves	-	-	-	-	(198,014,638)	-	(45,170,218)	-	-	(243,184,856)	-	(12,133,634)	(255,318,490)
Total comprehensive income 2018	652,500,000	618,075,000	175,504,889	3,213,000	111,327,680	111,933,516	354,291,675	(53,944,305)	(178,244,606)	172,512,984	1,967,138,104	141,232,326	2,108,402,159
Difference of exchange	-	-	-	-	-	-	(445,489)	(16,119,380)	(31,013,285)	89,448,080	41,869,926	(84,421,207)	(42,551,281)
Allocation of 2017 profit	-	-	20,499,349	-	28,160,601	23,185,186	1,540,506	-	-	-	1,540,506	-	1,540,506
Disposal of assets acquired in satisfaction of loans	-	-	-	-	-	-	100,667,848	-	-	(172,512,984)	-	-	-
Dividends distributed (Notes 27 and 28)	-	-	-	-	5,540,607	(5,540,607)	-	-	-	-	-	-	-
Disposal of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(150,976,125)	-	-	(150,976,125)	-	-	(150,976,125)
Disposal of a subsidiary (Note 45)	-	-	-	-	-	-	463,847	-	-	-	463,847	-	463,847
Other	-	-	-	-	-	-	(7,707,986)	-	4,275,385	(3,432,601)	(3,432,601)	1,468,620	(1,963,981)
Balance at December 31, 2018	652,500,000	618,075,000	196,004,238	3,213,000	145,028,888	129,578,095	298,264,617	(70,063,685)	(204,982,506)	89,448,080	1,857,065,727	58,279,739	1,915,345,466

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANKMED S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31,	
		2018	2017
		LBP'000	LBP'000
Cash flows from operating activities:			
Profit for the year		47,098,187	157,452,268
Adjustments for:			
Write-back/(Provision) of impairment of assets acquired in satisfaction of loans (Net)	15	4,163,942	404,473
Provision for credit losses (net)	10	41,393,900	239,457,647
Depreciation and amortization	15,17 & 18	23,877,219	24,694,568
Provision for collective impairment (net)	10	-	(82,179,999)
Loss from write-off of loans		(119,656)	15,856,149
Provision for employees' end of service indemnity (net)	24	5,087,061	8,010,711
(Write-back)/provision for contingencies	24	643,149	27,906,351
Insurance technical provision	24	9,642,542	4,294,417
Unearned insurance premiums and claims	26	4,790,282	19,453,599
(Write-back)/provision for impairment of other financial assets		(12,577,467)	130,061,961
Effect of exchange rate fluctuation on goodwill	16	402,845	(1,537,975)
Goodwill impairment	16	-	81,884,834
Amortization of commissions and discount on certificates of deposit	23	-	1,122,463
Amortization of capitalized cost on subordinated convertible loan		210,790	210,791
Realized (loss)/gain on sale of financial assets at fair value through profit or loss	36	(1,214,565)	3,531,729
Loss/(gain) from derecognition of financial assets measured at amortized cost	12	12,211	(55,835,825)
Unrealized loss on financial assets at fair value through profit or loss	36	3,750,019	121,251,483
Income from associates at equity method	37	(4,183,170)	(7,072,985)
Accretion of securities premium	37	1,444,026	7,952,733
(Loss)/gain on sale of securities at fair value through other comprehensive income		463,847	-
(Gain)/loss on disposal of property and equipment	37	(834,375)	171,189
Gain on sale of assets acquired in satisfaction of loans	37	(10,512,531)	(3,439,374)
Gain on sale of a subsidiary	37	(20,527,666)	(323,216,326)
Currency translation adjustment		(26,737,900)	(10,152,858)
Increase in financial assets at fair value through profit or loss		289,814,798	9,334,897
Decrease in reverse repurchase agreements and loans to banks		301,033,763	367,515,637
Decrease in loans and advances to customers	44	691,608,505	259,796,573
Decrease in loans and advances to related parties		89,229,619	297,920,643
(Increase)/decrease in deposits with banks and financial institutions and compulsory deposits and deposits with central banks		(5,030,866,936)	193,012,118
Goodwill from acquisition of a subsidiary	16	-	(4,408,608)
Decrease/(increase) in other assets		40,993,777	(222,954,581)
Increase/(Decrease) in deposits from banks and financial institutions		(272,288,555)	(15,611,856)
Increase/(decrease) in other liabilities	44	(49,166,179)	57,997,859
Decrease in customers' accounts at fair value through profit or loss		-	(25,141,568)
Increase in customers' accounts at amortized cost		619,823,482	1,610,528,942
Decrease in related parties' deposits at amortized cost		(179,415,710)	(132,586,957)
Decrease in provisions for contingencies		(37,791,962)	(29,998,066)
Decrease in non-controlling interest		(31,131,397)	(8,639,033)
Liquidation of a subsidiary		(7,707,986)	(6,203,268)
Exchange difference on retained earnings and legal reserves and other adjustments		2,002,576	727,777
Net cash (used in)/generated by operating activities		(3,507,589,515)	2,711,572,533
Cash flows from investing activities:			
Increase in investment securities	44	(1,621,979,854)	(566,565,803)
Decrease in investments in associates and other investments	44	9,781,218	9,704,657
Decrease/(increase) in assets acquired in satisfaction of loans		26,991,843	(8,234,137)
Increase in property and equipment	44	(22,715,324)	(20,296,005)
Proceeds from sale of a subsidiary	45	16,994,651	376,875,000
Proceeds from sale of assets acquired in satisfaction of loans		10,512,531	22,633,499
Proceeds from sale of property and equipment		1,103,367	2,290,396
Net cash used in by investing activities		(1,579,311,568)	(183,592,393)
Cash flows from financing activities:			
Issuance of preferred shares		-	391,950,000
Redemption of preferred shares		-	(339,187,500)
Certificates of deposit		22,992,292	(743,889,397)
Increase in borrowings from banks and financial institutions	22	3,623,292,296	(122,409,772)
Dividends paid	27 & 28	(150,976,125)	(82,818,281)
Net cash generated by/(used in) financing activities		3,495,308,463	(896,354,950)
Net (decrease)/increase in cash and cash equivalents		(1,591,592,620)	1,631,625,190
Cash and cash equivalents - Beginning of year	44	2,809,100,711	1,177,475,521
Cash and cash equivalents - End of year	44	1,217,508,091	2,809,100,711

THE ACCOMPANYING NOTES 1 TO 51 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANKMED S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

1. GENERAL INFORMATION

BankMed S.A.L. (the “Bank”) is a Lebanese joint stock company, registered under Number 5261 in the Lebanese Commercial Register on August 13, 1955 and under Number 22 in the list of banks published by the Central Bank of Lebanon. The principal activities of the Bank and its subsidiaries (the Group) consist of conventional commercial and private banking through a network of 65 branches in Lebanon in addition to a branch in Cyprus, 3 branches in Iraq and a branch in Dubai, a subsidiary in Switzerland, a subsidiary in Turkey (23 branches as at December 31, 2018 decreased to 22 branches subsequent to the statement of financial position date), a subsidiary financial institution in Lebanon (with 7 branches) and a subsidiary financial institution in Lebanon with a branch in the Dubai International Financial Center (DIFC) which was de-registered effective December 31, 2017. Further information on the Group’s structure is provided in Note 3A.

Bankmed S.A.L. is wholly owned by GroupMed (Holding) S.A.L. and its headquarters are located in Clemenceau, Beirut, Lebanon.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1 New and Amended Standards and Interpretations

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements. The nature and the impact of each amendment is described below:

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

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 (2014). Therefore, the comparative information for 2017 is reported under IFRS 9 (2009, 2010 and 2013) and IAS 39 impairment requirements and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 (2014) have been recognised directly in retained earnings or reserves (as applicable) as of 1 January 2018 and are disclosed in V below.

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 fair value through other comprehensive income was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortised cost information, as well as fair value information is relevant and useful. A debt financial asset is measured at fair value through OCI if:

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

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

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

The Group's classification of its financial assets and liabilities is explained in Note 3. The impact on the classification of the Group's financial assets and their carrying values and equity is discussed in V below.

II. Expected Credit Losses

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Group's impairment method are disclosed in Note 3. The impact of the adoption of IFRS 9 impairment provisions on the Group's financial assets and their carrying values and equity is discussed in V below.

III. IFRS 7 disclosures

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

Reconciliations from opening to closing ECL allowances are presented in the notes to the financial statements.

IV. Hedge accounting

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

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

V. Transition

In accordance with the transition provisions of IFRS 9 (2014), the Group applied this standard retrospectively. The following table set out the impact of adopting IFRS 9 (2014) on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs. Refer to Note 39 for the reconciliation of the aggregate opening loan and other financial assets loss provision allowances under IAS 39 and provisions for commitments and financial guarantee contracts in accordance with IAS37 to the ECL allowance under IFRS 9.

Impact of change in classification and measurement

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

	Note	Classification under IFRS 9 (2010)		Reclassification LBP'000	ECL LBP'000	Classification under IFRS 9 (2014)	
		December 31, 2017	Amount LBP'000			January 1, 2018	Amount LBP'000
		Category	Amount LBP'000			Category	Amount LBP'000
Financial assets							
Cash and deposits with central banks	6	Amortized Cost	3,417,214,279		(13,174,328)	Amortized Cost	3,404,039,951
Deposits with banks and financial institutions	7	Amortized Cost	2,440,416,403		(6,219,058)	Amortized Cost	2,434,197,345
Financial assets at fair value through profit or loss	8	FVTPL	216,102,824	(174,937,525)	-	FVTPL	41,165,299
Reverse repurchase agreements and loans to banks	9	Amortized Cost	322,595,041		(2,604,457)	Amortized Cost	319,990,584
Loans and advances to customers	10	Amortized Cost	6,521,112,888		(222,549,632)	Amortized Cost	6,298,563,256
Loans and advances to related parties	11	Amortized Cost	171,313,343		(88,365)	Amortized Cost	171,224,978
Financial assets at amortized cost	12	Amortized Cost	9,815,965,875	98,906,486	(147,985,307)	Amortized Cost	9,766,887,054
Financial assets at fair value through other comprehensive income	12	FVOCI	380,444,007	75,841,170	-	FVOCI	456,285,177
Customers' acceptance liability	13	Amortized Cost	376,565,600		(4,386,469)	Amortized Cost	372,179,131
Other assets	18	Amortized Cost	303,188,494		(3,580,751)	Amortized Cost	299,607,743
			<u>23,964,918,754</u>	<u>(189,869)</u>	<u>(400,588,367)</u>		<u>23,564,140,518</u>
Undrawn balances and off-balance sheet exposures					(32,615,077)		
Effect of IFRS 9 adoption					(433,203,444)		
Collective provision							
of which collective provision used for ECL impact			<u>204,768,206</u>		<u>150,717,540</u>		
Difference of exchange							
Tax - ECL Turkey					9,471,297		
Net impact on equity					<u>17,696,117</u>		
					<u>(255,318,490)</u>		

The increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model compared to IAS 39 incurred loss model amounts to LBP255.32billion.

Total adjustments related to classification and measurements other than impairment will reduce other components of equity by LBP189.87million.

IFRS 15 Revenue from contracts with customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group assessed that the impact of IFRS 15 is not material on the consolidated financial statements of the Group.

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. These amendments do not have any impact on the Group's consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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

IAS 40 (amendments) Transfers of Investment Property

The Group has adopted the amendments to IAS 40 *Investment Property* for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

Annual Improvements to IFRS Standards 2014 - 2016 Cycle

The Group has adopted the amendments to IAS 28 included in the *Annual Improvements to IFRS Standards 2014-2016 Cycle* for the first time in the current year

Amendments to IAS 28 Investments in Associates and Joint Ventures

The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

2.2 Standards Issued but not Yet Effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

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

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group is currently assessing the impact of adopting IFRS 16 and expects an increase in assets and liabilities.

IFRS 17 Insurance Contracts

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The implementation of the Standard is likely to bring significant changes to an entity's processes and systems, and will require much greater co-ordination between many functions of the business, including finance, actuarial and IT.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The directors of the Group anticipate that the application of the Standard in the future will have an impact on the Group's consolidated financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted.

There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests.

Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019.

Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The *Annual Improvements* include amendments to four Standards.

IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

IAS 19 – Employee Benefits *Amendments to IAS 19*

The IASB issued amendments to the guidance in IAS 19 Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. The amendments must be applied to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Adoption of the amendments is not expected to have significant impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendment to IFRS 3 Business Combinations relating to definition of a business

The amendments in *Definition of a Business (Amendments to IFRS 3)* are changes to Appendix A *Defined terms*, the application guidance, and the illustrative examples of IFRS 3 only. They:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 relating to definition of material

The amendments in *Definition of Material (Amendments to IAS 1 and IAS 8)* clarify the definition of ‘material’ and align the definition used in the Conceptual Framework and the standards.

The Directors anticipate that these new standards, interpretations, and amendments will be adopted in the Group’s financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS16 and IFRS17 as highlighted in the previous paragraphs, may have no material impact on the financial statements of the Group in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis of Preparation and Measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Land and buildings acquired prior to 1993 are measured at their revalued amounts based on market prices prevailing during 1996, to compensate for the effect of the hyper-inflationary economy prevailing in the earlier years.
- Financial assets and liabilities at fair value through profit and loss are measured at fair value.
- Equity securities at fair value through other comprehensive income are measured at fair value.
- Derivative financial instruments are measured at fair value.

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.

The principal accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Bankmed S.A.L. incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses 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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Group. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained at the date of loss of control;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The consolidated subsidiaries as at December 31, comprise:

	Country of Incorporation	% of Ownership		Date of Acquisition or Incorporation	Business Activity
		2018	2017		
<u>Banks and Financial Institutions:</u>					
Saudi Lebanese Bank S.A.L.	Lebanon	100	100	January 1, 1995	Commercial Banking
Med-Investment Bank S.A.L.	Lebanon	100	100	January 24, 1996	Investment Banking
BankMed Suisse - S.A.	Switzerland	100	100	August 31, 2001	Private Banking
Allied Business Investment Corporation S.A.L.	Lebanon	70.9	70.9	November 30, 2001	Financial and Fund Management
Turkland Bank A.S.	Turkey	50	50	January 28, 2007	Commercial Banking
Saudi Med Investment Company	Saudi Arabia	100	100	May 21, 2007	Corporate Finance Advisory and asset management
MedSecurities Investment Company S.A.L.	Lebanon	100	100	November 27, 2007	Financial Institution
Emkan Finance S.A.L.	Lebanon	100	100	May 19, 2011	Financial Institution
<u>Real Estate:</u>					
Al Hana Real Estate S.A.L.	Lebanon	100	100	December 1, 1995	Owns Bank's Premises
Al Jinan Real Estate S.A.L.	Lebanon	100	100	December 1, 1995	Owns Bank's Premises
Al Shams Real Estate S.A.L.	Lebanon	100	100	December 1, 1995	Owns Bank's Premises
Centre Méditerranée S.A.L.	Lebanon	100	100	January 16, 1996	Owns Bank's Premises
146 Saifi - 10 S.A.L.	Lebanon	100	100	January 19, 2010	Owns Bank's Premises
Al Narjess Real Estate S.A.L.	Lebanon	100	100	February 23, 2011	Real Estate
Al Anshita Real Estate S.A.L.	Lebanon	100	100	February 23, 2011	Real Estate
Al Bani S.A.L.	Lebanon	100	100	April 18, 2011	Real Estate
Al Hosn Real Estate S.A.L.	Lebanon	-	100	October 11, 2011	Real Estate
Anbar Real Estate S.A.L.	Lebanon	100	100	October 11, 2011	Real Estate
Sakhret Bahr Real Estate S.A.L.	Lebanon	100	100	October 11, 2011	Real Estate
Laura Real Estate S.A.L.	Lebanon	100	100	November 14, 2011	Real Estate
Al Zomorodah Real Estate S.A.L.	Lebanon	100	100	May 28, 2012	Real Estate
528 Real Estate S.A.L.	Lebanon	100	100	May 4, 2012	Real Estate
Al Sabah Real Estate S.A.L.	Lebanon	100	100	July 4, 2012	Real Estate
Méditerranée Holding Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Investment in shares and management of companies
Al Fanadeq S.A.L.	Lebanon	100	100	December 29, 2017	Hospitality (Hotel services)
First Méditerranée Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Real Estate
Kfar Jarra Méditerranée Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Real Estate
Wastani Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Real Estate
Al Shuaa Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Real Estate
Ain Ksour Méditerranée Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Real Estate
Sarba Méditerranée Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Real Estate
Rmeileh Méditerranée Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Real Estate
Al Rihab Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Real Estate
Nibal Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Real Estate
Investment and Development Real Estate S.A.L.	Lebanon	100	100	December 29, 2017	Investment in properties
Millennium Real Estate Holding S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Agro Business S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Al Jamal Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Al Naser Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Al Shahid Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Al Amani Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Al Azin Investment S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Cedar House S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Daniel Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Educational and Sports Compound S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
First Emkan S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Second Emkan S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Faqra Development and Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Lana S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Lea S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Linaco Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate

	Country of Incorporation	% of Ownership		Date of Acquisition or Incorporation	Business Activity
		2018	2017		
Al Mhtrath S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Nadco Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Al Omraniah S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Al Umara Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Ras Beirut S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Al Rayyan Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Research and Development Real Estate S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate
Talina S.A.L.	Lebanon	100	-	January 1, 2018	Real Estate

Insurance:

GroupMed Insurance Brokers S.A.L. (GMIB)	Lebanon	100	100	May 20, 2003	Insurance Brokerage
GroupMed Insurance Brokers- Saudi Arabia	Saudi Arabia	55	55	June 20, 2014	Insurance Brokerage
GroupMed Reinsurance Brokers Limited	Dubai	65	65	February 17, 2017	Insurance Brokerage
Turkland Sigorta A.S.	Turkey	-	55	April 17, 2013	Insurance Company
GroupMed Insurance and Reinsurance S.A.L.	Lebanon	100	100	December 29, 2014	Insurance Company

Other:

MJB Investment S.A.L. (Holding)	Lebanon	100	100	December 24, 1996	Investment in shares and management of companies
Medfinance Holdings Ltd.	BVI	100	100	January 1, 2003	Any activity outside of BVI
Med Properties Management S.A.L.	Lebanon	100	100	January 15, 2009	Real estate management services
Med Properties S.A.L. Holding	Lebanon	100	100	April 23, 2008	Investment in shares and management of companies
Cynvest S.A.L. Holding	Lebanon	100	100	December 23, 2008	Investment in shares and management of companies
GroupMed Advisory Services Limited	Cyprus	100	100	January 26, 2008	Investment in shares and management of companies
MedGlobal Investment S.A.L. Holding	Lebanon	100	100	January 24, 2015	Investment in shares and management of companies
Hawthorn Issuer Limited	Cayman Island	100	100	November 13, 2015	Financial and Fund Management

B. Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, 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 reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries and associates are identified separately from the Group's equity therein.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

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

C. Foreign Currencies:

The consolidated financial statements are presented in Lebanese pounds (“LBP”), which is the Group’s reporting currency. However, the primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar (“USD”). The exchange rate of the USD against the LBP has been constant for several years.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into Lebanese Pound using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

D. Financial Assets and Liabilities:

Recognition and Derecognition:

The Group initially recognizes loans and advances, deposits debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Derecognition of a financial asset due to substantial modification of terms and conditions:

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below).

If the modification of a financial asset measured at amortised cost or fair value through other comprehensive income does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Derecognition of a financial asset other than for substantial modification:

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset; or
- The Group retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement.

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients;
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if 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

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises 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 the Group could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Upon derecognition of a financial asset that is classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Repurchase and Reverse Repurchase Agreements:

Securities sold under agreements to repurchase at a specified future date (“repos”) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified date are not recognized in the statement of financial position. The consideration paid, including accrued interest is recorded in the statement of financial position reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income in the statement of profit or loss and is accrued over the life of the agreement using the effective interest rate method.

Offsetting:

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only 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 – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. 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.

Fair Value Measurement:

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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

For assets and liabilities that are recognized in the 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.

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 (Policy applicable from 1 January 2018):

(i) Overview of the ECL Principles

As described in Note 2.1, the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which cases, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

(ii) Measurement of ECLs

The Group measures ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Group expects to recover.

The key inputs into the measurements of ECL are:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

These parameters are generally derived from statistical models and other historical data. Forward looking information are incorporated in ECL measurements.

The Group measures ECLs using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For these instruments with a remaining maturity of less than 12 months, probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage, the allowance for credit losses captures the lifetime expected credit losses, similar to Stage 2.

(iii) Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period for the commercial loans portfolio, and a minimum of six-months probation period for the retail loan portfolio. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- At least a 12-month probation period has passed (six-months for retail loan portfolio),
- Three consecutive payments under the new repayment schedule have been made,
- The borrower has no past dues under any obligation to the Group,
- An upgrade in the Internal credit classification by a set number of notches
- All the terms and conditions agreed to as part of the restructuring have been met.

If modifications are substantial, the loan is derecognised, as explained above.

(iv) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit impaired" when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable information:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

(v) Write Offs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "Net impairment losses on financial assets".

(vi) Debt Instruments at Fair Value through Other Comprehensive Income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

(vii) Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. 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 realisable value.

Upon sale of repossessed assets, any gain or loss realised is recognised in the consolidated income statement under "other operating income (net)". Gains resulting from the sale of repossessed assets are transferred to "reserves appropriated for capital increase" in the following financial year.

Impairment of Financial Assets (Policy applicable before 1 January 2018):

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- significant or prolonged decline in fair value beyond one business cycle that occurred after the initial recognition of the financial asset or group of financial assets which impacted the estimated future cash flows of the investment.

For certain categories of financial asset, such as loans and advances, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information, as well as observable changes in national or local economic conditions that correlate with default on loans and advances.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Collateral Valuation:

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Group's policies and type of collateral.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties, such as independent accredited experts and other independent sources.

E. Classification of Financial Assets:

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Debt Instruments:

A debt instrument is measured at amortised cost if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets 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 (SPPI) on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

These financial assets are initially recognised 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 are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for debt instruments at fair value through other comprehensive income is explained below. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.

All other debt instruments are classified as measured at fair value through profit or loss.

Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Equity Instruments:

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments at fair value through other comprehensive income (“FVTOCI”). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other equity instruments are classified as measured at fair value through profit or loss.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Business Model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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. 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 amortised cost are reflected under "net gain on sale of financial assets at amortised cost" in the consolidated income statement.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The SPPI Test

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit and loss.

Financial Assets at Amortised Cost

Deposits with Central Banks, Deposits with Banks and Financial Institutions, Reverse Repurchase Agreements and Loans to Banks and Loans and Advances to Customers and Related Parties – at Amortised Cost

These financial assets are initially recognised 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 are subsequently measured at amortised cost using the EIR, less expected credit losses. Amortised 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 amortisation is included in “interest and similar income” in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in “net impairment losses on financial assets”.

Financial Assets at Fair Value through Other Comprehensive Income

These financial assets are initially recognised 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 are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for debt instruments at fair value through other comprehensive income is explained below. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Equity Instruments at Fair Value through Other Comprehensive Income

Upon initial recognition, the Group can elect to classify irrevocably some of its investments in equity instruments at fair value through other comprehensive income when they are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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 recognised 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 recognised under “revenue from financial assets at fair value through other comprehensive income” in the consolidated income statement when the Group’s right to receive payment of dividend is established in accordance with IFRS 15: “Revenue from contracts with customers” unless the dividends clearly represent a recovery of part of the cost of the investment. Equity instruments at FVOCI are not subject to an impairment assessment.

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 amortised cost*” and “*financial assets through other comprehensive income*” above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Debt Instruments at Fair Value through Profit or Loss and Loans and Advances at Fair Value

These financial assets are recorded in the consolidated statement of financial position at fair value. Transaction costs directly attributable to the acquisition of the instrument are recognised as revenue or expense when the instrument is initially recognised. Changes in fair value and interest income are recorded under “net gain on financial assets at fair value through profit or loss” in the consolidated income statement. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under “net gain on financial assets at fair value through profit or loss” in the consolidated income statement, showing separately those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

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 on financial assets at fair value through profit or loss” in the separate income statement. Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under “net gain from financial assets at fair value through profit or loss” in the consolidated income statement.

F. Loans and Advances:

Loans and advances are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost, less any expected credit losses. Interest income is recognized by applying the effective interest rate.

G. Financial Liabilities and Equity Instruments Issued by the Group:

Classification as Debt or Equity:

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Financial Liabilities at Fair Value Through Profit or Loss:

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognised in profit or loss. Such gains or losses that are recognised in profit or loss incorporate any interest paid on the financial liabilities and are included in the “Net interest and gain and loss on liabilities at FVTPL” in the statement of profit or loss.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss.

Debt Issued and Other Borrowed Funds

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified under “debt issued and other borrowed funds” where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised 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.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to Central Banks, Banks and Financial Institutions and Customers' and Related Parties' Deposits

After initial measurement, due to central banks, banks and financial institutions, customers' and related parties' deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised 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. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

Financial Liabilities Subsequently Measured at Amortised Cost:

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method.

Financial Guarantee Contract Liabilities:

Financial guarantee contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, credit-insurance contracts, and loan commitments).

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above, and an ECL provision

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

The Group occasionally issues loan commitments at below market interest rates drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

H. Derivative Financial Instruments:

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, credit derivatives, (both written and purchased) are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each statement of financial position date. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. The resulting gain or loss is recognized in the income statement immediately unless the derivative is designated and effective as a hedge instrument in which event the timing of the recognition in the statement of profit or loss depends on the hedge relationship. The Group designates certain derivatives as either hedges of the fair value recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models or pricing models as appropriate as indicated under Note 3B.

Embedded Derivatives:

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a consolidated financial instrument.

Derivatives embedded in other financial instruments or other host contracts with embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract:

- is not measured at fair value with changes in fair value recognized in profit or loss.
- is not an asset within the scope of IFRS 9.

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.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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.

Fair Value Hedge:

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statement of profit or loss relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash Flow Hedge:

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Within its risk management and hedging strategies, the Group differentiates between micro and macro cash-flow hedging strategies as set out in the following subsections:

Micro Fair Value Hedge

Micro cash flow hedge relationships relate to distinctly identifiable assets or liabilities, hedged by one, or a few, hedging instruments.

The Group's micro cash flow hedges consist principally of cross-currency swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued floating rate euro notes due to changes in interest rate risk and/or foreign currency risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged issued foreign currency debt.

Macro Fair Value Hedge

It is the Group's strategy to apply macro cash flow hedge accounting to minimise the variability in future interest cash flows on non-trading variable rate financial assets and liabilities and to keep fluctuations within its established limits. The amounts and timing of future hedged cash flows represent both the interest and principal based on contractual terms with adjustments for expected defaults, and/or prepayments based on the Group's projected consolidated balance sheet including forecasted transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected re-pricing and interest profiles. The Group aims to set the hedging ratio at 100% by matching the notional of the designated hedged items to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognized immediately in profit or loss.

Hedges of Net Investments in Foreign Operations:

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gains and losses accumulated in the foreign currency translation reserve are reclassified to profit or loss on disposal of the foreign operation.

I. Investments in Associates:

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

The investments in associates where the Group has significant influence is recorded at cost.

J. Investment in Subsidiaries:

A subsidiary is an entity that the Group controls. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

As a result, focus is no longer on voting rights. The new definition of control takes into consideration “the power and the returns” which, although similar, is more focused on the ability to exercise power over the majority of activities affecting returns. The Group’s investment in subsidiaries is accounted for at cost in the consolidated financial statements.

K. Property and Equipment:

Property and equipment except for buildings acquired prior to 1993 are stated at historical cost, less accumulated depreciation and any impairment loss. Buildings acquired prior to 1993 are stated at their revalued amounts, based on market prices prevailing during 1996 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under “Equity”.

“Land held for banking operations” are measured at fair value at the date of the revaluation less impairment losses. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ from its carrying amount.

A revaluation surplus is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reserve a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Depreciation of property and equipment, other than land and advance payments on capital expenditures, is calculated systematically using the straight-line method over the estimated useful lives of the related assets using the following annual rates:

Buildings	2%
Office improvements and installations	20%
Furniture	8%
Equipment and machines	25%
Computer equipment	20%
Vehicles	10%

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 under “Other operating income” in the statement of profit or loss in the year the asset is derecognized.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group’s accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

On January 1, 2013, the Group elected to change the method of accounting for land held for banking operations classified in property and equipment.

After initial recognition, the Group uses the revaluation model, whereby land held for banking operations will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The Group applied the exemptions in IAS 8, which exempts this change in accounting policy from retrospective application and extensive disclosure requirements.

L. Goodwill:

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

M. Intangible Assets other than Goodwill:

Intangible assets consisting of computer software are amortized over a period of three years and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

N. Assets Acquired in Satisfaction of Loans:

The Lebanese banking entities of the Group account for collateral repossessed in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267. Repossessed assets should be sold within two years from the date of approval of repossession by the Banking Control Commission. These are immediately transferred to “Assets acquired in satisfaction of loans” at their fair value at the repossession date, as approved by the Banking Control Commission and subsequently measured at cost less accumulated impairment, if any.

Upon sale of repossessed assets, any gain or loss realized is recognized in the statement of profit or loss under “Other operating income” or “Other operating expenses”. Gains resulting from the sale of repossessed assets are transferred to “Reserves for assets acquired in satisfaction of loans” starting in the following financial year.

For assets which were not disposed of within the specified period of two years, an amount computed as percentage of their gross carrying value is transferred to “Reserves for assets acquired in satisfaction of loans” in the following financial year.

O. Impairment of Tangible and Intangible Assets:

At each statement of financial position date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of impairment provision required, if any.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the statement of financial position date, less cost to sell, if any. To determine fair value the Group adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.
- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

In this connection, the recoverable amount of the Group’s owned properties and of properties acquired in satisfaction of debts, is the estimated market value, as determined by real estate appraisers on the basis of market compatibility by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale after adjustment for illiquidity and market constraints.

The impairment loss is charged to income.

P. Employees' Benefits:

Obligations for contributions to defined employees' benefits are recognized as an expense on a current basis.

Employees' End-of-Service Indemnities: (Under the Lebanese Jurisdiction)

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were terminated at the statement of financial position date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months remunerations and less contributions paid to the Lebanese Social Security National Fund.

Defined Benefit Plans: (Under other jurisdictions)

Obligations in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted.

Q. Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the obligation at the statement of financial position date.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

R. Revenue and Expense Recognition:

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

The effective interest rate

Interest income and expense are recognized in the income statement applying the EIR method for all financial instruments measured at amortised cost, financial instruments designated at fair value through profit or loss and interest bearing financial assets measured at fair value through other comprehensive income.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit impaired, an entity shall take into account all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. For purchased or originated credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows and expected credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortized cost of a financial liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, the fees are recognised as revenue or expense when the instrument is initially recognised.

When a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the net amortized cost of the instrument. If the financial asset cures and is no longer credit-impaired, the Group reverts back to calculating interest income on a gross basis. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortized cost of the instrument. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income on all trading assets and liabilities and financial assets and liabilities mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate in Net gains/(losses) on financial instruments at fair value through profit or loss.

Presentation of Interest and Similar Income and Expense

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest income on all trading assets and liabilities and financial assets and liabilities mandatorily required to be measured at fair value through profit or loss are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in Net gains/(losses) on financial instruments at fair value through profit or loss.

Interest income or expense on financial instruments measured at amortized cost and debt instruments measured at FVOCI are presented in the consolidated income statement under "Interest and similar income". Interest income and expense on financial instruments measured at FVTPL are presented under "Net gain on financial assets at fair value through profit or loss" in the consolidated income statement and separately in the notes.

Net income from financial instruments at fair value through profit or loss comprises gains and losses related to trading assets and liabilities, non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at fair value through profit or loss and, also non-trading assets mandatorily measured at fair value through profit or loss. The line item includes fair value changes, interest, dividends and foreign exchange differences.

(i) *Dividend Income*

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income in accordance with IFRS 9, are presented in other revenue, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

(ii) *Fee and Commission Income*

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability (i.e. commissions and fees earned on the loan book) are included under interest income and expense.

Other fees and commission income are recognized as the related services are performed.

Insurance revenue

Gross premiums

Gross premiums are recognized at the time when the risk commences under a policy or contract of insurance inception during the accounting period. Premium includes any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Gross premiums from life and non-life insurance contracts are taken to income over the terms of the policies to which they relate using the recognized prorata temporis method. For gross earned single premium business, revenue is recognized on the date from which the policy is effective.

Gross changes in the unearned premiums are recorded against premiums. Unearned premiums reserve represents the portion of the gross premiums relating to the unexpired period of coverage. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

The provision for unearned premiums represents premiums received for risks that have not yet expired and is reflected under “insurance technical provisions” in the consolidated provisions note. Generally, the reserve is recognized over the term of the contract and is recognized as premium income.

Net premiums earned are reflected under “insurance income earned” in the consolidated other operating income note.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums, a premium deficiency reserve is created and is reflected under “insurance technical provisions” in the consolidated provisions note. The change in premium deficiency reserve is reflected under “insurance expense incurred” in the consolidated other operating income note.

Reinsurance premiums

Gross reinsurance premiums are recognized as expense over the term of the policies to which they relate according to reinsurance agreements and are reflected under “insurance expense incurred” in the consolidated other operating income note. Premiums include any adjustment arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Gross change in unearned reinsurance premiums are recorded against reinsurance premiums. Unearned reinsurance premiums reserve represents the portion of the gross reinsurance premiums relating to the unexpired period of the coverage and is reflected under “insurance technical provisions” in the consolidated provisions note.

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 contracts fees. These fees are recognized as revenues 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.

S. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized in other comprehensive income (OCI), in which case it is recognized in OCI.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the statement of financial position date. Income tax payable is reflected in the statement of financial position net of taxes previously settled in the form of withholding tax up to October 26, 2017.

Effective October 27, 2017 and as a result of the introduction of new and/or amendments to tax laws by virtue of Law # 64 dated October 26, 2017, withheld tax on interest is treated as a tax deductible charge and is presented as a deduction from related interest income in the consolidated statement of profit or loss and from related accrued interest receivable in the consolidated statement of financial position.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or 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, associates and interests in joint ventures, when 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, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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:

- When 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, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is possible 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 reporting date and reduced to the extent that 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 re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits 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 substantially enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI 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 income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

T. Fiduciary Deposits:

All fiduciary deposits are held on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, they are reflected as off-balance sheet accounts.

U. Operating Lease Agreements:

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

V. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of a period of three months including: cash and balances with the Central Banks, deposits with Banks and financial institutions, and deposits due to banks and financial institutions.

W. Dividends on Ordinary Shares and Preferred Shares

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

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

X. Earnings per Share:

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Y. Deferred Policy Acquisition Costs:

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognized as an expense when incurred. Amortization is recorded under “insurance expense incurred” in the consolidated other operating income note.

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 and are treated as a change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting period and are reflected under consolidated other assets.

Z. Premiums and Insurance Balances Receivable:

Premiums and insurance balances receivable are recognized when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recorded in the statement of comprehensive income. If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal is recognized in the statement of comprehensive income. Premiums receivable are derecognized when the derecognition criteria for financial assets have been met.

Premiums and insurance balances receivable are reflected under consolidated other assets.

AA. Claims and Expenses Recognition:

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred and are reflected under “insurance expense incurred” in the consolidated other operating income note. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the date of the statement of financial position.

The Company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported (IBNR) at the date of the statement of financial position reflected under other liabilities. Any difference between the provisions at the date of the statement of financial position and settlements and provisions for the following year is included in the underwriting account for that year.

Change in IBNR is reflected under "insurance expense incurred" in the consolidated other operating income note.

AB. Reinsurance:

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies reflected under consolidated other assets. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of comprehensive income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies and are reflected under consolidated other liabilities. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

AC. Reinsurance Claims:

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract. These are reflected against claims under "insurance expense incurred" in the consolidated other operating income note.

AD. Insurance Contract Liabilities:

Non-life insurance contract liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision reflected under “insurance technical provisions” in the consolidated provisions note, which are based on the estimated ultimate cost of all claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the date of the statement of financial position. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for recognized or catastrophe reserves is recognized. The liabilities are recognized when the contract expires, is discharged or is cancelled and are reflected under “insurance expense incurred” in the consolidated other operating income note.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognized when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A. Critical accounting judgments in applying the Group’s accounting policies:

In the process of applying the Group’s accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the 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.

Classification of Financial Assets:

Business Model:

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However, the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

Characteristics of the Financial Asset:

Once the Group determines that its business model is to hold the assets to collect the contractual cash flows, it exercises judgment to assess the contractual cash flows characteristics of a financial asset. In making this judgment, the Group considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and principal settlement and accordingly may qualify for amortized cost accounting.

Features considered by the Group that would be consistent with amortized cost measurement include:

- Fixed and / or floating interest rate;
- Caps, floors, collars;
- Prepayment options.

Features considered by the Group that would be inconsistent with amortized cost measurement include:

- Leverage (i.e. options, forwards and swaps);
- Conversion options;
- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

Qualifying Hedge Relationships:

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging instrument.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

B. Key Sources of Estimation Uncertainty:

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Group based their 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.

Allowances for Credit Losses:

Impairment Losses on Financial Instruments (applicable after 1 January 2018)

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment Losses on Financial Instruments (applicable before 1 January 2018)

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances, balances placed with banks and other accounts receivable and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle the advances and the value of collateral and potential repossession.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether 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, economic data and the performance of different individual groups.

Impairment of investment associates:

The Group assesses at each reporting date whether there is indication that an investment may be impaired. If any indication exists the Group estimates the investment's recoverable amount. When the cost of the investment exceeds the recoverable amount, the investment is considered impaired and a provision for impairment is setup representing the difference between the investment's recoverable amount and its carrying value. The provision is charged to the consolidated statement of profit or loss.

Impairment of Goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3D. For financial instruments that traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of market participants. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

Non-life insurance (which comprises general insurance and healthcare) contract liabilities:

For non-life insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the date of the statement of financial position and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the date of the statement of financial position. It can take a significant period of time before the ultimate claims cost can be estimated with certainty.

The main assumption underlying these techniques is that an entity's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by significant business lines as well as by claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflations, judicial decisions and legislation, as well as internal factors such as a portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

5. SEGMENT INFORMATION

The Group's operating segments are organized as follows: Lebanon, Middle East and Europe.

Measurement of segment assets, liabilities, income and expenses is based on the Group's accounting policies.

Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.

The Group has three reportable business segments which reflect the basis on which senior management reviews operating activities, allocates capital, and assesses performance.

	Year Ended December 31, 2018					Year Ended December 31, 2017				
	Lebanon LBP'000	Middle East LBP'000	Europe LBP'000	Inter- Segment LBP'000	Total LBP'000	Lebanon LBP'000	Middle East LBP'000	Europe LBP'000	Inter- Segment LBP'000	Total LBP'000
Total Assets	29,524,081,574	931,370,021	1,796,120,145	(3,563,614,656)	28,687,937,084	24,366,886,749	734,332,385	2,765,817,816	(2,804,380,728)	25,062,656,222
Total Liabilities	26,570,730,436	788,121,877	1,545,725,384	(2,131,966,079)	26,722,611,618	21,197,421,492	611,861,115	2,331,143,169	(1,441,490,203)	22,698,935,573
Total Equity	2,953,351,139	143,248,144	250,394,761	(1,431,648,578)	1,915,345,466	3,169,465,257	122,471,270	434,674,647	(1,362,890,525)	2,363,720,649
Profit/(loss) for the year	44,416,034	26,895,347	(25,244,820)	(1,031,626)	47,098,187	233,957,633	(17,649,361)	(18,087,645)	(40,768,359)	157,452,268
ASSETS										
Financial assets at fair value through profit or loss	39,016,012	-	5,817,373	-	44,833,385	191,810,160	-	24,292,664	-	216,102,824
Loans and advances to customers	4,465,651,616	136,398,285	771,325,277	-	5,373,375,178	5,019,644,225	210,214,513	1,291,254,150	-	6,521,112,888
Loans and advances to related parties	71,979,483	-	10,042,349	-	82,021,832	137,602,115	-	33,711,228	-	171,313,343
Investment securities	11,113,802,453	32,621,152	371,800,051	-	11,518,223,656	9,733,412,885	28,890,645	434,106,352	-	10,196,409,882
LIABILITIES										
Customers' deposits at amortized cost	18,285,160,990	256,901,647	1,320,066,401	-	19,862,129,038	17,121,776,725	270,722,005	1,849,806,826	-	19,242,305,556
Related parties' deposits at amortized cost	401,079,468	-	22,378,797	(184,261,577)	239,196,688	558,875,793	-	22,605,797	(162,869,192)	418,612,398

STATEMENT OF PROFIT OR LOSS

	Year Ended December 31, 2018					Year Ended December 31, 2017						
	Lebanon		Middle East		Europe		Inter-Segment		Total			
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000		
Interest income	1,433,637,741	17,820,320	1,451,458,061	17,820,320	238,999,875	32,798,913	1,657,659,023	1,313,661,552	20,980,811	249,624,403	(29,044,700)	1,555,222,066
Tax on interest	(64,013,370)	(21,807)	(64,035,177)	(21,807)	-	-	(64,035,177)	(2,589,927)	-	-	-	(2,589,927)
Interest income, net of tax	1,369,624,371	17,798,513	1,387,622,884	17,798,513	238,999,875	32,798,913	1,593,623,846	1,311,071,625	20,980,811	249,624,403	(29,044,700)	1,552,632,139
Interest expense	(1,146,826,136)	(7,262,705)	(1,154,088,841)	(7,262,705)	(1,575,974,742)	(32,798,913)	(1,278,887,670)	(906,915,505)	(8,076,456)	(170,144,862)	(29,044,700)	(1,056,092,123)
Net interest income	222,798,235	10,535,808	232,334,043	10,535,808	81,425,133	-	314,736,176	404,156,120	12,904,355	79,479,541	-	496,540,016
Fee and commission income	90,937,465	10,208,181	101,145,646	10,208,181	17,186,096	-	118,331,742	95,402,618	14,821,540	20,939,664	-	131,163,822
Fee and commission expense	(17,730,457)	(340,145)	(17,690,302)	(340,145)	(1,214,872)	-	(19,285,474)	(15,962,796)	(709,293)	(1,485,724)	-	(18,157,813)
Net fee and commission income	73,207,008	9,868,036	83,065,044	9,868,036	15,971,224	-	99,046,268	79,439,822	14,112,247	19,453,940	-	113,006,009
Net results on financial instruments at FVTPL	1,456,844	-	1,456,844	-	(1,936,554)	-	(479,710)	20,615,520	175,638	4,112,664	-	24,903,822
Gain from financial assets measured at amortized cost	(19,859)	-	(19,859)	-	7,648	-	(12,211)	55,819,764	16,061	-	-	55,835,825
Other operating income (net)	82,542,051	10,698,681	93,240,732	10,698,681	2,310,388	(6,859,046)	88,692,074	434,031,781	21,729,472	1,360,637	(8,499,517)	448,622,373
Net operating revenues	379,984,279	31,102,525	411,086,804	31,102,525	97,754,839	(6,859,046)	501,982,597	994,063,007	48,937,773	104,406,782	(8,499,517)	1,138,908,045
Provision for credit losses (net of write-back)	10,919,163	(1,600,564)	9,318,599	(1,600,564)	52,335,257	1,622,758	41,393,900	40,193,237	(38,344,527)	22,962,384	(55,777,500)	(157,277,648)
Gain/(loss) from write-off of loans	248,408	(50,738)	197,669	(50,738)	(78,014)	-	(119,656)	(15,856,149)	-	-	-	(15,856,149)
Net operating revenues after credit losses	391,151,850	29,451,223	420,603,073	29,451,223	45,341,568	(5,236,288)	460,708,353	938,013,621	10,593,246	81,444,398	(64,277,017)	965,774,248
Staff costs	(193,172,186)	(11,059,938)	(204,232,124)	(11,059,938)	(36,186,845)	(3,717,125)	(236,701,844)	(209,999,174)	(13,318,597)	(49,434,363)	(3,985,804)	(268,766,330)
Administrative expenses	(121,806,182)	(7,461,182)	(129,267,364)	(7,461,182)	(32,824,911)	(3,711,630)	(158,380,645)	(157,114,655)	(9,561,910)	(45,133,646)	(3,817,448)	(207,992,763)
Depreciation and amortization	(19,053,761)	(918,575)	(20,072,336)	(918,575)	(3,904,883)	-	(23,877,219)	(18,822,183)	(1,767,128)	(4,105,257)	-	(24,694,568)
Impairment of assets acquired in satisfaction of loans (net)	1,467,309	-	1,467,309	-	5,631,251	-	4,166,142	235,045	(639,518)	(639,518)	-	(404,473)
Provision for contingencies (net of write-back)	(4,642,058)	(3,998,909)	(8,640,967)	(3,998,909)	-	-	(643,149)	(26,222,073)	(1,045,174)	(639,104)	-	(27,906,351)
Allowance for goodwill impairment	-	-	-	-	-	-	-	(81,884,834)	-	-	-	(81,884,834)
Provision for impairment of other financial assets	(898,732)	(14,636,974)	(15,535,706)	(14,636,974)	-	(1,160,775)	(12,577,467)	(126,897,736)	(1,359,971)	(4,524,196)	-	(130,061,961)
Profit before taxes	53,046,240	28,647,411	81,693,651	28,647,411	33,206,322	1,031,692	49,519,021	317,308,011	(13,739,592)	(23,031,686)	(56,473,765)	224,062,968
Income tax expense	(8,630,272)	(1,752,064)	(10,382,336)	(1,752,064)	(7,961,502)	-	(2,420,834)	(35,290,272)	(3,909,769)	(4,944,041)	-	(34,236,000)
Tax on gain from sale of subsidiary	-	-	-	-	-	-	-	(32,354,700)	-	-	-	(32,354,700)
Profit for the year	44,415,968	26,895,347	71,311,315	26,895,347	25,244,820	1,031,692	47,098,187	249,663,039	(17,649,361)	(18,087,645)	(56,473,765)	157,452,268

6. CASH AND DEPOSITS WITH CENTRAL BANKS

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Cash on hand	177,843,721	181,871,567
Compulsory reserves with the Central Bank of Lebanon	402,373,920	254,515,131
Current accounts with the Central Bank of Lebanon	24,432,551	50,265,421
Current accounts with other central banks	109,889,020	172,983,492
Term placements with the Central Bank of Lebanon	4,511,572,524	2,574,745,982
Term placements and compulsory reserves with other central banks	105,815,510	191,951,708
Assets under leverage arrangement with the Central Bank of Lebanon (Note 22 and 47)	2,885,596,000	-
Impairment of term placements held with other central banks	(8,091,005)	(22,727,979)
Accrued interest receivable, net of tax	70,952,954	13,608,957
Less: Allowance for expected credit losses (Note 39)	(20,497,147)	-
	<u>8,259,888,048</u>	<u>3,417,214,279</u>

Compulsory deposits with the central banks are not available for use in the Group's day-to-day operations.

Compulsory reserves with the Central Bank of Lebanon represent non-interest earning deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds, respectively, after taking into account certain waivers in relation to loans granted in Lebanese Pounds, in accordance with the local banking regulations.

Current accounts with other central banks include compulsory reserves with the Central Bank of Iraq amounting to the equivalent in Iraqi Dinar of LBP20.2billion as at December 31, 2018 (LBP5.8billion as at December 31, 2017) representing 10% of time customers' deposits and 15% of current customers' deposits.

Term placements with the Central Bank of Lebanon include the equivalent in foreign currencies of LBP2,243billion as at December 31, 2018 (LBP2.083billion as at December 31, 2017) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposits and loans obtained from non-resident financial institutions.

Term placements with other central banks include the equivalent in:

- Turkish Lira and other foreign currencies of LBP77.7billion as at December 31, 2018 (LBP178.3billion as at December 31, 2017) deposited in accordance with banking laws and regulations in Turkey which require banks to maintain at the Central Bank of Turkey mandatory interest earning deposits to the extent of 1.5% to 8% of their liabilities in Turkish Lira as at December 31, 2018 (5% to 11.5% as at December 2017) and 4% to 20% of their liabilities in foreign currencies as at December 31, 2018 (5% to 25% as at December 31, 2017), depending on the nature of their liabilities.
- Euro of LBP830.6million as at December 31, 2018 (LBP887.9million as at December 31, 2017) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (1% as at December 31, 2017) of banks' and customers' deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

During 2018, the Group wrote-back LBP14.52billion from the provision on impairment of term placements held with other central banks reported under "write-back of/(provision for) impairment of other assets" in the consolidated statement of profit or loss (Note 39).

7. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Checks in the course of collection	54,761,020	99,992,188
Current accounts	337,033,841	394,227,479
Current accounts - related parties	394,102	746,352
Call placements	161,714,526	60,863,046
Overnight placements	318,082,500	1,295,049,250
Term placements	299,044,187	513,120,658
Term placements - related parties	42,737,625	63,918,000
Pledged deposits (Note 47)	-	9,032,950
Blocked deposits (Note 47)	278,465	3,065,865
Accrued interest receivable	276,029	400,615
Less: Allowance for expected credit loss (Note 39)	(5,050,514)	-
	<u>1,209,271,781</u>	<u>2,440,416,403</u>

Term placements with banks and financial institutions include term placements in the amount of LBP56.51billion as at December 31, 2018 (term placements in the amount of LBP75.86billion as at December 31, 2017) with right of set-off against letters of guarantee amounting to LBP47.44billion (acceptance payable amounting to LBP19.6billion and letters of guarantee amounting to LBP53.64billion respectively as at December 31, 2017).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2018		
	LBP	C/V	Total
	LBP'000	of F/Cy	LBP'000
Lebanese government bonds	-	2,597	2,597
Quoted equity securities	-	662,503	662,503
Unquoted equity securities	-	44,168,261	44,168,261
Accrued interest receivable, net of tax	-	24	24
	<u>-</u>	<u>44,833,385</u>	<u>44,833,385</u>
	December 31, 2017		
	LBP	C/V	Total
	LBP'000	of F/Cy	LBP'000
Lebanese government bonds	2,446,641	495,813	2,942,454
Certificates of deposit issued by the Central Bank of Lebanon	172,490,884	-	172,490,884
Debt securities issued by companies	-	6,256,125	6,256,125
Quoted equity securities	-	773,726	773,726
Unquoted equity securities	-	29,184,029	29,184,029
Accrued interest receivable, net of tax	4,447,849	7,757	4,455,606
	<u>179,385,374</u>	<u>36,717,450</u>	<u>216,102,824</u>

The negative change in the fair value of financial assets at fair value through profit or loss in the amount of LBP8.15billion (positive change in the amount of LBP3.82billion in 2017) is recorded under “Net results on financial instruments at fair value through profit or loss” (Note 36) in the consolidated statement of profit or loss.

9. REVERSE REPURCHASE AGREEMENTS AND LOANS TO BANKS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Loans to banks	21,554,336	123,999,175
Loans under reverse repurchase agreements	-	198,107,442
Accrued interest receivable	6,942	488,424
Less: Allowance for expected credit losses (Note 39)	(1,568,937)	-
	<u>19,992,341</u>	<u>322,595,041</u>

Loans to banks include discounted acceptances in foreign currencies with an aggregate nominal value of LBP1.18billion as at December 31, 2018 (LBP353million as at December 31, 2017).

Loans to banks include loans granted in LBP to a resident housing bank with an aggregate remaining outstanding balance of LBP832million as at December 31, 2018 (LBP1.67billion as at December 31, 2017). As a guarantee of these LBP loans, the borrower has pledged in favor of the Group bills related to the housing loans granted to its customers. These loans are for a period of 12 years with a grace period on payments of 2 years. Interest on the loans is reset every three years.

Loans under reverse repurchase agreements represent short term loans granted to a financial institution in Lebanon. These loans matured during the first quarter of 2018 and were secured by USD certificates of deposit issued by the Central Bank of Lebanon in the amount of LBP215.6billion.

10. LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	December 31, 2018		
	Gross Exposure LBP'000	ECL (Note 39) LBP'000	Net Exposure LBP'000
Corporate and SMEs			
Stage 1	2,299,347,031	(15,374,232)	2,283,972,799
Stage 2	860,005,812	(150,680,114)	709,325,698
Stage 3	<u>773,420,015</u>	<u>(460,663,077)</u>	<u>312,756,938</u>
	<u>3,932,772,858</u>	<u>(626,717,423)</u>	<u>3,306,055,435</u>
Mortgage loans			
Stage 1	924,467,862	(8,484,643)	915,983,219
Stage 2	6,585,884	(2,206,835)	4,379,049
Stage 3	<u>36,245,001</u>	<u>(8,571,447)</u>	<u>27,673,554</u>
	<u>967,298,747</u>	<u>(19,262,925)</u>	<u>948,035,822</u>
Retail and other			
Stage 1	1,100,524,195	(9,223,597)	1,091,300,598
Stage 2	14,887,579	(5,161,806)	9,725,773
Stage 3	<u>19,373,774</u>	<u>(14,802,171)</u>	<u>4,571,603</u>
	<u>1,134,785,548</u>	<u>(29,187,574)</u>	<u>1,105,597,974</u>
Accrued interest receivable	<u>13,685,947</u>	<u>-</u>	<u>13,685,947</u>
	<u>6,048,543,100</u>	<u>(675,167,922)</u>	<u>5,373,375,178</u>

	December 31, 2017
	<u>Net Exposure</u>
	LBP'000
Corporate and SMEs	5,151,274,327
Mortgage loans	917,909,576
Retail and other	<u>1,016,818,064</u>
	7,086,001,967
Accrued interest receivable	78,746,640
Less: Impairment allowance	(643,635,719)
	<u>6,521,112,888</u>

An analysis of changes in the ECL allowances in relation to loans and advances to customers at amortized cost is, as follows:

Corporate and SMEs

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
	LBP'000	LBP'000	LBP'000	LBP'000
At 1 January 2018	44,483,869	185,028,402	443,954,921	673,467,192
Existing financial assets	(8,177,497)	(2,716,478)	(10,090,532)	(20,984,507)
New assets originated or purchased	5,708,593	6,984,986	-	12,693,579
Assets de-recognized or repaid	(8,552,097)	(20,379,825)	-	(28,931,922)
Transfers to Stage 1	-	(2,666,733)	-	(2,666,733)
Transfers to Stage 2	(14,744,979)	-	(5,699)	(14,750,678)
Transfers to Stage 3	(1,067,763)	(42,728,058)	-	(43,795,821)
Impact on year end ECL of exposures				
transferred between stages during the year	527,636	39,343,743	114,031,858	153,903,237
Recoveries	-	(1,183,388)	(17,283,902)	(18,467,290)
Amounts written off	-	-	(36,593,896)	(36,593,896)
Foreign currency adjustments	(2,803,530)	(11,002,535)	(33,349,673)	(47,155,738)
At 31 December 2018	<u>15,374,232</u>	<u>150,680,114</u>	<u>460,663,077</u>	<u>626,717,423</u>

Mortgage Loans

	<u>Stage 1</u> <u>LBP'000</u>	<u>Stage 2</u> <u>LBP'000</u>	<u>Stage 3</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>
At 1 January 2018	8,143,084	1,662,398	7,210,541	17,016,023
Existing financial assets	(309,009)	(719,800)	433,279	(595,530)
New assets originated or purchased	1,658,115	54,901	5,079	1,718,095
Assets de-recognized or repaid	(763,569)	(7,668)	(302,744)	(1,073,981)
Transfers to Stage 1	-	(179,429)	(35,708)	(215,137)
Transfers to Stage 2	(103,918)	-	(283,206)	(387,124)
Transfers to Stage 3	(155,617)	(1,245,369)	-	(1,400,986)
Impact on year end ECL of exposures transferred between stages during the year	15,879	2,643,318	2,237,846	4,897,043
Recoveries	-	-	-	-
Amounts written off	-	-	(687,543)	(687,543)
Foreign currency adjustments	(321)	(1,517)	(6,097)	(7,935)
At 31 December 2018	<u>8,484,644</u>	<u>2,206,834</u>	<u>8,571,447</u>	<u>19,262,925</u>

Retail and Other

	<u>Stage 1</u> <u>LBP'000</u>	<u>Stage 2</u> <u>LBP'000</u>	<u>Stage 3</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>
At 1 January 2018	5,549,975	15,526,201	3,908,420	24,984,596
Existing financial assets	4,541,593	(5,228,296)	10,938,098	10,251,395
New assets originated or purchased	1,532,742	89,551	65,846	1,688,139
Assets de-recognized or repaid	(1,293,204)	(972,504)	-	(2,265,708)
Transfers to Stage 1	-	(39,887)	(20,460)	(60,347)
Transfers to Stage 2	(807,185)	-	(1,925)	(809,110)
Transfers to Stage 3	(17,614)	(323,064)	-	(340,678)
Impact on year end ECL of exposures transferred between stages during the year	11,534	1,868,410	394,143	2,274,087
Recoveries	-	(5,877,748)	(123,153)	(6,000,901)
Amounts written off	(211,651)	-	(139,524)	(351,175)
Foreign currency adjustments	(82,594)	119,144	(219,274)	(182,724)
At 31 December 2018	<u>9,223,596</u>	<u>5,161,807</u>	<u>14,802,171</u>	<u>29,187,574</u>

Loans and advances as at December 31, 2017 are detailed as follows:

	December 31, 2017			
	Gross Amount	Unrealized Interest	Impairment Allowance	Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000
Performing Retail Customers:				
- Mortgage loans	891,075,373	-	-	891,075,373
- Personal loans	536,360,872	-	-	536,360,872
- Credit cards	55,789,596	-	-	55,789,596
- Overdrafts	139,608,533	-	-	139,608,533
- Other	292,377,556	-	-	292,377,556
Non-Performing Retail Customers:				
- Substandard loans	7,459,859	(241,101)	(67,599)	7,151,159
- Bad and doubtful loans	19,615,445	(7,318,493)	(10,618,199)	1,678,753
Performing Corporate Customers:				
- Rescheduled loans	25,626,610	-	-	25,626,610
- Corporate loans	3,482,105,516	-	-	3,482,105,516
- Small and medium enterprises' loans	776,779,615	-	-	776,779,615
Non-Performing Corporate Customers:				
- Rescheduled substandard loans	16,486,645	(2,327,594)	-	14,159,051
- Substandard loans	271,872,308	(15,405,938)	(5,266,546)	251,199,824
- Rescheduled bad and doubtful loans	24,876,754	(8,993,313)	(6,709,289)	9,174,152
- Bad and doubtful loans	658,638,095	(62,870,126)	(416,205,880)	179,562,089
Allowance for collectively assessed:				
- Corporate loans	-	-	(179,812,473)	(179,812,473)
- Retail loans	-	-	(24,955,733)	(24,955,733)
Deferred penalties charged on excess over limit	(15,514,245)	-	-	(15,514,245)
Accrued interest receivable	78,746,640	-	-	78,746,640
	<u>7,261,905,172</u>	<u>(97,156,565)</u>	<u>(643,635,719)</u>	<u>6,521,112,888</u>

The movement of unrealized interest on substandard loans during 2017 is summarized as follows:

	<u>2017</u> <u>LBP'000</u>
Balance on January 1	8,015,495
Additions	19,596,275
Write-back to profit or loss (Note 32)	(1,583,079)
Write-off	(1,518,400)
Transfer to unrealized interest on bad and doubtful loans	(6,554,188)
Effect of exchange rate changes	<u>18,530</u>
Balance on December 31	17,974,633
Contractual write-off on rescheduled debts	(1,799,042)
Net balance, end of year	<u>16,175,591</u>

The movement of allowance for impairment on substandard loans during 2017 is summarized as follows:

	<u>2017</u> <u>LBP'000</u>
Balance on January 1	3,195,093
Additions	14,352,715
Write-back to profit or loss	(312,914)
Transfer to allowance for bad and doubtful loans	(11,232,391)
Effect of exchange rate changes	<u>(668,358)</u>
Balance on December 31	<u>5,334,145</u>

The movement of unrealized interest on bad and doubtful loans during 2017 is summarized as follows:

	<u>2017</u> <u>LBP'000</u>
Balance on January 1	95,331,316
Additions	65,482,590
Write-off	(31,324,377)
Write-back to profit or loss (Notes 32 and 45)	(100,691,463)
Transfer from unrealized interest on substandard loans	6,554,188
Transfer from off-balance sheet (net)	43,760,886
Effect of exchange rate changes	<u>68,792</u>
Balance on December 31	79,181,932
Contractual write-off on rescheduled debts	(4,488,191)
Net balance, end of year	<u>74,693,741</u>

The movement of allowance for impairment on bad and doubtful loans during 2017 is summarized as follows:

	<u>2017</u> LBP'000
Balance on January 1	237,634,044
Additions	251,785,186
Write-off	(48,969,654)
Write-back to profit or loss (Note 45)	(96,392,218)
Transfer from allowance for substandard loans	11,232,391
Transfer from off-balance sheet (net)	3,256,477
Transfer from allowance for collective impairment	74,765,789
Effect of exchange rate changes	(533,566)
Other	<u>754,919</u>
Balance on December 31	433,533,368
Contractual write-off on rescheduled debts (including regular rescheduled loans)	(<u>116,093</u>)
Balance, end of year (net)	<u><u>433,417,275</u></u>

The movement of the allowance for collectively assessed loans during 2017 is summarized as follows:

	<u>2017</u> LBP'000
Balance on January 1	293,419,403
Additions net of write-back	(12,155,121)
Transfer to allowance for impairment on doubtful and bad loans	(74,765,789)
Write-off	(369,108)
Effect of exchange rate changes	(<u>1,361,179</u>)
Balance on December 31	<u><u>204,768,206</u></u>

As of December 31, 2018, the Group has unutilized financing commitments (excluding credit cards) amounting to LBP44billion (LBP136billion as of December 31, 2017).

11. LOANS AND ADVANCES TO RELATED PARTIES AT AMORTIZED COST

	December 31,	
	2018	2017
	LBP'000	LBP'000
Retail loans and advances	15,660,226	41,750,120
Corporate loans and advances, net	65,631,546	128,468,243
Accrued interest receivable	791,952	1,094,980
Less: Allowance for expected credit losses (Note 39)	(61,892)	-
	<u>82,021,832</u>	<u>171,313,343</u>

Loans and advances to related parties are partially secured (Note 43).

During 2017, the Group disposed of its participation in a syndicated loan granted to a related party in the amount of USD100million for a consideration of USD65million.

12. INVESTMENT SECURITIES

	December 31, 2018			December 31, 2017		
	LBP LBP'000	C/V of F/Cy LBP'000	Total LBP'000	LBP LBP'000	C/V of F/Cy LBP'000	Total LBP'000
Financial assets at fair value through other comprehensive income (A)	104,051,002	368,552,974	472,603,976	24,855,140	355,588,867	380,444,007
Accrued interest receivable on financial assets at fair value through other comprehensive income	1,038,197 105,089,199	544,777 369,097,751	1,582,974 474,186,950	- 24,855,140	- 355,588,867	- 380,444,007
Financial assets at amortized cost (B)	5,245,693,760	5,522,845,816	10,768,539,576	4,516,610,002	5,160,427,089	9,677,037,091
Accrued interest receivable on financial assets at amortized cost	85,660,802 5,331,354,562	189,836,328 5,712,682,144	275,497,130 11,044,036,706	67,243,118 4,583,853,120	71,685,666 5,232,112,755	138,928,784 9,815,965,875
	5,436,443,761	6,081,779,895	11,518,223,656	4,608,708,260	5,587,701,622	10,196,409,882

During 2017, the Group wrote-back provisions in the amount of LBP1.8billion setup during 2016 against debt securities recorded under “provision for impairment of financial assets” in the consolidated statement of profit or loss and other comprehensive income.

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

- Yield management
- Exchange of certificates of deposits by the Central Bank of Lebanon;

Gains and losses arising from the derecognition of these financial assets at amortised cost amounted to LBP12,211thousand losses at December 31, 2018 (December 31, 2017: LBP55,835,825 thousand gains)

Debt securities issued by companies as at December 31, 2016 includes an amount of Euro27.57million (LBP44billion) as at December 31, 2016, representing First Priority Senior Secured Notes issued by Cell C Proprietary Limited of which Euro15.75million were held against linked deposits in the amount of Euro15.75million presented under “Customers’ deposits at fair value through profit or loss” in the consolidated statement of financial position as at December 31, 2016. During 2017, the Notes against linked deposits were transferred to the related customers in settlement of their deposits and held in custody with the Group awaiting the finalization of the restructuring of the entity that issued the Notes.

The Group purchased from the customers, through acquiring USD163,043,000 (LBP245.79billion) Cedar Cellular Notes (structured notes) the pro rata entitlement of the unredeemed SPV1 Notes, following the partial redemption, for an amount equivalent to 100% of the principle of the customers pro rata share of the unredeemed SPV1 Notes, on the condition that the customers place the proceeds of such sale in a blocked account with the Group for a period of five years. The proceeds shall be returned to the customer at the end of the fifth year and interest shall be paid semi-annually on the proceeds at the rate of 4.25% per annum throughout the blocked period.

As at December 31, 2017, the Group had in its books an investment in Cedar Cellular Notes (structured notes) (“Cell C”) amounting to LBP120.7billion (equivalent to USD80.1million) determined based on the present value of future deferred payments derived from a sale agreement executed on June 26, 2018 with a third party to dispose off the notes. Noting that the Group booked the adverse change in fair value of LBP125billion (loss) (equivalent to USD83million) under “Net results on financial instruments at fair value through profit or loss” in the consolidated statement of profit or loss for the year ended December 31, 2017.

However, the sale agreement was subject to conditions precedent among which obtaining the written approval of the Financial Surveillance Department of the South African Reserve Bank (SARB) which had a high probability of being accepted as per the Management’s initial interpretation.

In 2018 the sale agreement was not executed as a result of the rejection of Financial Surveillance Department of the South African Reserve Bank “SARB”, as a result and since the financial asset is a debt instrument with its contractual cash flows being solely principle and interest, the business model objective is achieved by holding to collect contractual cash flows as the sale was not possible at the beginning and the fair value through profit or loss classification is no longer an option to be elected, the investment has been classified to financial assets at amortized cost as at December 31, 2018 and restated in as at December 31, 2017.

Subsequent to June 28, 2018, the date of issuance of 2017 consolidated financial statements, and after the non-execution of the sale agreement as a result of the rejection of SARB, Management of the Group discovered that they had misinterpreted an important fact prior to classifying the investment as at FVTPL.

As such Management of the Group believe that they had minimal chance in obtaining the approval of SARB and as such the investment should not have been classified as FVTPL as at December 31, 2017.

Instead and since the financial asset is a debt instrument with its contractual cash flows being solely principal and interest, the business model objective is achieved by holding to collect contractual cash flows as the sale was not possible at the beginning, and the FVTPL is no longer an option to be elected, as a result, Management believes that this investment should have been classified at amortized cost as at December 31, 2017.

As a result of this reclassification, the loss booked under “Net results on financial instruments at fair value through profit or loss” should have been booked as an impairment loss for credit risk following the assessment under IAS 39 requirements.

In its assessment over the investment in Cell C notes, and after the non-execution of the sale agreement as a result of the rejection of SARB (which was a condition precedent for the sale agreement to take place), the Group has considered this investment as credit-impaired and as such the Group has recorded an allowance for the lifetime ECL including a liquidity factor equal to USD80.08million of the investment’s carrying value as at January 1, 2018.

13. CUSTOMERS’ ACCEPTANCE LIABILITY

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

14. INVESTMENTS IN ASSOCIATES AND OTHER INVESTMENTS

	Country of Incorporation	December 31,		December 31,	
		2018	2017	2018	2017
		Interest Held %	Interest Held %	Carrying Value LBP'000	Carrying Value LBP'000
Investments in Associates					
Ciment de Sibling S.A.L. (a)	Lebanon	19.36	19.36	33,894,582	35,480,595
GroupMed Services S.A.L.	Lebanon	25.00	25.00	890,898	711,726
Long-term loan to GroupMed Services S.A.L. (b)				2,539,990	2,301,990
PinPay S.A.L.	Lebanon	24.4	25.03	2,059,443	1,840,293
Long-term loan to PinPay S.A.L.				-	737,706
				<u>39,384,913</u>	<u>41,072,310</u>
Other Investments					
Sidem S.A.L.	Lebanon	20.00	20.00	19,522,124	19,342,482
Kredi Garantik Four	Turkey	1.53	1.53	1,401,130	1,958,408
				<u>20,923,254</u>	<u>21,300,890</u>
				<u>60,308,167</u>	<u>62,373,200</u>

The following tables illustrate summarized financial information of the Group's investments in associates:

December 31, 2018						
Name	Country of Incorporation	Total Assets LBP'000	Total Liabilities LBP'000	Net Assets LBP'000	Interest Held %	Group's share of net Assets LBP'000
Ciment de Sibling S.A.L	Lebanon	233,889,188	57,798,025	176,091,163	19.36	34,091,249
PinPay S.A.L	Lebanon	2,312,619	1,258,369	1,054,250	24.4	(1,678,215)
GroupMed Services S.A.L	Lebanon	<u>13,284,907</u>	<u>11,364,812</u>	<u>1,920,095</u>	25	<u>480,024</u>
		<u>249,486,714</u>	<u>70,421,206</u>	<u>179,065,508</u>		<u>32,893,058</u>

December 31, 2017						
Name	Country of Incorporation	Total Assets LBP'000	Total Liabilities LBP'000	Net Assets LBP'000	Interest Held %	Group's share of net Assets LBP'000
Ciment de Sibling S.A.L	Lebanon	257,006,930	72,666,042	184,340,888	19.36	35,688,396
PinPay S.A.L	Lebanon	1,814,249	2,060,661	(246,412)	25.03	(1,172,108)
GroupMed Services S.A.L	Lebanon	<u>14,680,782</u>	<u>13,477,377</u>	<u>1,203,405</u>	25	<u>300,851</u>
		<u>273,501,961</u>	<u>88,204,080</u>	<u>185,297,881</u>		<u>34,817,139</u>

- (a) The investment in Ciment de Sibling S.A.L. is reflected using the equity method whereby the Group accounts for its share in the associate's equity. In this connection, the Group recorded its share in the associate's profit in the amount of LBP4.5billion including (LBP7.7billion in 2017). Dividends distributed during the year in the amount of LBP6.1billion LBP6.9billion in 2017). At 2017 year-end, the Group disposed of a portion of its equity stake for an amount of LBP505million resulting in a loss of LBP163.8million recorded under "Other operating income" in the consolidated statement of profit or loss and other comprehensive income.

- (b) During 2017, the Group did not participate in the capital increase of Pinpay S.A.L. which led to the dilution of its ownership percentage from 37.11% to 25.03%. During 2018, Pinpay S.A.L. increased its capital through transfer of shareholders' loan and cash injection to equity which led to the decrease of the Group ownership percentage from 25.03% to 24.4%.

15. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through enforcement of security over loans and advances.

The movement of assets acquired in satisfaction of loans during 2018 and 2017 was as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Gross Amount:		
Balance January 1	658,305,701	462,840,658
Additions due to settlement of loans and receivables	339,737,647	218,050,495
Disposals	(15,199,110)	(19,194,126)
Effect of exchange rate fluctuation	(12,766,938)	(3,391,326)
Balance December 31	<u>970,077,300</u>	<u>658,305,701</u>
Impairment Allowance:		
Balance January 1	(6,073,824)	(6,140,484)
Additions	(5,631,251)	(639,518)
Write-back	1,467,309	235,045
Other movement	696,988	304,040
Effect of exchange rate fluctuation	277,217	167,093
Balance December 31	<u>(9,263,561)</u>	<u>(6,073,824)</u>
Accumulated depreciation:		
Balance January 1	(2,891,132)	(2,380,265)
Additions	(511,138)	(510,867)
Balance December 31	<u>(3,402,270)</u>	<u>(2,891,132)</u>
Carrying Amount:		
December 31,	<u>957,411,469</u>	<u>649,340,745</u>

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these assets should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non performing loans' portfolio are met. This regulatory reserve is reflected under equity. In this connection, an amount of LBP23.19billion was appropriated in 2018 from 2017 income (LBP23.42billion in 2017 from 2016 income). An amount of LBP5.54billion was transferred in 2018 to "Reserves from disposal of assets acquired in satisfaction of loans" (Note 29) upon the sale of the related foreclosed assets (LBP1.7billion in 2017).

Additions to assets acquired in satisfaction of loans for the year 2018 include an amount of LBP247billion representing the fair value of real estate acquired in the transaction entered into with debtors in connection with impaired loans and advances, by which the Group acquired the real estate for a consideration of USD149.5million (Note 45). The Group obtained the approval of the Banking Control Commission on July 10, 2018.

Additions to assets acquired in satisfaction of loans for the year 2017 include an amount of LBP187.5billion representing the fair value of real estate acquired in the transaction entered into with the Group's parent company by which the Group acquired the real estate for a consideration of LBP176.5billion (Note 45). The Group obtained the approval of the Banking Control Commission on November 20, 2017.

The fair value of assets acquired in satisfaction of loans is disclosed under Note 50.

16. GOODWILL

The goodwill balance outstanding as of the statement of financial position date consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Bankmed Suisse – S.A.	16,182,023	16,182,023
Cumulative effect of exchange rate changes up to the statement of financial position date	<u>23,537,714</u>	<u>23,936,559</u>
Saudi Lebanese Bank S.A.L.	39,719,737	40,118,582
Turkland Bank A.S.	31,765,458	31,765,458
Turkland Sigorta A.S.	80,871,312	80,871,312
Medfinance Holdings Ltd.	-	1,013,522
GroupMed Insurance and Reinsurance Company S.A.L.	616,568	616,568
GroupMed Reinsurance Brokers Limited	2,019,644	2,019,644
	<u>4,404,608</u>	<u>4,408,608</u>
	159,397,327	160,813,694
Allowance for goodwill impairment	<u>(80,871,312)</u>	<u>(81,884,834)</u>
	<u>78,526,015</u>	<u>78,928,860</u>
Allied Bank S.A.L.	<u>23,068,898</u>	<u>23,068,898</u>
Goodwill (net)	<u>101,594,913</u>	<u>101,997,758</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The Group has determined that each subsidiary acquired constitutes a single cash generating unit.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Goodwill is considered to be impaired when the carrying value exceeds the recoverable amounts of the merged business which are determined based on a market comparability approach and discounted cash flows.

During 2017, the Group setup provision for impairment loss for the goodwill arising from its investments in Turkland Bank A.S. and Turkland Sigorta A.S. in the amounts of LBP80.87billion and LBP1billion respectively, recorded under "Allowance for goodwill impairment" in the consolidated statement of profit or loss. The investment in Turkland Sigorta A.S. was sold during 2018 and the impairment of LBP1billion was written-back in the consolidated statement of profit or loss.

17. PROPERTY AND EQUIPMENT

	Real Estate Properties LBP'000	Improvements and Installations LBP'000	Furniture and Equipment LBP'000	Vehicles LBP'000	Other LBP'000	Construction in progress LBP'000	Advance Payments on Capital Expenditures LBP'000	Allowance for Impairment Loss on Property & Equipment LBP'000	Total LBP'000
Gross amount:									
Balance January 1, 2017	260,772,614	151,574,887	88,875,393	3,329,461	7,411,313	37,664,286	15,903,130	(1,400,000)	564,131,084
Additions	3,484,274	2,954,461	4,316,743	115,493	827,834	7,755,021	7,333,807	-	26,787,633
Disposal/retirements	(62,143,091)	(837,769)	(1,837,947)	(71,212)	(951,810)	-	(57,149)	-	(65,898,978)
Transfers between categories	9,080,867	3,461,520	393,889	-	-	-	(12,936,276)	-	-
Effect of exchange rate changes	-	(854,819)	(293,259)	11,481	(465,671)	-	-	-	(1,602,268)
Balance December 31, 2017	211,194,664	156,298,280	91,454,819	3,385,223	6,821,666	45,419,307	10,243,512	(1,400,000)	523,417,471
Additions	5,955,210	2,234,278	2,459,594	4,470	-	12,779,589	542,474	-	23,975,615
Disposal of a subsidiary	-	(804,828)	-	-	-	-	-	-	(804,828)
Disposal/retirements	(572,903)	(348,599)	(70,157)	(46,235)	(799,419)	-	-	-	(1,837,313)
Transfers between categories	1,072,982	32,950	231,640	-	-	-	(874,292)	-	-
Effect of exchange rate changes	-	(1,604,213)	(6,029)	-	-	-	-	-	(1,610,242)
Balance December 31, 2018	217,649,953	155,807,868	93,606,587	3,343,458	6,022,247	58,198,896	9,911,694	(1,400,000)	543,140,703
Accumulated depreciation:									
Balance January 1, 2017	(29,654,723)	(122,412,819)	(64,931,374)	(2,181,374)	(5,428,919)	-	-	-	(224,609,209)
Additions	(1,997,212)	(9,474,894)	(7,540,346)	(285,462)	(373,943)	-	-	-	(19,671,857)
Disposal/retirements	1,094,684	710,830	1,110,451	62,437	674,679	-	-	-	3,653,081
Effect of exchange rate changes	-	736,058	326,773	(8,376)	181,824	-	-	-	1,236,279
Balance December 31, 2017	(30,557,251)	(130,440,825)	(71,034,496)	(2,412,775)	(4,946,359)	-	-	-	(239,391,706)
Additions	(3,713,769)	(10,290,306)	(5,395,501)	(235,657)	(268,670)	-	-	-	(19,903,903)
Disposal of a subsidiary	-	679,831	-	-	-	-	-	-	679,831
Disposal/retirements	226,128	930,193	823,241	26,329	65,607	-	-	-	2,071,498
Transfers between categories	-	5,390	(5,390)	-	-	-	-	-	-
Effect of exchange rate changes	-	(53,495)	25,266	-	-	-	-	-	-
Balance December 31, 2018	(34,044,892)	(139,169,212)	(75,586,880)	(2,622,103)	(5,149,422)	-	-	-	(256,572,509)
Net Book Value:									
Balance, December 31, 2018	183,605,061	16,638,656	18,019,707	721,355	872,825	58,198,896	9,911,694	(1,400,000)	286,568,194
Balance, December 31, 2017	180,637,413	25,857,455	20,420,323	972,448	1,875,307	45,419,307	10,243,512	(1,400,000)	284,025,765

Additions to “Furniture and Equipment” and “Advance payments on capital expenditures” represent mainly costs incurred in connection with the opening and refurbishment of branches in Lebanon.

Additions to “Construction in progress” represents mainly cost incurred in connection with building the new head office.

The Group has as at December 31, 2018 capital expenditure commitments in the amount of LBP40.1billion (LBP49.8billion as at December 31, 2017).

Disposals of real estate properties as of December 31, 2017, include the cost of a plot in Beirut sold to a related party upon sale of a subsidiary (Note 45).

18. OTHER ASSETS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Receivables on properties sold with deferred payment (a)	191,227	94,973
Deferred tax asset (b)	37,164,163	19,389,994
Prepayments, deferred charges and accrued income (c)	57,368,059	64,631,608
Due from personnel	322,000	1,280,211
Regulatory blocked deposit (d)	1,617,764	1,602,763
Fair value of derivatives (e)	3,845,031	8,830,614
Intangible assets (f)	6,810,642	9,843,135
Receivables on insurance operations	30,984,489	42,703,578
Financial asset from discount of future cash flows (g)	82,687,832	90,618,840
Other, net of provisions	61,334,168	75,258,000
Expected Credit Loss/allowance for impairment (h) (Note 39)	(5,540,381)	(11,065,222)
	<u>276,784,994</u>	<u>303,188,494</u>

(a) The movement of receivables on properties sold with deferred payment during 2018 and 2017 is summarized as follows:

	2018	2017
	LBP'000	LBP'000
Balance on January 1	94,973	52,390,739
Additions	232,965	-
Collections	(136,711)	(52,295,766)
Balance on December 31	<u>191,227</u>	<u>94,973</u>

During 2017, the Group collected “Receivables on properties sold with deferred payment” that includes receivables from related parties amounting to LBP33.2billion net of deferred income in the amount of LBP30.03billion and thus realized the deferred income which was recorded under “Other operating income (net)” in the consolidated statement of profit or loss (Note 37).

(b) Deferred tax asset consist of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Deferred tax asset on financial assets at fair value through other comprehensive income (Note 30)	18,137,345	11,085,967
Other deferred tax assets	19,026,818	8,304,027
	<u>37,164,163</u>	<u>19,389,994</u>

(c) This caption includes an amount of LBP32billion (LBP27billion as at December 31, 2017) representing prepayments of cost of license in connection with the core banking system.

The Group has commitments related to software acquisitions in the amount of LBP11.1billion as at December 31, 2018 (LBP14.7billion as at December 31, 2017).

(d) The regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the inception of banks according to Article 132 of the Lebanese Code of Money and Credit, and is refundable in case of cease of operations.

(e) Fair value of derivatives consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Fair value of forward contracts	2,177,246	4,114,063
Fair value of currency option contracts (Note 26)	1,667,785	4,716,551
	<u>3,845,031</u>	<u>8,830,614</u>

(f) Intangible assets are detailed as follows:

	<u>Software</u> LBP'000	<u>Key</u> <u>Money</u> LBP'000	<u>Total</u> LBP'000
Cost:			
Balance, January 1, 2017	45,763,521	4,250,254	67,672,556
Acquisition of a subsidiary	4,923	-	4,923
Disposal	(250,191)	-	(250,191)
Additions	956,755	-	10,660,395
Effect of exchange rate changes	(2,221,874)	(9,363)	(2,231,237)
Balance, December 31, 2017	44,253,134	4,240,891	75,856,446
Disposal	(864,255)	-	(864,255)
Additions	1,764,125	-	6,176,856
Effect of exchange rate changes	(1,269,306)	-	(1,269,306)
Balance, December 31, 2018	<u>43,883,698</u>	<u>4,240,891</u>	<u>79,899,741</u>
Amortization:			
Balance, January 1, 2017	(36,155,128)	(2,042,255)	(38,197,383)
Acquisition of a subsidiary	(1,507)	-	(1,507)
Disposal	229,934	-	229,934
Amortization for the year	(4,216,366)	(295,478)	(4,511,844)
Effect of exchange rate changes	<u>3,822,668</u>	<u>7,242</u>	<u>3,829,910</u>
Balance, December 31, 2017	(36,320,399)	(2,330,491)	(38,650,890)
Disposal	820,553	-	820,553
Amortization for the year	(3,198,845)	(263,333)	(3,462,178)
Effect of exchange rate changes	(21,432)	-	(21,432)
Balance, December 31, 2018	<u>(38,720,123)</u>	<u>(2,593,824)</u>	<u>(41,313,947)</u>
Net Book Value:			
Balance, December 31, 2018	<u>5,163,575</u>	<u>1,647,067</u>	<u>6,810,642</u>
Balance, December 31, 2017	<u>7,932,735</u>	<u>1,910,400</u>	<u>9,843,135</u>

(g) During 2017, the Group realized interest income under “Interest income from financial assets at amortized cost” (Note 32) in the amount of LBP90.6billion as a result of discounting the net future interest derived from Lebanese Government bonds in the amount of LBP277.53billion classified under investment securities at amortized cost funded by long term borrowings from the Central Bank of Lebanon in the same amount (Note 22). During 2018, the Group realized interest income as a result of the said transaction in the amount of LBP5.5billion booked under “Interest income on financial assets from discount of future cash flows” in the consolidated statement of profit or loss (Note 32).

(h) The movement of provision for doubtful receivables during 2017 is summarized as follows:

	<u>2017</u> <u>LBP'000</u>
Balance on January 1	4,148,866
Additions	6,807,362
Other	<u>108,994</u>
Balance on December 31	<u>11,065,222</u>

The additions to provision for doubtful receivables is booked under “Provision for impairment of other assets” in the consolidated statement of profit or loss and other comprehensive income.

19. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

	<u>December 31, 2018</u>		
	<u>LBP</u>	<u>C/V</u>	<u>Total</u>
	<u>LBP'000</u>	<u>of F/Cv</u>	<u>LBP'000</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Current deposits	16,504,231	30,267,273	46,820,251
Overnight deposits	184,355,692	12,935,475	197,291,167
Money market deposits	104,500,000	249,580,989	354,080,989
Borrowings under sale and repurchase agreements	-	48,298,200	48,298,200
Other short term deposits	28,200,000	53,562,418	81,762,418
Current deposits - related parties	-	48,747	95,289
Money market deposits - related parties	-	19,914,589	19,819,300
Accrued interest payable	<u>1,064,005</u>	<u>1,984,348</u>	<u>3,048,353</u>
	<u>334,623,928</u>	<u>416,592,039</u>	<u>751,215,967</u>
	<u>December 31, 2017</u>		
	<u>LBP</u>	<u>C/V</u>	<u>Total</u>
	<u>LBP'000</u>	<u>of F/Cv</u>	<u>LBP'000</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Current deposits	10,425,405	16,312,896	26,738,301
Money market deposits	54,547,726	580,744,292	635,292,018
Other short term deposits	-	122,689,257	122,689,257
Current deposits – related parties	-	671,605	671,605
Money market deposits - related parties	-	52,581,559	52,581,559
Accrued interest payable	<u>20,943</u>	<u>2,229,842</u>	<u>2,250,785</u>
	<u>64,994,074</u>	<u>775,229,451</u>	<u>840,223,525</u>

“Borrowings under sale and repurchase agreements” as at December 31, 2018 matured during the first quarter of 2019. The borrowings were secured by foreign government bonds classified under financial assets at amortized cost in the consolidated statement of financial position (Note 47).

20. CUSTOMERS' DEPOSITS AT AMORTIZED COST

	December 31, 2018						
	LBP Base Accounts			F/Cv Base Accounts			
	Interest Bearing LBP'000	Non-Interest Bearing LBP'000	Total LBP'000	Interest Bearing LBP'000	Non-Interest Bearing LBP'000	Total LBP'000	Total LBP'000
Current / demand deposits	289,046,705	16,201,722	305,248,427	1,845,866,415	422,513,666	2,268,380,081	2,573,628,508
Term deposits	4,414,040,548	-	4,414,040,548	12,621,450,994	-	12,621,450,994	17,035,491,542
Margins for irrevocable import on letters of credit	-	-	-	1,965,725	8,470,375	10,436,100	10,436,100
Margins on letters of guarantee	6,327,939	2,158,692	8,486,631	15,596,642	34,100,965	49,697,607	58,184,238
Other margins	13,918,326	10,115,882	24,034,208	16,518,322	33,004,459	49,522,781	73,556,989
Accrued interest payable	49,438,115	-	49,438,115	61,393,546	-	61,393,546	110,831,661
	<u>4,772,771,633</u>	<u>28,476,296</u>	<u>4,801,247,929</u>	<u>14,562,791,644</u>	<u>498,089,465</u>	<u>15,060,881,109</u>	<u>19,862,129,038</u>

	December 31, 2017						
	LBP Base Accounts			F/Cv Base Accounts			
	Interest Bearing LBP'000	Non-Interest Bearing LBP'000	Total LBP'000	Interest Bearing LBP'000	Non-Interest Bearing LBP'000	Total LBP'000	Total LBP'000
Current / demand deposits	309,042,234	17,364,347	326,406,581	2,726,647,486	490,571,444	3,217,218,930	3,543,625,511
Term deposits	4,227,729,677	-	4,227,729,677	11,220,060,581	40,228	11,220,100,809	15,447,830,486
Margins for irrevocable import letters of credit	-	8,000	8,000	21,566,249	15,960,456	37,526,705	37,534,705
Margins on letters of guarantee	7,219,839	1,651,597	8,871,436	15,542,168	11,700,874	27,243,042	36,114,478
Other margins	13,941,583	13,709,721	27,651,304	4,536,231	54,457,217	58,993,448	86,644,752
Accrued interest payable	26,329,271	-	26,329,271	64,226,353	-	64,226,353	90,555,624
	<u>4,584,262,604</u>	<u>32,733,665</u>	<u>4,616,996,269</u>	<u>14,052,579,068</u>	<u>572,730,219</u>	<u>14,625,309,287</u>	<u>19,242,305,556</u>

Deposits from customers at amortized cost at December 31, 2018 include coded deposit accounts in the aggregate amount of LBP3.42billion (LBP3.46billion in 2017). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides unconditional privacy over the identity of the account holders.

Deposits from customers at amortized cost at December 31, 2018 include deposits linked to Lebanese Government bonds in the aggregate of LBP14.8billion (LBP107.6billion in 2017). These bonds are owned by the Group and are classified as financial assets at amortized cost (Note 47).

Deposits from customers at amortized cost at December 31, 2018 include deposits received from non-resident banks and financial institutions relating to their fiduciary clients for a total amount of LBP823.8billion (LBP878.33billion in 2017) out of which LBP567.3billion are from a related company, a related bank and a subsidiary bank (LBP626.57billion in 2017).

21. RELATED PARTIES' DEPOSITS AT AMORTIZED COST

	December 31, 2018					
	LBP Base Accounts			F/Cv Base Accounts		
	Interest Bearing	Non-Interest Bearing	Total	Interest Bearing	Non-Interest Bearing	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Current / demand deposits	5,671,643	2,497,765	8,169,408	6,638,829	14,840,152	21,478,981
Term deposits	44,315,424	-	44,315,424	163,598,789	-	163,598,789
Margins on letters of guarantee	-	287,095	287,095	88	299,045	299,133
Other margins	17,714	4,810	22,524	-	61,226	61,226
Accrued interest payable	537,950	-	537,950	426,158	-	426,158
	<u>50,542,731</u>	<u>2,789,670</u>	<u>53,332,401</u>	<u>170,663,864</u>	<u>15,200,423</u>	<u>185,864,287</u>
						<u>239,196,688</u>

	December 31, 2017					
	LBP Base Accounts			F/Cv Base Accounts		
	Interest Bearing	Non-Interest Bearing	Total	Interest Bearing	Non-Interest Bearing	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Current / demand deposits	695,092	-	695,092	14,249,365	17,463,171	31,712,536
Term deposits	51,740,731	-	51,740,731	332,113,249	-	332,113,249
Margins on letters of guarantee	-	794,858	794,858	160,607	281,407	442,014
Other margins	17,714	4,814	22,528	-	60,585	60,585
Accrued interest payable	379,788	-	379,788	651,017	-	651,017
	<u>52,833,325</u>	<u>799,672</u>	<u>53,632,997</u>	<u>347,174,238</u>	<u>17,805,163</u>	<u>364,979,401</u>
						<u>418,612,398</u>

22. BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS AND CENTRAL BANKS

	December 31,					
	2018			2017		
	LBP	C/V of F/Cv	Total	LBP	C/V of F/Cv	Total
LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Borrowings from the Central Bank of Lebanon (a) (Note 47)	523,218,681	529,855,032	1,053,073,713	470,943,547	376,875,000	847,818,547
Leverage arrangement with Central Bank of Lebanon (b) (Note 47)	3,422,934,530	-	3,422,934,530	-	-	-
Other long term borrowings	7,500,000	306,399,377	313,899,377	7,500,000	320,072,304	327,572,304
Accrued interest payable	10,561,642	3,636,534	14,198,176	2,808,086	2,614,563	5,422,649
	<u>3,964,214,853</u>	<u>839,890,943</u>	<u>4,804,105,796</u>	<u>481,251,633</u>	<u>699,561,867</u>	<u>1,180,813,500</u>

(a) Borrowings from the Central Bank of Lebanon in LBP at December 31, 2018 and 2017 and part of the borrowings in USD as at December 31, 2018 represent facilities in accordance with the Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans the Group has granted, at its own risk, to its customers, pursuant to certain conditions, rules and mechanism.

Borrowings from the Central Bank of Lebanon in foreign currency at December 31, 2018 include facilities granted by the Central Bank of Lebanon in the amount of USD250million (USD250million as at December 31, 2017) for the purpose of partially funding the purchase of certificates of deposit issued by the Central Bank of Lebanon denominated in US Dollars in the aggregate nominal value of USD500million (USD500million in 2017), of which the amount of USD250million were pledged in favor of the Central Bank of Lebanon (USD250million as at December 31, 2017) (Note 47).

- (b) Borrowings from the Central Bank of Lebanon in LBP as at December 31, 2018 represent facilities granted by the Central Bank of Lebanon bearing 2% interest rate and maturing between 2021 and 2031 for the purpose of partially funding the purchase of pledged Lebanese Treasury Bills denominated in LBP in the aggregate nominal value of LBP537billion and placing a blocked deposit with the Central Bank of Lebanon in the amount of LBP 2,886billion earning coupon rates ranging between 7% and 10.5%.

Simultaneously, the Bank has further deposited with the Central Bank of Lebanon term placements in foreign currencies at the rate of 6.5%, invested funds in Eurobonds at amortized cost at a rate of 8.8% and deposited term placements in LBP at the rate of 10.5% (partially originated from sale of foreign currencies), all aggregating to LBP 2,731billion as of December 2018 maturing between 2021 and 2031.

The movement of the borrowings from banks and financial institutions and central banks is summarized as follows:

	<u>2018</u> <u>LBP'000</u>	<u>2017</u> <u>LBP'000</u>
Balance on January 1	1,180,813,500	1,303,223,272
Financing cash flows	2,501,120,034	2,315,113,417
Settlements	(2,577,580,016)	(2,436,070,905)
Accrued interest	(707,252)	(1,452,284)
Balance on December 31	<u>1,103,646,266</u>	<u>1,180,813,500</u>

23. CERTIFICATES OF DEPOSIT

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>C/V</u>	<u>C/V</u>
	<u>of F/Cv</u>	<u>of F/Cv</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Short-term certificates of deposit programme	34,461,825	11,608,660
Accrued interest payable	191,695	52,568
	<u>34,653,520</u>	<u>11,661,228</u>

During 2017, the Group's management approved a USD400,000,000, with the possibility of increasing the issue to USD500,000,000, Global Certificates of Deposit Issue to replace the existing USD500,000,000 Global Certificates of Deposit that matured in December 2017. The new certificates of deposit will be listed on the Luxembourg Stock Exchange and will have a 5 years' term. The approval of the Central Bank of Lebanon was obtained on August 24, 2017. On November 23, 2017 the Bank's Board of Directors decided to put the issuance on hold.

- On October 22, 2018, the Group issued USD5million certificates of deposit through an international bank summarized as follows:

Nominal amount of certificates	USD5,000,000
Issue date	22-Oct-18
Maturity	9-Jan-19
Fixed rate of interest	5.85%
Interest payment date	9-Jan-19
Outstanding amount (in LBP'000)	7,537,500

- On November 8, 2018, the Group issued a EUR2.5million certificates of deposit through an international bank summarized as follows:

Nominal amount of certificates	EUR2,500,000
Issue date	8-Nov-18
Maturity	8-Feb-19
Fixed rate of interest	2.50%
Interest payment date	8-Feb-19
Outstanding amount (in LBP'000)	4,311,825

- On December 3, 2018, the Group issued a USD15million certificates of deposit through an international bank summarized as follows:

Nominal amount of certificates	USD15,000,000
Issue date	3-Dec-18
Maturity	3-Jan-19
Fixed rate of interest	4.50%
Interest payment date	3-Jan-19
Outstanding amount (in LBP'000)	22,612,500

The certificates of deposits outstanding as at December 31, 2017 detailed as follows:

- On December 21, 2017, the Bank issued USD5million certificates of deposit through an international bank summarized as follows:

Nominal amount of certificates	US\$5,000,000
Issue date	21-Dec-17
Maturity	22-Jan-18
Fixed rate of interest	3.50%
Interest payment date	22-Jan-18
Outstanding amount (in LBP'000)	7,537,500

- On September 6, 2017, the Bank issued GBP2million certificates of deposit through an international bank summarized as follows:

Nominal amount of certificates	GBP2,000,000
Issue date	6-Sep-17
Maturity	6-Mar-18
Fixed rate of interest	3.25%
Interest payment date	6-Mar-18
Outstanding amount (in LBP'000)	4,071,160

The movement of the certificates of deposit is summarized as follows:

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Balance on January 1	11,661,228	754,428,162
Issuance of certificates of deposits	244,801,470	153,882,314
Redemption of certificates of deposits	(221,817,745)	(896,023,655)
Amortization of discount	-	1,122,463
Accrued interest payable	139,127	(1,748,056)
Difference of exchange	(130,560)	-
Balance on December 31	<u>34,653,520</u>	<u>11,661,228</u>

24. PROVISIONS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Provision for employees' end-of-service indemnity	52,492,886	56,818,456
Provision for contingencies	51,847,142	60,277,372
Insurance technical provisions	1,348,699	10,569,226
Provision for loss on foreign currency position	808,125	805,519
Provision for ECL on financial guarantees and commitments (Note 39)	19,582,347	-
	<u>126,079,199</u>	<u>128,470,573</u>

The movement of provision for employees' end-of-service indemnity is as follows:

	2018	2017
	LBP'000	LBP'000
Balance on January 1	56,818,456	51,010,655
Acquisition of a subsidiary	15,846	302,271
Additions	5,122,713	10,621,544
Settlements	(7,710,880)	(2,149,892)
Write-back	(76,394)	(2,630,880)
Transfer from related company	361,815	-
Effect of exchange rate changes	(2,038,670)	(335,242)
Balance on December 31	<u>52,492,886</u>	<u>56,818,456</u>

The movement of the provision for contingencies is as follows:

	2018	2017
	LBP'000	LBP'000
Balance on January 1	60,277,372	59,304,050
Additions	17,475,913	28,210,257
Settlements	(7,710,880)	(26,650,779)
Write-back	(16,832,764)	(303,906)
Effect of exchange rate changes	(1,362,499)	(403,750)
Other	-	121,500
Balance on December 31	<u>51,847,142</u>	<u>60,277,372</u>

During 2017, the Group paid an amount of around LBP28.5billion related to tax assessments that took place in 2013 related to the fiscal years 2008 to 2011. During 2018, the Group paid an amount of around LBP7.7billion related to the tax assessment that took place in 2016 and issued in 2018 related to the fiscal years 2012 until 2014 (Note 26(a)). These amounts were provided for under provisions for contingencies.

The movement of the insurance technical provisions is as follows:

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Balance on January 1	10,569,226	6,768,635
Disposal of a subsidiary	(15,377,343)	-
Additions (net of write-back) (Note 37)	9,642,542	4,294,417
Effect of exchange rate changes	(3,485,726)	(493,826)
Balance on December 31	<u>1,348,699</u>	<u>10,569,226</u>

25. PERPETUAL SUBORDINATED CONVERTIBLE LOAN

On November 20, 2015, the Group entered into a USD100million perpetual subordinated convertible loan agreement.

The Group obtained the Central Bank of Lebanon's approval to account for this loan as part of its common Tier 1 capital.

The loan is subject to interest at a rate of 8.5% per annum subject to the availability of profits for that specific period and provided further, that, in the event that the Bank does not have sufficient available profit for the relevant period to pay all the interest due, the amount of interest due and payable shall be limited to the amount of available profit for such period and the obligation to pay any additional interest shall, to the extent of the shortfall, be cancelled.

The loan is perpetual and will have no fixed maturity or fixed redemption date, subject to earlier redemption at the option of the Bank (a) at any time, in the event that there is a change in the regulatory classification of the loan that results in the loan ceasing to be included in common equity Tier 1 and (b) at any time after the fifth anniversary of the loan date.

If a capital adequacy trigger event occurs at any time, the Relevant Portion of the subordinated loan shall automatically be converted into ordinary shares of the Bank. Capital adequacy trigger event, means as of each calculation date, the ratio of the Bank's common equity Tier 1 Capital (excluding the principal amount outstanding of the subordinated loan) to its risk weighted assets of such date falling below the minimum required from time to time under Central Bank regulations including Central Bank Circular 6939 dated March 26, 1998, as may be amended from time to time. Relevant portion means all of the subordinated loan or, if less, such portion as would, upon conversion, remedy the shortfall in the ratio which has triggered the capital adequacy trigger event.

The conversion rate is calculated by dividing the aggregate principal amount outstanding of the relevant portion of the subordinated loan plus accrued interest by the book value per ordinary share of the borrower rounded to the nearest whole number of shares and calculated in US Dollars by reference to the book value of such shares as calculated on the basis of the Bank's most recent audited or reviewed financial statements.

Interest expense on the above perpetual subordinated convertible loan amounted to LBP13.9billion during 2018 (LBP13.7billion during 2017) (Note 33).

26. OTHER LIABILITIES

	December 31,	
	2018	2017
	LBP'000	LBP'000
Accrued income tax and other taxes (a)	16,021,309	23,056,463
Withheld taxes	9,386,334	11,549,183
Capital gain tax (Note 45)	-	32,354,700
Withheld tax on interest	7,483,973	6,193,839
Deferred tax liability (b)	34,843,452	912,402
Due to the Social Security National Fund	2,354,579	2,893,790
Checks and incoming payment orders in course of settlement	32,249,752	27,491,681
Blocked capital subscriptions for companies under incorporation	2,113,287	2,359,208
Accrued expenses	38,637,554	62,228,184
Financial guarantee contracts issued	4,766,516	5,306,565
Fair value of derivatives	1,667,785	4,716,551
Unearned revenues	29,998,721	33,422,206
Unearned insurance premiums and outstanding claims (c)	17,546,519	45,153,006
Payables from insurance operations	23,582,609	24,975,398
Sundry accounts payable	78,098,032	60,513,142
	<u>298,750,422</u>	<u>343,126,318</u>

- (a) During 2016, the tax authorities initiated the review of the tax returns of the Group for the years 2012 until 2014. The preliminary assessment was issued in 2017 resulting in additional taxes in the amounts of LBP8.9billion. During 2018, the final tax assessment was issued and the Group settled an amount of LBP8.6billion of which LBP7.7billion was provided for during 2017 after expected refunds under provision for contingencies in the consolidated statement of financial position.

During 2018, the tax authorities initiated a tax review of the tax return for the years 2015 until 2017. The tax authorities did not start yet this tax review.

During 2016, one of the Group's subsidiaries was subject to tax examination for the fiscal years 2011 until 2014. The tax assessment resulted in additional taxes in the amount of LBP935million after deductions related to the fiscal year 2011 which was fully paid during 2017. Moreover, the subsidiary collected LBP904million and LBP466million during 2017 and 2018 respectively related to the fiscal years from 2009 to 2011.

During 2017, one of the Group's subsidiaries was subject to tax examination for the fiscal years 2012 until 2014. The final tax assessment issued in 2018 resulted in additional taxes in the amount of LBP1.2billion which was fully provided for during 2017 and recorded under provision for contingencies in the consolidated statement of financial position. In 2018, an amount of LBP1.1billion was settled by the subsidiary.

The tax returns of the Group for the years since 2015 and most of its subsidiaries for the years since 2014 remain subject to examination and final tax assessment by the tax authorities. Any additional tax liability depends on the results of these reviews.

The following table explains the relationship between taxable income and accounting income:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Income before income tax	49,519,021	191,708,268
(Loss)/income from subsidiaries, associates and foreign branches	(15,092,196)	25,227,182
	34,426,825	216,935,450
<u>Add:</u> Non-deductible expenses	27,705,651	311,498,650
<u>Less:</u> Non-taxable revenues or revenues subject to tax in previous periods	(46,870,641)	(451,816,331)
Taxable income	15,261,835	76,617,769
Tax rate	17%	15.4%
Income tax	2,594,512	11,799,136
Non-refundable withheld tax	789,868	20,211,947
	3,384,380	32,011,083
<u>(Less)/add:</u> (Refund of)/income tax expense on subsidiaries and foreign branches	(963,546)	2,244,917
Income tax expense	2,420,834	34,256,000

(b) Deferred tax liability consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Deferred tax liability on financial assets at fair value through other comprehensive income (Note 30)	48,000	50,211
Deferred tax liability on income from an associate	686,475	862,191
Deferred tax related to assets acquired in satisfaction of debts	34,108,977	-
	<u>34,843,452</u>	<u>912,402</u>

(c) The movement of unearned insurance premiums and outstanding claims is as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Balance on January 1	45,153,006	26,961,450
Disposal of a subsidiary	(24,669,715)	-
Net change	4,790,282	19,453,599
Effect of exchange rate changes	(7,727,054)	(1,262,043)
Balance on December 31	<u>17,546,519</u>	<u>45,153,006</u>

27. SHARE CAPITAL

The capital of the Bank as at December 31, 2018 and 2017 consists of 65,250,000 shares of LBP10,000 par value each, issued and fully paid.

On October 19, 2017, the extraordinary shareholders' general assembly approved the redemption and cancellation of all the Non-cumulative Perpetual Redeemable Series 2 Preferred shares in the amount of USD225million (Note 28), and the issuance of 2,250,000 ordinary shares to be distributed to the ordinary shareholders on the basis of 1 share for each owner of 28 shares, for an aggregate value of LBP22.5billion to be transferred from retained earnings to share capital. The Bank obtained the Central Bank of Lebanon approval on November 8, 2017.

On June 28, 2018, the ordinary shareholders' general assembly approved the distribution of dividends in the amount of LBP120.6billion (USD80million) to the holders of common shares.

On May 31, 2017, the ordinary shareholders' general assembly approved the distribution of dividends in the amount of LBP45.23billion (USD30million) to the ordinary shareholders.

The Group has set up a special foreign currency position to the extent of USD135.15million as of December 31, 2018 and 2017 as a hedge of capital within the limits authorized by local banking regulations.

28. PREFERRED SHARES

	December 31,	
	2018	2017
	LBP'000	LBP'000
Non-cumulative perpetual redeemable Series 3 Preferred shares	226,125,000	226,125,000
Non-cumulative perpetual redeemable Series 4 Preferred shares	391,950,000	391,950,000
	<u>618,075,000</u>	<u>618,075,000</u>

The Bank's issued preferred shares carry the following terms:

	Non-Cumulative Perpetual Redeemable Preferred Shares		
	Series 2	Series 3	Series 4
Number of shares	2,250,000	1,500,000	2,600,000
Share's issue price	USD100	USD100	USD100
Share's nominal value	LBP10,000	LBP10,000	LBP10,000
Issue premium	LBP316,687,500,000	LBP211,125,000,000	LBP365,950,000,000
Benefits	USD6.75 payable in arrear	USD6.5 payable in arrear	USD4 for the first year and USD7 thereafter payable in arrear

Subject to compliance with applicable ratios and regulations, the Group may at its option, at each redemption date, redeem and cancel all or any part of the Series 3 and Series 4 preferred shares (but not less than 20%, each time, of the original issue size or, if less, 100% of the outstanding balance of Series 3 or Series 4 preferred shares).

Redemption date means any time after the issue date, if a regulatory event occurs or for the first time within a set period following the lapse of a 5 years' period as of the date of the Ordinary General Assembly held to approve the accounts of the Bank for the immediately preceding fiscal year, in its sole discretion, at a redemption price equal to 100% of the Issue Price.

The non-cumulative perpetual redeemable series 2 Preferred shares in the amount of USD225million were cancelled during 2017 (Note 27).

The movement of the preferred shares is summarized as follows:

	<u>2018</u> <u>LBP'000</u>	<u>2017</u> <u>LBP'000</u>
Balance on January 1	618,075,000	565,312,500
Issuance of preferred shares	-	391,950,000
Redemption of preferred shares	-	(339,187,500)
Balance on December 31	<u>618,075,000</u>	<u>618,075,000</u>

The ordinary shareholders' general assembly approved the distribution of dividends to the holders of the preferred shares as follows:

<u>Date</u>	<u>June 28,</u> <u>2018</u> <u>LBP'000</u>	<u>May 31,</u> <u>2017</u> <u>LBP'000</u>
Series 2 preferred shares	-	22,895,156
Series 3 preferred shares	14,698,125	14,698,125
Series 4 preferred shares	<u>15,678,000</u>	-
	<u>30,376,125</u>	<u>37,593,281</u>

29. RESERVES

	<u>December 31,</u>	
	<u>2018</u> <u>LBP'000</u>	<u>2017</u> <u>LBP'000</u>
Legal reserve (a)	<u>196,004,238</u>	<u>175,504,889</u>
Other reserves:		
Property revaluation reserve	3,213,000	3,213,000
Reserve for general banking risks (b)	-	245,019,551
Special reserves available for distribution	10,377,755	10,377,755
General reserve for performing loans (c)	-	40,760,611
Reserves for assets acquired in satisfaction of loans (Note 15)	129,578,095	111,933,516
General reserves (d)	115,926,125	-
Reserves from disposal of assets acquired in satisfaction of loans (Note 15)	<u>18,725,008</u>	<u>13,184,401</u>
	<u>277,819,983</u>	<u>424,488,834</u>

- (a) Legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit for the bank and its Lebanese subsidiaries (other percentages apply to the remaining subsidiaries in accordance with their local laws). This reserve is not available for distribution.
- (b) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve should reach 1.25% of total risk weighted assets, off-balance sheet risk and global exchange position at year 10 and 2% of that amount at year 20. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.
- (c) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Group and its local banking subsidiaries are required to transfer from net profit to general reserve for performing loans the equivalent of:
- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six-year period starting 2015.
 - 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.
- (d) According to the Central Bank of Lebanon main circular 143, Banks in Lebanon are required to transfer to General Reserves, the balance of Reserves for General Bank Risks and General Reserves for Loans and Advances previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Bank's equity and is not available for distribution.

30. CUMULATIVE CHANGE IN FAIR VALUE OF FINANCIAL ASSETS THROUGH OTHER COMPREHENSIVE INCOME

	<u>December 31, 2018</u>			<u>December 31, 2017</u>		
	<u>Cumulative</u>	<u>Deferred</u>		<u>Cumulative</u>	<u>Deferred</u>	
	<u>Change in</u>	<u>Tax</u>	<u>Net</u>	<u>Change in</u>	<u>Tax</u>	<u>Net</u>
	<u>Fair Value</u>			<u>Fair Value</u>		
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Unrealized loss on investment securities (Note 12, 18 & 26)	(97,125,516)	18,089,345	(79,036,171)	(73,571,703)	11,035,756	(62,535,947)
Expected credit loss on debt securities	380,844	-	380,844	-	-	-
Unrealized gain on fair value of securities from associates and others	8,591,642	-	8,591,642	8,591,642	-	8,591,642
	<u>(88,153,030)</u>	<u>18,089,345</u>	<u>(70,063,685)</u>	<u>(64,980,061)</u>	<u>11,035,756</u>	<u>(53,944,305)</u>

31. NON-CONTROLLING INTEREST

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Capital	299,433,767	305,465,981
Reserves and retained earnings	4,816,610	24,561,617
Currency translation adjustment	(203,620,745)	(161,600,922)
Loss for the year	(42,349,893)	(15,060,716)
	<u>58,279,739</u>	<u>153,365,960</u>

32. INTEREST INCOME

	<u>December 31, 2018</u>		
	<u>Interest</u>	<u>Withheld</u>	<u>Net Interest</u>
	<u>Income</u>	<u>Tax</u>	<u>Income</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Interest income from:			
Deposits with the central banks	231,423,877	(16,580,351)	214,843,526
Deposits with banks and financial institutions	26,414,724	(619,810)	25,794,914
Deposits with related party banks and financial institutions	777,133	-	777,133
Financial assets at amortized cost	836,408,013	(46,835,016)	789,572,997
Financial assets at fair value through other comprehensive income	8,889,004	-	8,889,004
Reverse repurchase agreements and loans to banks	22,000,399	-	22,000,399
Loans and advances to customers	498,942,745	-	498,942,745
Loans and advances to related parties	7,142,490	-	7,142,490
Interest income on financial assets from discount of future cash flows (Note 18)	5,527,510	-	5,527,510
Interest recognized on impaired loans and advances to customers	20,133,128	-	20,133,128
	<u>1,657,659,023</u>	<u>(64,035,177)</u>	<u>1,593,623,846</u>

	December 31, 2017		
	Interest	Withheld	Net Interest
	Income	Tax	Income
	LBP'000	LBP'000	LBP'000
Interest income from:			
Deposits with the central banks	71,310,293	(419,848)	70,890,445
Deposits with banks and financial institutions	13,669,573	-	13,669,573
Deposits with related party banks and financial institutions	1,197,038	-	1,197,038
Financial assets at amortized cost	797,492,157	(2,100,391)	795,391,766
Reverse repurchase agreements and loans to banks	28,115,912	(69,688)	28,046,224
Loans to banks with related parties	144,879	-	144,879
Loans and advances to customers	526,149,482	-	526,149,482
Loans and advances to related parties	14,868,190	-	14,868,190
Interest recognized on impaired loans and advances to customers (Note 10)	<u>102,274,542</u>	<u>-</u>	<u>102,274,542</u>
	<u>1,555,222,066</u>	<u>(2,589,927)</u>	<u>1,552,632,139</u>

Interest income on assets held at fair value through profit or loss, and other instruments designated at fair value through profit or loss is included under "Net results on financial instruments at fair value through profit or loss" in the consolidated statement of profit or loss (Note 36).

33. INTEREST EXPENSE

	Year Ended	
	December 31,	
	2018	2017
	LBP'000	LBP'000
Interest expense on:		
Deposits from banks and financial institutions	33,251,470	22,115,116
Deposits from related party banks and financial institutions	775,736	592,868
Securities lent and repurchase agreements	23,523,257	19,077,158
Customers' deposits at amortized cost	1,137,042,151	893,546,873
Related parties' deposits at amortized cost	14,540,884	25,136,307
Borrowings from banks and financial institutions and central banks	54,520,516	34,023,534
Borrowings from related party banks and financial institutions	-	107,167
Certificates of deposit	1,283,458	43,815,470
Perpetual subordinated convertible loan (Note 25)	13,936,380	13,721,686
Other	<u>13,818</u>	<u>3,955,944</u>
	<u>1,278,887,670</u>	<u>1,056,092,123</u>

Interest expense on customers' and related parties' deposits at fair value through profit or loss is included under "Net results on financial instruments at fair value through profit or loss" in the consolidated statement of profit or loss (Note 36).

34. FEE AND COMMISSION INCOME

	Year Ended	
	December 31,	
	2018	2017
	LBP'000	LBP'000
Commission on documentary credits	3,949,565	4,942,364
Commission on acceptances	5,847,839	3,951,676
Commission on letters of guarantee	19,055,862	19,486,104
Service fees on customers' transactions	67,007,641	71,074,585
Brokerage fees from customers	3,601,953	3,805,952
Commission on transactions with banks	179,312	416,079
Asset management, placement, structuring and underwriting fees	14,038,408	21,325,687
Commissions on fiduciary activities	1,733,129	1,637,877
Other	2,918,033	4,523,498
	<u>118,331,742</u>	<u>131,163,822</u>

35. FEE AND COMMISSION EXPENSE

	Year Ended	
	December 31,	
	2018	2017
	LBP'000	LBP'000
Commission on transactions with banks and financial institutions	3,164,338	3,557,729
Safe custody charges	1,143,172	1,197,334
Other	14,977,964	13,402,750
	<u>19,285,474</u>	<u>18,157,813</u>

36. NET RESULTS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year Ended	
	December 31,	
	2018	2017
	LBP'000	LBP'000
Interest income on assets at fair value through profit or loss	440,220	23,423,804
Change in fair value of financial assets at fair value through profit or loss (Note 8)	(8,145,261)	3,822,120
Interest expense on customers' deposits at fair value through profit or loss	-	(2,524)
Change in fair value of customer's deposits at fair value through profit or loss	5,938,046	1,098,827
Fee income on customers' deposits at fair value through profit or loss	-	4,510
Dividends received on assets at fair value through profit or loss	236,324	88,814
Gain/(loss) on sale of financial assets at fair value through profit or loss	1,245,209	(3,531,729)
Other	(194,248)	-
	<u>(479,710)</u>	<u>24,903,822</u>

37. OTHER OPERATING INCOME (NET)

	Year Ended	
	December 31,	
	2018	2017
	LBP'000	LBP'000
Gain on sale of a subsidiary (Note 45)	20,527,666	323,216,326
Dividends from equity investment securities (Note 12)	8,723,140	13,012,472
Income from associates at equity method	4,183,160	7,072,985
Gain on disposal of property and equipment	834,375	(171,189)
Foreign exchange gains	10,629,117	22,471,312
Commission from insurance brokerage	17,077,079	14,208,974
Net insurance (loss)/gain	(1,779,552)	452,343
Gain on sale of assets acquired in satisfaction of loans	10,512,531	3,439,374
Realized gain on properties sold with deferred payment (Note 18)	-	30,033,325
Other	17,984,558	34,886,451
	<u>88,692,074</u>	<u>448,622,373</u>

Net insurance (loss)/gain consists of the following:

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Insurance income earned	54,569,010	48,763,319
Insurance expense incurred	(46,706,020)	(44,016,559)
Insurance technical provisions (Note 24)	(9,642,542)	(4,294,417)
	<u>(1,779,552)</u>	<u>452,343</u>

38. ADMINISTRATIVE EXPENSES

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Professional fees and outsourcing services	42,010,825	57,199,362
Travel and hotel expenses	4,034,559	5,103,812
Rent charges	17,777,055	20,662,459
Cleaning and maintenance of office premises	4,551,893	5,132,892
Electricity and fuel charges	5,389,749	5,328,086
Marketing and advertising expenses	10,560,988	18,971,567
Communication fees (telephones, fax, swift, etc.)	4,161,534	5,087,083
Furniture and equipment maintenance	5,166,937	5,641,702
Hardware and software maintenance	15,473,189	15,338,428
Insurance expense	3,025,461	3,707,671
Subscriptions fees	4,786,692	6,095,692
Printing, stationery, and office supplies	3,091,731	4,050,811
Fiscal stamps and other taxes	19,319,307	24,213,355
Other	19,030,725	31,459,843
	<u>158,380,645</u>	<u>207,992,763</u>

39. EXPECTED CREDIT LOSSES

	December 31, 2018									
	Reserve		Loans and advances to Related Parties		Financial assets at amortized Cost and at FVTOCI		Customers' Acceptance Liability		Undrawn Balances & Off-balance Sheet Exposures	
	Cash and Deposits with Central Bank	Deposits with Banks and Financial institutions	Loans and Advances to Customers	Loans and advances to Related Parties	Financial assets at amortized Cost and at FVTOCI	Customers' Acceptance Liability	Other Assets	Undrawn Balances & Off-balance Sheet Exposures	Total	
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance as of January 1, 2018	(22,612,500)	-	(643,635,719)	-	(125,073,603)	-	(2,277,629)	-	(793,599,451)	
Collective provision used for ECL impact	-	-	150,717,540	-	-	-	-	-	150,717,540	
Effect of IFRS 9 adoption	(13,174,328)	(6,219,058)	(222,549,632)	(88,365)	(147,985,307)	(4,386,469)	(3,580,751)	(32,615,077)	(433,203,444)	
Amended balance, January 1, 2018	(35,786,828)	(6,219,058)	(715,467,811)	(88,365)	(273,058,910)	(4,386,469)	(5,858,380)	(32,615,077)	(1,076,085,355)	
Impairment loss for the period, net of write-back	(7,322,819)	1,168,544	(44,679,122)	26,473	(7,718,706)	2,745,481	317,999	13,032,730	(41,393,900)	
Write back on impairment of term placements with other central banks	14,521,495	-	-	-	-	-	-	-	14,521,495	
Direct write-offs	-	-	37,632,614	-	-	-	-	-	37,632,614	
Difference of exchange	-	-	47,346,397	-	-	-	-	-	47,346,397	
Balance as at December 31, 2018	(28,588,152)	(5,050,514)	(675,167,922)	(61,892)	(280,777,616)	(1,640,988)	(5,540,381)	(19,582,347)	(1,017,978,749)	

40. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential shares into ordinary shares.

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

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Weighted average number of common shares outstanding during the year	<u>65,250,000</u>	<u>65,250,000</u>
Effects of dilution from:		
Perpetual subordinated convertible loan	<u>5,320,498</u>	<u>4,732,928</u>
Weighted average number of common shares adjusted for the effect of dilution	<u>70,570,498</u>	<u>69,982,928</u>
	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Net profit attributable to equity holders of the parent	89,448,080	172,512,984
(Less): Proposed dividends to preferred shares	<u>(42,134,625)</u>	<u>(30,376,125)</u>
Net profit attributable to equity holders of the parent	<u>47,313,455</u>	<u>142,136,859</u>
Interest on perpetual subordinated convertible loan (Note 33)	13,936,380	13,721,686
Net profit attributable to equity holders of the parent adjusted for the effect of dilution	<u>61,249,835</u>	<u>155,858,545</u>
Basic earnings per share in LBP'000	<u>0.73</u>	<u>2.18</u>
Diluted earnings per share in LBP'000	<u>0.87</u>	<u>2.23</u>

Fiduciary accounts and assets under management are segregated as follows:

	<u>December 31, 2018</u>		<u>December 31, 2017</u>	
	<u>Lebanon</u>	<u>Other</u>	<u>Lebanon</u>	<u>Other</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Fiduciary deposits:				
Non-discretionary	102,070,054	291,961,889	157,755,462	224,653,609
Assets under management:				
Non-discretionary	<u>201,590,407</u>	<u>796,986,534</u>	<u>213,085,737</u>	<u>893,726,462</u>
	<u>303,660,461</u>	<u>1,088,948,423</u>	<u>370,841,199</u>	<u>1,118,380,071</u>

43. BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates.

Loans and advances and deposits of related parties other than related banks and financial institutions consist of the following (excluding accrued interest receivable/payable).

	<u>2018</u>	<u>2017</u>
	<u>Year End</u>	<u>Year End</u>
	<u>Balance</u>	<u>Balance</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Shareholders, directors and other key management personnel and close family members:		
Secured loans and advances	55,459,898	135,198,007
Unsecured loans and advances	-	1,576,359
Deposits	63,078,684	195,023,886
Related party companies:		
Secured loans and advances, net	25,769,982	33,443,997
Deposits	175,153,896	222,557,707

Interest rates charged on balances outstanding are the same rates that would be charged in an arm's length transaction.

The financial statements include balances with banks and related parties that are reflected under deposits with banks and financial institutions, loans and advances to related parties, deposits from related parties, other assets, other liabilities and off balance sheet accounts. Refer to the statement of financial position and notes thereto for further details.

Related party transactions not disclosed elsewhere in the notes to the consolidated financial statements are as follows:

- General operating expenses include approximately LBP36.21billion for the year ended December 31, 2018 (LBP31.75billion for the year ended December 31, 2017) of which LBP1.36billion (LBP2.53billion in 2017) are accrued for under “Other liabilities” and represent charges for services rendered to the Group by related party companies.
- “Other Assets” and “Other Liabilities” include balances with related parties in the amount of LBP6.1billion and LBP324million respectively, as at December 31, 2018 (LBP7.46billion and LBP585million, respectively, as at December 31, 2017).
- Other operating income includes LBP306million for the year ended December 31, 2017 representing income from related parties for services rendered by the Group, Nil for the year ended December 31, 2018.
- Guarantees, and standby letters of credit include guarantees issued on behalf of related parties in favor of third parties in the amount of LBP589million as at December 31, 2018 (LBP4.5billion as at December 31, 2017).
- Forward exchange contracts receivable includes balances receivable from related parties in the amount of LBP23.46billion as at December 31, 2017, Nil as at December 31, 2018.
- Forward exchange contracts payable includes balances payable to related parties in the amount of LBP23.36billion as at December 31, 2017, Nil as at December 31, 2018.
- Fiduciary deposits from related parties amounted to LBP11.5billion as at December 31, 2018 (LBP11.7billion as at December 31, 2017).
- Fiduciary deposits invested in related parties amounted to LBP7.54billion as at December 31, 2018 (LBP7.54billion as at December 31, 2017).

44. NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents for the purpose of the statement of cash flows consist of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Cash	177,843,721	181,871,567
Checks in the course of collection	54,761,020	99,992,188
Current accounts with central banks	114,142,453	217,460,737
Time deposits with central banks	253,884,840	334,187,636
Current accounts with banks and financial institutions	337,427,943	394,973,831
Time deposits with banks and financial institutions	801,024,993	1,918,910,634
Demand deposits from banks	(46,820,251)	(27,409,906)
Time deposits from banks	(474,756,628)	(310,885,976)
	<u>1,217,508,091</u>	<u>2,809,100,711</u>

Time deposits with and from Central Banks and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

The following operating, investing and financing activities, which represent non-cash items were excluded from the consolidated cash flow statement as follows:

- (a) Net increase in change in fair value of financial assets at fair value through other comprehensive income, and deferred tax asset in the amount of LBP21.9billion, LBP5.8billion respectively against investment securities for the year ended December 31, 2018 (Net decrease in change in fair value of financial assets at fair value through other comprehensive income, deferred tax asset and deferred tax liability in the amounts of LBP78billion, LBP11.6billion and LBP1.3billion, respectively, against investment securities for the year ended December 31, 2017).
- (b) Increase in assets acquired in satisfaction of debts in the amount of LBP339.7billion against loans and advances to customers for the year ended December 31, 2018 (increase in assets acquired in satisfaction of debts in the amount of LBP206.9billion against loans and advances to customers for the year ended December 31, 2017).
- (c) Increase in retained earnings in the amount of LBP445million against decrease in provision for employees' end-of-service indemnity as of December 31, 2018 (increase of LBP425million as of December 31, 2017).

45. BUSINESS COMBINATIONS AND DISPOSALS OF SUBSIDIARIES

On June 21, 2018, the Bank signed an agreement with Millenium Development Holding S.A.L., whereby the Bank obtained the ownership of the holding owning real estate companies in addition to assets worth LBP19.46billion in shares to compensate for deferred tax liability in settlement of non-performing loans for a consideration of USD149.5million (equivalent to LBP225.36 billion) representing the gross value of the non-performing loans. The Bank obtained the approval of the Banking Control Commission on July 10, 2018. As a result of the above transaction, the Group wrote-back previously recorded unrealized interest on loans amounting to LBP13.3billion under "Interest recognized on impaired loans and advances" under "Interest income" in the consolidated statement of profit or loss for the year ended December 31, 2018. Furthermore, the Bank recorded real estate of fair value of LBP247billion under "Assets acquired in satisfaction of loans".

During 2018, the Group sold "Turkland Sigorta A.S." for a total consideration of LBP1.16billion and realized a gain on sale in the amount of LBP4.69billion recorded under "Gain on sale of a subsidiary" under "Other operating income (net)" in the consolidated statement of profit or loss as at December 31, 2018.

During 2018, the Group sold "Al Hosn Real Estate S.A.L." for a total consideration of LBP22.61 billion (USD15million) and realized a gain on sale in the amount of LBP15.83billion recorded under "Gain on sale of foreclosed assets" under "Other operating income (net)" in the consolidated statement of profit or loss.

During 2017, the Group sold “Al Hosn Real Estate II S.A.L.” for a total consideration of LBP376.87billion and realized a gain on sale in the amount of LBP323.2billion recorded under “Gain on sale of a subsidiary” under “Other operating income (net)” in the consolidated statement of profit or loss (Note 17 and 37). The Group recorded capital gain taxes in the amount of LBP32.35billion.

On December 29, 2017, the Bank signed an agreement with GroupMed Holding S.A.L. (parent company) and Radi S.A.L., a related party, whereby the Bank obtained from Mediterranean Holding Real Estate S.A.L., a subsidiary of GroupMed Holding S.A.L., the ownership of real estate companies in settlement of non-performing loans for a consideration of USD117million (equivalent to LBP176.5billion) representing the gross value of the non-performing loans. The Bank obtained the approval of the Banking Control Commission on November 20, 2017. As a result of the above transaction, the Group wrote-back previously recorded impairment and unrealized interest on bad and doubtful loans amounting to LBP79.3billion and LBP98billion respectively recorded under “Provision for credit losses (net of write-back)” and under “Interest recognized on impaired loans and advances” under “Interest income” respectively in the consolidated statement of profit or loss for the year ended December 31, 2017. Furthermore, the Bank recorded real estate of fair value of LBP187.5billion under “Assets acquired in satisfaction of loans” (Note 15).

46. MATERIAL PARTLY OWNED SUBSIDIARIES

Turkland Bank A.S. is a material partly owned subsidiary with a 50% equity stake held by the Group.

Summarized financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Total Assets	1,037,011,039	1,957,925,536
Total Liabilities	924,091,206	1,659,839,166
Total Equity	112,919,833	298,086,370
Attributable to non-controlling interest	56,459,917	149,043,185
(Loss)/profit for the year	(85,283,383)	(25,493,434)
Attributable to non-controlling interest	(42,641,692)	(12,746,717)

Summarized statement of profit or loss:

	Year Ended	
	December 31,	
	2018	2017
	LBP'000	LBP'000
Interest income	216,365,142	227,831,766
Interest expense	(152,631,023)	(166,902,588)
Fee and commission income	8,960,475	11,397,566
Fee and commission expense	(645,455)	(744,587)
Other operating income	1,991,038	2,959,733
Allowance for impairment of loans and advances (net of write-back)	-	(24,465,903)
Staff costs	(25,576,042)	(38,177,067)
Administrative expenses	(25,433,251)	(36,028,519)

Summarized statement of financial position:

	December 31,	
	2018	2017
	LBP'000	LBP'000
<u>ASSETS</u>		
Cash and deposits with central bank	88,814,795	202,535,085
Deposits with banks and financial institutions	82,125,596	161,061,781
Loans and advances to customers	491,851,725	1,060,593,439
Investment Securities	289,476,760	351,667,653
<u>LIABILITIES</u>		
Deposits from banks and financial institutions	51,638,365	212,347,522
Customers' deposits at amortized cost	828,558,313	1,392,325,079
Related parties' deposits at amortized cost	8,018,227	8,414,717

Turkland Sigorta A.S. (previously Demir Sigorta A.S.) is a partly-owned subsidiary with a 55% equity stake by the Group.

Summarized financial information of the subsidiary is provided below. This information is based on amounts before inter-company eliminations:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Total Assets	-	36,656,666
Total Liabilities	-	39,955,606
Total Equity	-	(3,298,940)
Attributable to non-controlling interest	-	(1,484,523)
Loss for the year	-	(7,034,283)
Attributable to non-controlling interest	-	(3,165,427)

Summarized statement of profit or loss:

	Year Ended	
	December 31,	
	2018	2017
	LBP'000	LBP'000
Interest income	3,606,491	1,842,027
Insurance income earned	26,587,490	20,758,707
Insurance expense incurred	(22,011,247)	(20,458,796)
Insurance technical provision	(9,748,092)	(4,090,278)
Staff costs	(1,723,430)	(2,652,800)

Summarized statement of financial position:

	December 31,	
	2018	2017
	LBP'000	LBP'000
<u>ASSETS</u>		
Deposits with banks and financial institutions	-	21,853,628
Other assets	-	14,487,102
<u>LIABILITIES</u>		
Other liabilities	-	30,487,500
Technical provisions	-	9,114,984

47. COLLATERAL GIVEN

The carrying values of financial assets given as collateral are as follows as at December 31, 2018:

	<u>Notes</u>	<u>Pledged Amount</u> LBP'000	<u>Corresponding Facilities</u>	
			<u>Nature of Facility</u> LBP'000	<u>Amount of Outstanding Facilities</u> LBP'000
Lebanese Government bonds at amortized cost	22	468,968,175	Long term borrowing	254,767,500
Deposits with banks and financial institutions	7	75,375,000		75,375,000
Certificates of deposit with the Central Bank of Lebanon	22	376,875,000	Central Bank Time borrowing	376,875,000
Certificates of deposits issued by Central Bank of Lebanon	22	29,848,500	Deposits from banks and financial institutions	29,396,250
Treasury bonds		10,420,030	Borrowing from banks and financial institutions	27,525,532
Lebanese treasury bonds	12	814,863,530	Central Bank Time borrowing and leverage arrangement with Central Bank of Lebanon	3,700,459,530
Assets under leverage with the Central Bank of Lebanon		2,885,596,000		
Lebanese Government bonds at amortized cost	20	14,833,800	Customers' deposits at amortized cost	14,833,800
Blocked deposits with banks and financial institutions	7	278,465	Performance bonds	278,465

The carrying values of financial assets given as collateral are as follows as at December 31, 2017:

	<u>Notes</u>	<u>Pledged Amount</u> LBP'000	<u>Corresponding Facilities</u>	
			<u>Nature of Facility</u> LBP'000	<u>Amount of Outstanding Facilities</u> LBP'000
Lebanese Government bonds at amortized cost and	22	468,968,175	Long term borrowing	254,767,500
Deposits with banks and financial institution	7	11,306,250		11,306,250
Certificates of deposits issued by Central Bank of Lebanon		33,165,000	Deposits from banks and financial institutions	33,165,000
Treasury bonds		10,420,030	Borrowing from banks and financial institutions	30,224,174
Certificates of deposit with the Central Bank of Lebanon	22	376,875,000	Central Bank borrowing	376,875,000
Lebanese treasury bonds	12	277,525,000	Central Bank borrowing	277,525,000
Pledged deposits with banks and financial institutions	7	9,032,950	Participation in letter of credit	9,032,950
Lebanese Government bonds at amortized cost	20	107,603,843	Customers' deposits at amortized cost	107,603,843
Blocked deposits with banks and financial institutions	7	3,065,865	Performance bonds	3,065,865

In addition to the above, the Group has pledged "Other government bonds at amortized cost" with an aggregate value of LBP324.5billion as at December 31, 2018 (LBP16.1billion in 2017) in favor of the Central Bank of Turkey and the Turkish Stock Exchange against rights to perform and enter into money market and other open market operations.

Over and above, the Group had contractual right of setoff arrangements with correspondent banks, details of which are disclosed under Note 7.

48. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of Lebanon, the Group's main regulator, to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

Risk weighted assets and capital are monitored periodically to assess the quantum of capital available to support growth and optimally deploy capital to achieve targeted returns.

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad. In addition, the Group is required to observe the minimum capital adequacy ratio set by the main regulator at 15% as at December 31, 2018.

The Group monitors the adequacy of its capital using the methodology and ratios established by Central Bank of Lebanon. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

The Group's capital is split as follows:

Common Equity Tier 1 capital: Comprises core capital and includes common shares, stock surpluses resulting from the issue of common shares, retained earnings, non-controlling interests and accumulated other comprehensive income.

Tier I capital: Comprises share capital after deduction of treasury shares, shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits and retained earnings. Goodwill and cumulative unfavorable change in fair value of securities at fair value through other comprehensive income are deducted from Tier I Capital.

Tier II capital: Comprises qualifying subordinated liabilities, cumulative favorable change in fair value of securities at fair value through other comprehensive income and revaluation surplus of owned properties.

Certain investments in financial and non-financial institutions are ineligible and are deducted from Tier I and Tier II.

Furthermore, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital.

During 2016, the Central Bank of Lebanon issued intermediary circular no. 436 by which it amended Basic Circular 44 related to the minimum Capital Adequacy Ratios (CAR). These ratios are set to increase gradually between December 2016 and December 2018 as shown in following table:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
	%	%	%
Year ended 31 December 2015	8.0	10.0	12.0
Year ended 31 December 2016	8.5	11.0	14.0
Year ended 31 December 2017	9.0	12.0	14.5
Year ended 31 December 2018	10.0	13.0	15.0

The Group's consolidated capital adequacy ratio based on the Central Bank of Lebanon directives applicable as at December 31, 2018 and 2017 amounted to 17.21% and 17.28% respectively, and is determined as follows:

	December 31,	
	2018	2017
	LBP million	(Restated) LBP million
Risk-weighted assets	13,197,117	14,009,068
Credit risk	12,143,308	12,790,819
Market risk	148,457	218,999
Operational risk	905,352	999,250
 Tier I capital (including net income less proposed dividends and reserves for assets acquired in satisfaction of loans)	 2,145,030	 2,374,624
Tier II capital	126,442	46,351
Total capital	2,271,472	2,420,975
 Capital adequacy ratio - Common Equity Tier I	 11.51%	 12.31%
Capital adequacy ratio - Tier I	16.25%	16.95%
Capital adequacy ratio - Tier I and Tier II	17.21%	17.28%

49. FINANCIAL RISK MANAGEMENT

The Group's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn interest margins by investing these funds in high quality assets. It also seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

The Group also seeks to raise interest margins through lending to commercial and retail borrowers with a range of credit standing. Such exposures include guarantees and other commitments such as letters of credit and performance and other bonds.

With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with derivatives are normally offset by entering into counter balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Risk management is a systematic process of identifying and assessing the Group risks and taking actions to protect the Group against these risks.

The use of financial instruments also brings with it associated inherent risks. The Group recognizes the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the Group's strategic objectives.

The strategy of the Group is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Group's major risk-based lines of business. The Group continuously reviews its risk management policies and practices to reflect changes in markets, products and emerging best practice.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

A – Credit Risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances to customers and other banks and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

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

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group limits the impact of concentration risk in exposure by setting progressively lower limits for longer tenors and taking security, where considered appropriate, to mitigate such risks.

1- Management of credit risk

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The Group seeks to manage its credit risk exposure also through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate and also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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 Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practices.

2- Measurement of credit risk

a- Impairment assessment

The references below show where the Group's impairment assessment and measurement approach is set out in these notes to the consolidated financial statements. It should be read in conjunction with the *Summary of significant accounting policies*.

a.1 Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

As a part of a qualitative assessment of whether a customer is in default, the Group carefully considers whether the events listed above should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months for the commercial loan portfolio and six consecutive months for the retail loan portfolio. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Group's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance, which is explained in the *Summary of significant accounting policies*.

a.2 The Group's internal rating and PD estimation process

The Group's independent Risk Management operates its internal rating models. The Group runs separate models for its key portfolios in which its customers are rated from 1 to 10 using internal grades. The internally calculated models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information scenario that could affect the borrower's behaviour. The internally calculated PDs which are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information scenario and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenarios as appropriate.

Treasury, trading and interbank relationships

The Group's treasury, trading and interbank relationships and counterparties comprise Lebanese and other sovereign institutions, financial services institutions, banks. For these relationships, the Group's Financial Institution Division analyses publicly available information such as financial information and other external data, e.g., the rating of Moodys Rating Agency. For unrated counterparties, the Financial Institution Division (FI) uses an internal rating model to generate a rating. The FI assessment is then reviewed and validated by the Group's Credit Risk Division.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by relationship managers and reviewed and validated by the Group's Credit Risk Division. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. Any macro-economic or geopolitical information relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

The Group's Credit Risk Rating

The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

- (i) External ratings from approved credit rating agencies for financial institutions and financial assets.
- (ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing. These internal rating models include a Corporate model, SME models, high net worth individual and financial institutions model to rate the unrated banks.
- (iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.

a.3 Exposure at default

The exposure at default (EAD) represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts embedded into the Credit Conversion Factors. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

EAD for credit cards and other revolving facilities is set out in *Summary of significant accounting policies*.

a.4 Loss given default

The Loss given default (LGD) is the magnitude of the likely loss if there is a default.

For sovereign and banks and financial institutions, the Group's credit Risk Management analyses publicly available information and external data to assess the LGD values. For exposures to Central Banks denominated in the domestic currency and funded in that currency, an LGD of zero is set. A different treatment is applied for exposures in foreign currencies and other sovereign exposures.

For corporate and small business lending, LGD values are assessed at least every three months by account managers and reviewed and approved by the Group's specialised credit risk Division. The LGD assessment is based on the history of recovery rates of claims against defaulted counterparties. It considers the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset and results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices.

Where possible LGD rates are calibrated through back testing against recent recoveries

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

a.5 Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk by comparing:

- the Credit Classification as at the reporting date; with
- the Credit Classification that was assigned at the time of initial recognition of the exposure.

To determine whether there has been a significant increase in credit risk, the Group uses a quantitative test based on movement in credit classification by a set of number of notches. (which reflects the movement of the PD).

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that events explained in Note 49 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in the 49), the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and

a.6 Grouping financial assets measured on a collective basis

As explained in the *Summary of significant accounting policies* dependent on the factors below, the Group calculates ECLs either on a collective or an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- Commercial lending obligors with an exposure /limit greater than USD10million
- The treasury, trading and interbank relationships (such as Cash and Balances with Central Banks, Deposits with Banks and Financial Institutions, Reverse Repurchase Agreements and Loans to Banks, and Financial Assets at Amortised Cost)
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring

Asset classes where the Group calculates ECL on a collective basis include:

- The smaller and more generic balances of the Group's Commercial business lending (Exposure/limit less than USD10million)
- Stage 1 and 2 Retail mortgages and Consumer lending
- Purchased POCI exposures managed on a collective basis

The Group groups these exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

For retail mortgages these are:

- Product type (buy to let/owner occupied)
- Property type (prime, standard grade, low grade)
- Internal grade
- Exposure value

For consumer lending these are:

- Product type (overdraft, unsecured personal loan, credit card, etc.)
- Internal grade
- Utilisation
- In the case of credit cards, whether or not borrowers repay their balances in full every month
- Exposure value

For small business lending these are:

- Borrower's industry
- Internal credit grade
- Exposure value
- Collateral type

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

b- Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Group formulates three economic scenarios a: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, respectively assigned a 15% and 35% probabilities probability of occurring. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the International Monetary Fund, and academic forecasters. A team of economists within its Risk Management Department verifies the accuracy of inputs to the Group' ECL models including determining the weights attributable to the multiple scenarios.

Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. A comprehensive review is performed at least annually on the design of the scenarios by a panel of experts that advises the Group's senior management.

The Group has identified the GDP growth as the key driver of credit risk, and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

b.1 Lebanon

Since the beginning of the year, as the Group has reassessed the key economic indicators used in its ECL models, the expected GDP growth rate over the next few years has been revised downwards, given the slowdown of Lebanon's economy. Long-term expectations remain unchanged.

c- Overview of modified and forborne loans

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in the *Summary of significant accounting policies* above.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- the credit classification at the reporting date; with
- the classification that was assigned at the time of initial recognition of the exposure.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

From a risk management point of view, once an asset is forborne or modified, the Group’s special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Group.

	2018
	LL (000)
Amortised costs of financial assets modified during the period	117,546,577

3- Risk mitigation policies

Collateral:

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

Other specific risk mitigation policies include:

Netting arrangements:

The Group sometimes further restricts its exposure to credit losses by entering into netting arrangements with counterparties. Netting arrangements reduce credit risk associated with favorable contracts to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

The Group makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they, nevertheless, reduce the Group's exposure to credit risk, as shown in the tables on the following pages. Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

4- Financial assets with credit risk exposure and related concentrations

a) *Exposure to credit risk:*

	December 31,	
	2018	2017
	Gross	Gross
	Maximum	Maximum
	Exposure	Exposure
	LBP'000	LBP'000
Deposits with central banks	8,082,044,327	3,235,342,712
Deposits with banks and financial institutions	1,209,271,781	2,440,416,403
Financial assets at fair value through profit or loss	44,833,385	216,102,824
Reverse repurchase agreements and loans to banks	19,992,341	322,595,041
Loans and advances to customers	5,373,375,178	6,521,112,888
Loans and advances to related parties	82,021,832	171,313,343
Investment securities	11,518,223,656	10,196,409,882
Customers' acceptance liability	497,683,126	376,565,600
Other assets	153,881,184	172,930,835
Total	<u>26,981,326,810</u>	<u>23,652,789,528</u>
Financial instruments with off-balance Sheet risks	2,812,525,625	3,098,040,248
Fiduciary deposits and assets under management	<u>1,392,608,884</u>	<u>1,489,221,270</u>
Total	<u>4,205,134,509</u>	<u>4,587,261,518</u>
Total Credit Risk exposure	<u>31,186,461,319</u>	<u>28,240,051,046</u>

Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers (excluding deferred penalties):

	December 31, 2018									
	Fair Value of Collateral Received									
	Maximum Exposure LBP'000	ECL Amount LBP'000	Net Exposure LBP'000	Pledged funds LBP'000	Property LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	Other LBP'000	Total LBP'000	
Stage 1	4,324,501,726	(33,082,472)	4,291,419,254	624,386,579	1,685,192,229	76,092,402	38,245,236	429,366,133	2,853,282,579	
Stage 2	881,479,275	(158,048,755)	723,430,520	4,070,057	136,948,477	-	-	17,409,102	158,427,636	
Stage 3	829,038,790	(484,036,695)	345,002,095	743,403	339,940,460	1,693,356	847,443	14,258,299	357,482,961	
	<u>6,035,019,791</u>	<u>(675,167,922)</u>	<u>5,359,851,869</u>	<u>629,200,039</u>	<u>2,162,081,166</u>	<u>77,785,758</u>	<u>39,092,679</u>	<u>461,033,534</u>	<u>3,369,193,176</u>	

	December 31, 2017									
	Fair Value of Collateral Received									
	Exposure of Unrealized Interest LBP'000	Gross Exposure Net of Allowance for Impairment LBP'000	Net Exposure LBP'000	Pledged Funds LBP'000	Property LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	Other LBP'000	Total LBP'000	
Regular loans and advances	6,278,470,311	(204,768,206)	6,073,702,105	570,469,699	2,297,564,962	100,310,177	37,292,520	370,697,904	3,376,335,262	
Substandard loans	277,844,179	(5,334,145)	272,510,034	2,336,625	193,403,576	-	-	-	195,740,201	
Bad and doubtful loans	623,948,362	(433,533,368)	190,414,994	1,098,980	145,146,013	-	-	4,283,143	150,528,136	
	<u>7,180,262,852</u>	<u>(643,635,719)</u>	<u>6,536,627,133</u>	<u>573,905,304</u>	<u>2,636,114,551</u>	<u>100,310,177</u>	<u>37,292,520</u>	<u>374,981,047</u>	<u>3,722,603,599</u>	

b) Concentration of financial assets by industry:

	2018										Total		
	Sovereign	Banks and Financial Institutions	Retail trade	Manufacturing industries	Wholesale Trade	Transport and storage and communication	Private Individuals	Real Estate Developers and Contractors	Hotels and Apartments and Restaurants	Educational, Media, Advt, Legal, and Admin Svcs	Public Health and Social Services	Other	Total
	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's
Balance sheet Exposure:													
Cash and deposits with central banks	8,002,413,698	79,630,629	-	-	-	-	-	-	-	-	-	-	8,082,044,327
Deposits with banks and financial institutions	-	1,209,271,781	-	-	-	-	-	-	-	-	-	-	1,209,271,781
Financial assets at fair value through profit or loss	-	2,621	-	-	-	2,183,495	-	2,581,684	-	-	-	-	44,833,385
Reverse repurchase agreements and loans to banks	-	19,992,341	-	-	-	-	-	-	-	-	-	-	19,992,341
Loans and advances to customers	78,935,837	186,695,607	210,276,575	414,167,231	766,746,711	82,511,352	1,760,062,917	1,322,168,277	146,696,645	122,072,080	120,203,733	162,818,193	5,373,373,178
Loans and advances to related parties	-	-	3,497,810	2,706,113	-	9,770,108	35,679,886	22,674,084	-	169,026	-	-	82,021,832
Financial assets at amortized cost	10,685,716,368	27,362,294	-	14,269,995	479,371,744	8,639,368	187,061	216,506,258	2,541,378	-	610,341	-	11,044,036,706
Financial assets at fair value through other comprehensive income	109,746,774	122,676,846	27,412,561	7,550,127	1,366,933	282,419	-	8,132,269	-	-	-	-	8,445,699
Customers' acceptance liability	-	-	-	6,303	-	-	-	-	-	-	-	-	5,779,655
Other assets	1,807,500	42,378	24,118,696	438,730,371	1,207,465,388	103,406,742	1,813,929,864	1,570,680,646	131,819,707	122,241,106	120,814,074	150,695,049	153,181,184
	18,878,822,818	1,651,490,223	24,143,396	438,730,371	1,207,465,388	103,406,742	1,813,929,864	1,570,680,646	131,819,707	122,241,106	120,814,074	150,695,049	26,981,326,810

	2017										Total		
	Sovereign	Banks and Financial Institutions	Retail trade	Manufacturing industries	Wholesale Trade	Transport and storage and communication	Private Individuals	Real Estate Developers and Contractors	Hotels and Apartments and Restaurants	Educational, Media, Advt, Legal, and Admin Svcs	Public Health and Social Services	Other	Total
	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's
Off-Balance sheet Risks:													
Guarantees and standby letters of credit	-	349,894,457	139,694,879	160,490,001	186,168,080	73,470,056	27,028,830	350,983,000	3,696,408	854,614	10,823,550	314,547,435	1,617,611,290
Documentary and commercial letters of credit	-	6,306,385	9,154,853	19,566,857	101,136,378	4,461,579	104,018	8,622,363	232,172	-	135,106	3,342,874	153,062,585
Forward exchange contracts	-	857,653,106	-	26,517	774,760	-	134,143,758	6,711,287	-	-	-	42,540,322	1,041,851,750

	2017										Total		
	Sovereign	Banks and Financial Institutions	Retail trade	Manufacturing industries	Wholesale Trade	Transport and storage and communication	Private Individuals	Real Estate Developers and Contractors	Hotels and Apartments and Restaurants	Educational, Media, Advt, Legal, and Admin Svcs	Public Health and Social Services	Other	Total
	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's
Balance sheet Exposure:													
Cash and deposits with central banks	3,053,384,671	2,276,478,337	-	-	-	-	59,933	2,751,848	64,504	-	-	181,758,041	3,235,342,712
Deposits with banks and financial institutions	-	8,542,287	-	-	-	24,300,900	-	-	3,370,373	-	-	-	2,440,416,403
Financial assets at fair value through profit or loss	179,889,264	322,595,041	-	-	-	-	-	-	-	-	-	-	216,102,824
Reverse repurchase agreements and loans to banks	-	349,720,034	341,689,934	627,797,347	660,649,459	141,732,108	1,607,722,279	2,086,181,332	227,695,891	123,802,649	154,010,018	200,061,837	3,222,995,041
Loans and advances to customers	-	1,408	2,931,332	-	-	-	141,851,058	26,311,672	1,528,605	217,319	-	554	171,313,343
Loans and advances to related parties	9,287,240,080	153,624,483	-	12,883,095	-	-	-	1,528,605	2,541,378	-	-	373,572,707	9,815,965,875
Financial assets at amortized cost	-	114,101,534	-	23,854,525	262,120,257	235,224	72,398	240,242,967	-	-	-	10,675,033	389,944,007
Financial assets at fair value through other comprehensive income	-	-	6,398,229	23,854,525	262,120,257	3,561,171	-	12,914,230	-	-	-	70,970,737	376,463,600
Customers' acceptance liability	-	4,716,533	-	664,534,967	922,769,716	169,829,403	1,749,155,668	2,370,025,627	233,672,146	124,019,968	154,010,018	163,050,638	172,970,835
Other assets	1,507,500	-	351,019,495	-	-	-	-	94,973	-	-	-	-	1,507,500
	12,522,221,515	3,229,779,677	351,019,495	664,534,967	922,769,716	169,829,403	1,749,155,668	2,370,025,627	233,672,146	124,019,968	154,010,018	163,050,638	23,652,389,538

	2017										Total		
	Sovereign	Banks and Financial Institutions	Retail trade	Manufacturing industries	Wholesale Trade	Transport and storage and communication	Private Individuals	Real Estate Developers and Contractors	Hotels and Apartments and Restaurants	Educational, Media, Advt, Legal, and Admin Svcs	Public Health and Social Services	Other	Total
	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's	LBP 000's
Off-Balance sheet Risks:													
Guarantees and standby letters of credit	-	361,800,767	184,434,389	359,732,530	155,947,487	119,499,011	105,106,558	497,284,067	3,496,117	919,487	29,909,578	169,543,800	1,987,674,091
Documentary and commercial letters of credit	-	19,247,708	20,681,823	93,352,976	102,624,775	5,889,214	15,183,694	23,148,053	-	-	776,570	6,500,780	287,415,593
Forward exchange contracts	-	729,262,745	196,778	1,954,624	14,397,021	-	41,964,831	11,047,790	-	-	-	24,126,775	822,950,564

c) Concentration of assets and liabilities by geographical area:

	December 31, 2018					Total LBP'000
	Lebanon LBP'000	Middle East, Gulf & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	
ASSETS						
Cash and deposits with central banks	7,997,323,254	115,051,728	-	147,513,066	-	8,259,888,048
Deposits with banks and financial institutions	344,436,285	273,094,023	172,287,336	381,706,193	37,747,944	1,209,271,781
Financial assets at fair value through profit or loss	43,312,393	1,520,992	-	-	-	44,833,385
Reverse repurchase agreements and loans to banks	3,458,325	-	-	16,534,016	-	19,992,341
Loans and advances to customers	3,893,254,239	677,828,814	7,763,534	741,093,115	53,435,476	5,373,375,178
Loans and advances to related parties	80,136,283	-	-	1,885,549	-	82,021,832
Investment securities	11,119,117,337	83,307,297	10,743,590	305,055,432	-	11,518,223,656
Customers' acceptance liability	308,172,856	174,105,585	-	15,404,685	-	497,683,126
Investments in associates and other investments	58,907,037	-	-	1,401,130	-	60,308,167
Assets acquired in satisfaction of loans	926,638,977	-	-	30,772,492	-	957,411,469
Goodwill	101,594,913	-	-	-	-	101,594,913
Property and equipment	281,421,715	684,815	-	4,044,533	417,131	286,568,194
Other assets	231,629,669	7,170,452	-	34,408,658	3,576,215	276,784,994
Total Assets	<u>25,389,403,283</u>	<u>1,332,763,706</u>	<u>190,794,460</u>	<u>1,679,818,869</u>	<u>95,176,766</u>	<u>28,687,957,084</u>
LIABILITIES						
Deposits from banks and financial institutions	247,892,731	323,709,496	-	179,564,993	48,747	751,215,967
Customers' deposits at fair value through profit or loss	-	-	-	-	-	-
Customers' deposits at amortized cost	13,803,127,706	2,137,164,291	264,357,788	1,237,476,905	2,420,002,348	19,862,129,038
Related parties' deposits at amortized cost	116,020,491	21,436,095	72,996,457	17,184,004	11,559,641	239,196,688
Acceptances payable	8,744,436	130,887,014	1,577,121	344,617,516	13,498,027	499,324,114
Borrowings from banks and financial institutions and central banks	4,488,830,632	7,500,000	-	156,756,119	151,019,045	4,804,105,796
Certificates of deposit	34,653,520	-	-	-	-	34,653,520
Provisions	106,225,892	1,922,934	-	17,819,058	111,315	126,079,199
Perpetual subordinated convertible loan	157,156,875	-	-	-	-	157,156,875
Other liabilities	262,351,080	9,005,603	4,510	22,945,729	4,443,499	298,750,421
Total liabilities	<u>19,225,003,363</u>	<u>2,631,625,433</u>	<u>338,935,876</u>	<u>1,976,364,324</u>	<u>2,600,682,622</u>	<u>26,772,611,618</u>

	December 31, 2017					
	Lebanon	Middle East, Gulf & Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with central banks	3,012,484,184	176,291,187	-	228,438,908	-	3,417,214,279
Deposits with banks and financial institutions	747,261,860	535,360,574	328,623,459	813,089,218	16,081,292	2,440,416,403
Financial assets at fair value through profit or loss	198,354,597	1,520,672	-	16,227,555	-	216,102,824
Reverse repurchase agreements and loans to banks	201,787,184	3,018,620	-	117,789,237	-	322,595,041
Loans and advances to customers	4,193,137,181	935,526,594	6,874,915	1,380,737,755	4,836,443	6,521,112,888
Loans and advances to related parties	157,584,564	6,180	-	13,722,599	-	171,313,343
Investment securities	9,624,538,209	201,481,685	7,557,465	362,832,523	-	10,196,409,882
Customers' acceptance liability	188,623,743	133,643,616	-	54,080,877	217,364	376,565,600
Investments in associates and other investments	60,414,792	-	-	1,958,408	-	62,373,200
Assets acquired in satisfaction of loans	605,447,925	-	-	43,892,820	-	649,340,745
Goodwill	101,997,758	-	-	-	-	101,997,758
Property and equipment	275,417,264	1,902,548	-	6,705,953	-	284,025,765
Other assets	249,717,250	7,597,688	-	43,711,802	2,161,754	303,188,494
Total Assets	19,616,766,511	1,996,349,364	343,055,839	3,083,187,655	23,296,853	25,062,656,222
LIABILITIES						
Deposits from banks and financial institutions	350,877,602	194,869,826	-	284,236,461	10,239,636	840,223,525
Customers' deposits at fair value through profit or loss	-	-	-	-	-	-
Customers' deposits at amortized cost	13,303,331,570	1,885,465,496	293,998,253	1,794,267,873	1,965,242,364	19,242,305,556
Related parties' deposits at amortized cost	268,900,595	29,333,823	103,209,334	20,788	17,147,858	418,612,398
Acceptances payable	188,623,743	133,643,616	-	54,080,877	217,364	376,565,600
Borrowings from banks and financial institutions and central banks	851,412,275	8,207,250	-	168,188,036	153,005,939	1,180,813,500
Certificates of deposit	11,661,228	-	-	-	-	11,661,228
Provisions	100,073,742	5,403,073	-	22,993,758	-	128,470,573
Perpetual subordinated convertible loan	157,156,875	-	-	-	-	157,156,875
Other liabilities	262,156,360	12,520,004	-	67,741,667	708,287	343,126,318
Total liabilities	15,494,193,990	2,269,443,088	397,207,587	2,391,529,460	2,146,561,448	22,698,935,573

d) Credit quality by class of financial assets

In managing its portfolio, the Group utilizes ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as “High” quality are those where the ultimate risk of financial loss from the obligor’s failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as “Standard” quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not “impaired”. The ultimate risk of possible financial loss on “Standard” quality is assessed to be higher than that for the exposures classified within the “High” quality ratings. The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group’s internal credit rating system:

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balances with central banks	8,102,541,517	8,090,962	-	8,110,632,479
Central Bank of Lebanon	7,893,851,180	-	-	7,893,851,180
Performing	7,893,851,180	-	-	7,893,851,180
Non-Performing	-	-	-	-
Other Central Banks	208,690,337	8,090,962	-	216,781,299
Performing	208,690,337	8,090,962	-	216,781,299
Non-Performing	-	-	-	-
Deposits with banks and financial institutions	1,214,322,295	-	-	1,214,322,295
Performing	1,214,322,295	-	-	1,214,322,295
Non-Performing	-	-	-	-
Reverse repurchase agreements and loans to banks	-	-	-	-
Performing	-	-	-	-
Non-Performing	-	-	-	-
Financial assets at amortised cost	11,073,613,456	5,036,506	245,783,516	11,324,433,478
Lebanese sovereign and central bank	10,693,432,379	-	-	10,693,432,379
Performing	10,693,432,379	-	-	10,693,432,379
Non-Performing	-	-	-	-
Other government exposure	317,133,691	-	-	317,133,691
Performing	317,133,691	-	-	317,133,691
Non-Performing	-	-	-	-
Debt securities issued by companies and by banks	63,047,386	5,036,506	245,783,516	313,867,408
Performing	63,047,386	5,036,506	-	68,083,892
Non-Performing	-	-	245,783,516	245,783,516
Loans and advances to customers at amortised cost	4,338,025,035	881,479,275	829,038,790	6,048,543,100
Corporate and SMEs	2,313,195,616	860,005,812	773,420,015	3,946,621,443
Performing	2,313,195,616	860,005,812	-	3,173,201,428
Non-Performing	-	-	773,420,015	773,420,015
Mortgage loans	924,467,862	6,585,884	36,245,001	967,298,747
Performing	924,467,862	6,585,884	-	931,053,746
Non-Performing	-	-	36,245,001	36,245,001
Personal and other retail loans	1,100,361,557	14,887,579	19,373,774	1,134,622,910
Performing	1,100,361,557	14,887,579	-	1,115,249,136
Non-Performing	-	-	19,373,774	19,373,774
Loans and advances to related parties at amortised cost	82,083,724	-	-	82,083,724
Corporate and SMEs	66,423,498	-	-	66,423,498
Performing	66,423,498	-	-	66,423,498
Non-Performing	-	-	-	-
Retail loans and advances	15,660,226	-	-	15,660,226
Performing	15,660,226	-	-	15,660,226
Non-Performing	-	-	-	-
Contingent liabilities	1,690,004,785	83,692,929	30,316,299	1,804,014,013
Guarantees and standby letters of credit	1,524,841,828	62,557,181	30,212,281	1,617,611,290
Performing	1,524,841,828	62,557,181	-	1,587,399,009
Non-Performing	-	-	30,212,281	30,212,281
Documentary and commercial letters of credit	136,559,000	16,399,567	104,018	153,062,585
Performing	136,559,000	16,399,567	-	152,958,567
Non-Performing	-	-	104,018	104,018
Undrawn Loan Balance Customer	28,603,957	4,736,181	-	33,340,138
Performing	28,603,957	4,736,181	-	33,340,138
Total	26,500,590,812	978,299,672	1,105,138,605	28,584,029,089

December 31, 2017

	Neither past due nor impaired							Total
	High and Standard Grades LBP'000	Sovereign LBP'000	Past due but not impaired LBP'000	Individually Impaired LBP'000	Allowance for Impairment LBP'000	Collective Provision LBP'000	Accrued Interest LBP'000	Total LBP'000
Financial assets at amortized cost								
Deposits with central banks	-	3,221,733,756	-	-	-	-	13,608,956	3,235,342,712
Deposits with banks and financial institutions	2,440,015,788	-	-	-	-	-	400,615	2,440,416,403
Loans to banks and reverse repurchase agreements	322,106,617	-	-	-	-	-	488,424	322,595,041
Other Assets	171,423,335	1,507,500	-	-	-	-	-	172,930,835
	2,933,545,740	3,223,241,256	-	-	-	-	14,497,995	6,171,284,991
Financial assets designated at fair value through profit or loss								
Lebanese government bonds	-	2,942,454	-	-	-	-	64,268	3,006,722
Certificates of deposit issued by the Central Bank of Lebanon	-	172,490,884	-	-	-	-	4,391,658	176,882,542
Debt securities issued by companies	6,256,125	-	-	-	-	-	-	6,256,125
Quoted equity securities	773,726	-	-	-	-	-	-	773,726
Unquoted equity securities	29,184,029	-	-	-	-	-	-	29,184,029
	36,213,880	175,433,338	-	-	-	-	4,455,926	216,103,144
Loans and advances								
Loans and advances to customers	6,131,250,925	-	68,472,746	998,949,106	(551,538,323)	(204,768,206)	78,746,640	6,521,112,888
Loans and advances to related parties	170,218,363	-	-	-	-	-	1,094,980	171,313,343
	6,301,469,288	-	68,472,746	998,949,106	(551,538,323)	(204,768,206)	79,841,620	6,692,426,231
Financial investments-Financial assets at fair value through other comprehensive income								
Quoted equity securities	245,305,152	-	-	-	-	-	-	245,305,152
Unquoted equity securities	93,487,002	-	-	-	-	-	-	93,487,002
Convertible preferred shares issued by a Lebanese bank	7,537,500	-	-	-	-	-	-	7,537,500
Non-cumulative preferred shares issued by a Lebanese bank	34,114,353	-	-	-	-	-	-	34,114,353
	380,444,007	-	-	-	-	-	-	380,444,007
Financial investments-Financial assets at amortized cost								
Lebanese Government bonds	-	1,702,554,207	-	-	-	-	23,990,683	1,726,544,890
Certificates of deposit issued by the Central Bank of Lebanon	-	7,421,528,287	-	-	-	-	114,035,628	7,535,563,915
Notes issued by companies	-	-	-	245,783,516	(125,073,603)	-	442,334	121,152,247
Debt securities issued by banks	20,331,728	-	-	-	-	-	116,845	20,448,573
Debt securities issued by companies	34,219,670	-	-	-	-	-	197,474	34,417,144
Other foreign government bonds	-	377,693,286	-	-	-	-	217,252	377,910,538
	54,551,398	9,501,775,780	-	245,783,516	(125,073,603)	-	139,000,216	9,816,037,307

B – Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

1- Management of liquidity risk

To mitigate this risk, management has diversified funding sources, manages assets with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

Liquidity risk is the Group's ability to ensure the availability of funding to meet commitments, both on-balance and off-balance sheet commitments, at a reasonable cost on time. The management of liquidity should not lead to threats to the Group's solvency.

Liquidity risk arises when in case of crisis, refinancing may only be raised at higher market rates (funding risk), or assets may only be liquidated at a discount to market rates (market liquidity risk). Liquidity risk is also caused by mismatches in the maturities of assets and liabilities (uses and sources of funds).

In accordance with banking regulations issued by Central Bank of Lebanon, the Group maintains compulsory reserves with Central Bank of Lebanon of 25% and 15% of the weekly average demand and term customers' deposits in Lebanese Pounds. The Group has the ability to raise additional funds through repurchase facilities available with Central Bank of Lebanon against Government debt securities.

The Group sets policies and procedures to ensure that its individual entities are in compliance with liquidity ratios imposed by the regulators in the countries in which each of these entities operates in addition to other internal limits and thresholds.

2- Exposure to liquidity risk

The tables below summarize the maturity profile of the Group's assets, liabilities and equity. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date, and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

Residual contractual maturities of assets and liabilities:

The tables below show the Group's assets and liabilities in Lebanese Pounds and foreign currencies base accounts segregated by maturity:

		December 31, 2018							
		LBP Base Accounts							
Accounts with No maturity	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total		
LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
ASSETS									
Cash and deposits with central banks	448,782,346	-	1,238,271,203	80,285	1,833,706,873	397,709,048	3,918,552,497		
Deposits with banks and financial institutions	16,930,498	2,742	-	-	-	-	24,870,158		
Financial assets at fair value through profit or loss	-	14,310	-	-	-	-	-		
Reverse repurchase agreements and loans to banks	-	-	-	-	-	-	827,389		
Loans and advances to customers	47,575,708	73,651,850	70,448,086	104,146,107	268,211,123	474,759,699	1,086,410,414		
Loans and advances to related parties	-	15,541	-	169,026	435,379	506,051	1,125,997		
Investment securities	305,972,250	-	468,022,992	422,110,990	1,276,211,657	2,961,473,201	5,436,443,761		
Investments in associates and other investments	10,889,567	-	-	-	-	-	10,889,567		
Assets acquired in satisfaction of loans	108,980,052	-	-	-	-	-	108,980,052		
Goodwill	23,068,898	-	-	-	-	-	23,068,898		
Property and equipment	270,513,482	-	-	-	-	-	270,513,482		
Other assets	75,386,722	85	-	-	83,538,353	-	158,925,160		
Total Assets	1,308,099,523	55,558,817	77,148,962	526,506,408	3,462,103,385	3,834,447,999	11,040,607,375		
LIABILITIES									
Deposits from banks and financial institutions	5,967,635	-	2,557,367	-	5,693,665	20,228	334,623,927		
Customers' deposits at fair value through profit or loss	-	320,385,032	-	-	-	-	-		
Customers' deposits at amortized cost	15,642,469	3,430,742,835	1,078,355,894	107,196,513	27,442,377	14,520,573	4,800,773,323		
Related parties' deposits at amortized cost	3,804,169	33,032,536	4,381,093	12,114,603	-	-	53,332,401		
Acceptances payable	-	-	-	-	-	-	-		
Borrowings from banks and financial institutions and central banks	282,849,069	-	230,612,044	27,819,211	2,172,573,530	25,517,000	3,964,214,854		
Provisions	57,858,104	-	-	-	-	-	57,858,104		
Other liabilities	72,739,064	12,302	-	-	-	-	72,751,366		
Total Liabilities	438,860,510	3,463,787,673	1,633,734,063	147,130,327	2,205,709,572	40,057,801	9,283,553,975		
Maturity Gap	869,239,013	(3,408,228,856)	(1,556,585,101)	379,376,081	1,256,393,813	3,794,390,198	1,757,053,400		

December 31, 2017

	LBP Base Accounts						Total LBP'000
	Accounts with No maturity LBP'000	Up to 3 months LBP'000	3 months to 1 year LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000	5 to 10 years LBP'000	
ASSETS							
Cash and deposits with central banks	298,462,322	27,923	726,178	-	-	107,420,619	467,210,580
Deposits with banks and financial institutions	1,971,055	14,544,906	-	-	-	-	16,515,961
Financial assets at fair value through profit or loss	-	-	-	18,946,345	2,279,645	32,829,331	179,385,374
Reverse purchase agreements and loans to banks	-	-	-	1,679,487	-	-	1,679,487
Loans and advances to customers	(74,853,729)	101,530,899	44,151,359	68,080,603	83,251,087	329,498,676	1,060,759,961
Loans and advances to related parties	-	101,730	-	-	217,319	481,399	5,211,966
Investment securities	24,855,140	-	-	229,983,146	456,657,862	1,099,802,755	4,608,708,260
Investments in associates and other investments	4,192,358	-	-	-	-	-	4,192,358
Assets acquired in satisfaction of loans	96,036,312	-	-	-	-	-	96,036,312
Goodwill	23,068,898	-	-	-	-	-	23,068,898
Property and equipment	266,690,236	-	-	-	-	-	266,690,236
Other assets	173,222,763	-	-	-	-	-	173,222,763
Total Assets	813,645,355	116,205,458	44,877,537	318,689,581	542,405,913	1,570,032,780	6,902,682,156
LIABILITIES							
Deposits from banks and financial institutions	1,450	64,992,627	-	-	-	-	64,994,077
Customers' deposits at fair value through profit or loss	-	-	-	-	-	-	-
Customers' deposits at amortized cost	18,809,898	3,873,051,978	560,781,307	76,618,417	55,708,726	17,269,385	4,617,034,970
Related parties' deposits at amortized cost	3,480,604	29,184,491	4,279,216	-	13,364,112	1,408,640	53,633,000
Acceptances payable	-	-	-	-	-	-	-
Borrowings from banks and financial institutions and central banks	707,250	177,839,890	572,799	7,500,000	-	294,631,695	481,251,634
Provisions	77,878,720	-	-	-	-	-	77,878,720
Other liabilities	67,739,913	-	-	-	-	-	67,739,913
Total Liabilities	168,617,835	4,145,068,986	565,633,322	84,118,417	69,072,838	313,309,720	5,362,532,314
Maturity Gap	645,027,520	(4,028,863,528)	(520,755,785)	234,571,164	473,333,075	1,256,723,060	1,540,149,842

December 31, 2018
F/C's Base Accounts

	Accounts with No maturity LBP'000	Up to 3 months LBP'000	3 months to 1 year LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000	5 to 10 years LBP'000	Over 10 years LBP'000	Total LBP'000
ASSETS								
Cash and deposits with central banks	347,062,253	28,753,942	525,935,169	1,703,707,153	993,414,910	742,462,124	-	4,341,335,551
Deposits with banks and financial institutions	632,551,533	-	533,430,118	18,419,972	-	-	-	1,184,401,623
Financial assets at fair value through profit or loss	44,830,764	-	-	-	2,621	-	-	44,833,385
Reverse repurchase agreements and loans to banks	1,151,363	-	1,479,573	16,534,016	-	-	-	19,164,952
Loans and advances to customers	372,838,736	1,463,925,912	855,483,636	761,589,887	411,421,481	289,149,787	132,555,325	4,286,964,764
Loans and advances to related parties	2,292,762	23,728,376	34,208,421	19,504,767	81,046	872,528	207,935	80,895,835
Investment securities	347,776,017	-	232,034,322	124,210,409	402,328,898	2,639,627,845	2,335,802,404	6,081,779,895
Customers' acceptance liability	497,537,806	-	145,320	-	-	-	-	497,683,126
Investments in associates and other investments	49,418,600	-	-	-	-	-	-	49,418,600
Assets acquired in satisfaction of loans	848,431,417	-	-	-	-	-	-	848,431,417
Goodwill	78,526,015	-	-	-	-	-	-	78,526,015
Property and equipment	16,054,712	-	-	-	-	-	-	16,054,712
Other assets	117,859,834	-	-	-	-	-	-	117,859,834
Total Assets	3,356,331,812	1,516,408,230	2,182,716,559	2,643,966,204	1,807,248,956	3,672,112,284	2,468,565,664	17,647,349,709
LIABILITIES								
Deposits from banks and financial institutions	301,781,712	-	87,597,996	27,212,330	-	-	-	416,592,040
Customers' deposits at fair value through profit or loss	-	-	-	-	2	-	-	-
Customers' deposits at amortized cost	1,846,667,774	6,408,353,983	4,727,043,765	1,686,239,657	319,785,496	66,213,726	7,051,314	15,061,355,715
Related parties' deposits at amortized cost	15,191,030	125,537,582	39,517,616	5,618,059	-	-	-	185,864,287
Acceptances payable	499,178,794	-	145,320	-	-	-	-	499,324,114
Borrowings from banks and financial institutions and central banks	(23,304)	381,362,057	159,909,250	176,862,112	65,821,299	55,959,528	-	839,890,942
Certificates of deposit	-	-	34,653,520	-	-	-	-	34,653,520
Provisions	68,221,095	-	-	-	-	-	-	68,221,095
Perpetual subordinated convertible loan	-	-	157,156,875	-	-	-	-	157,156,875
Other liabilities	225,498,140	484,685	16,230	-	-	-	-	225,999,055
Total Liabilities	2,956,515,241	6,915,738,307	5,206,040,572	1,895,932,158	385,606,797	122,173,254	7,051,314	17,489,057,643
Maturity Gap	399,816,571	(5,399,330,077)	(3,023,324,013)	748,034,046	1,421,642,159	3,549,939,030	2,461,514,350	158,292,066

December 31, 2017

	F/C _v Base Accounts							
	Accounts with No maturity LBP'000	Up to 3 months LBP'000	3 months to 1 year LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000	5 to 10 years LBP'000	Over 10 years LBP'000	Total LBP'000
ASSETS								
Cash and deposits with central banks	518,588,695	340,294,842	75,491,313	912,969,983	770,786,949	23,644,698	308,227,219	2,950,003,699
Deposits with banks and financial institutions	591,338,712	1,670,097,662	162,464,068	-	-	-	-	2,423,900,442
50% financial assets at fair value through profit or loss	36,480,892	-	15,123	-	-	221,435	-	36,717,450
Reverse repurchase agreements and loans to banks	414,689	216,667,886	80,525,242	23,307,737	-	-	-	320,915,554
Loans and advances to customers	(45,539,731)	2,849,385,928	646,762,137	1,046,815,447	536,820,559	299,030,352	127,078,235	5,460,352,927
Loans and advances to related parties	20,264,958	47,990,055	-	53,997,971	42,641,090	446,485	760,818	166,101,377
Investment securities	355,864,502	92,718,888	20,763,742	108,192,661	762,779,797	1,552,390,018	2,694,992,014	5,587,701,622
Customers' acceptance liability	2,620,958	182,852,372	190,969,154	123,116	-	-	-	376,565,600
Investments in associates and other investments	58,180,842	-	-	-	-	-	-	58,180,842
Assets acquired in satisfaction of loans	553,304,433	-	-	-	-	-	-	553,304,433
Goodwill	78,928,860	-	-	-	-	-	-	78,928,860
Property and equipment	17,335,529	-	-	-	-	-	-	17,335,529
Other assets	129,965,731	-	-	-	-	-	-	129,965,731
Total Assets	2,317,749,070	5,400,007,633	1,176,990,779	2,145,406,915	2,113,028,395	1,875,732,988	3,131,058,286	18,159,974,066
LIABILITIES								
Deposits from banks and financial institutions	24,572,115	486,790,681	201,545,334	54,731,895	7,589,423	-	-	775,229,448
Customers' deposits at fair value through profit or loss	-	-	-	-	-	-	-	-
Customers' deposits at amortized cost	810,174,025	8,613,948,004	3,025,860,357	1,443,158,336	664,374,596	60,833,549	6,921,719	14,625,270,586
Related parties' deposits at amortized cost	17,805,164	271,825,073	24,700,840	42,026,073	8,622,248	-	-	364,979,398
Acceptances payable	2,620,958	182,852,372	190,969,154	123,116	-	-	-	376,565,600
Borrowings from banks and financial institutions and central banks	-	382,835,841	6,703,913	176,783,415	74,859,665	58,379,032	-	699,561,866
Certificates of deposit	-	11,661,228	-	-	-	-	-	11,661,228
Provisions	50,591,853	-	-	-	-	-	-	50,591,853
Perpetual subordinated convertible loan	157,156,875	-	-	-	-	-	-	157,156,875
Other liabilities	275,386,405	-	-	-	-	-	-	275,386,405
Total Liabilities	1,338,307,395	9,949,913,199	3,449,779,598	1,716,822,835	755,445,932	119,212,581	6,921,719	17,336,403,259
Maturity Gap	979,441,675	(4,549,905,566)	(2,272,788,819)	428,584,080	1,357,582,463	1,756,520,407	3,124,136,567	823,570,807

C – Market Risks

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

1- Management of market risks

The Group classifies exposures to market risk into either trading or banking (non-trading) book. The market risk for the trading book is managed and monitored using a combination of limits monitoring and Value at Risk (VAR) methodology. Market risk for non-trading book includes Price and Liquidity risks that are managed and monitored through internal limits, gap analysis, stress testing and sensitivity analysis.

a) Market Risk-Trading Book

Trading Book contains the Group's positions in financial instruments which are held intentionally for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits.

The Board has set limits for the acceptable level of risks in managing the trading book. The Group applies a VAR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for change in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations as it is based on historical correlations and market price volatilities and assumes that the future movements will follow a statistical distribution.

The VAR that the Group measures is an estimate, using a confidence level of 95% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 95% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

b) Market Risk – Non-Trading or Banking Book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures, equity price changes and liquidity risk.

2- Exposure to Foreign Exchange risk

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Group's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimizing the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Group that it will, at all times, adhere to the limits laid down by the Central Bank. It is not the Group's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The Management sets limits on the level of exposure by currency and in the aggregate for both overnight and intra-day positions and hedging strategies, which are monitored daily and are in compliance with Central Bank of Lebanon rules and regulations.

Below is the carrying value of assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end:

	December 31, 2018					Total LBP'000
	LBP LBP'000	USD LBP'000	EURO LBP'000	GBP LBP'000	Other LBP'000	
ASSETS						
Cash and deposits with central banks	3,918,552,497	4,189,556,342	13,247,167	1,958,314	136,573,728	8,259,888,048
Deposits with banks and financial institutions	24,870,158	1,026,771,784	82,870,960	6,038,574	68,720,305	1,209,271,781
Financial assets at fair value through profit or loss	-	44,833,385	-	-	-	44,833,385
Reverse repurchase agreements and loans to banks	827,389	1,151,363	-	1,479,573	16,534,016	19,992,341
Loans and advances to customers	1,086,410,414	3,597,626,945	275,217,584	47,587,840	366,532,395	5,373,375,178
Loans and advances to related parties	1,125,997	79,004,660	962,659	928,516	-	82,021,832
Investment securities	5,436,443,761	5,748,284,792	2,931,930	-	330,563,173	11,518,223,656
Customers' acceptance liability	-	434,653,878	37,544,991	944,177	24,540,080	497,683,126
Investments in associates and other investments	10,889,567	47,353,284	1,508	-	2,063,808	60,308,167
Assets acquired in satisfaction of loans	108,980,052	817,658,925	-	-	30,772,492	957,411,469
Goodwill	23,068,898	78,526,015	-	-	-	101,594,913
Property and equipment	270,513,482	11,073,625	160,228	-	4,820,859	286,568,194
Other assets	158,925,160	55,882,346	3,888,799	1,275,287	54,802,106	274,773,698
Total Assets	11,040,607,375	16,132,377,344	416,825,826	60,212,281	1,035,922,962	28,685,945,788
LIABILITIES						
Deposits from banks and financial institutions	334,623,927	134,122,134	114,465,006	14,032,010	153,972,890	751,215,967
Customers' deposits at fair value through profit or loss	-	-	-	-	-	-
Customers' deposits at amortized cost	4,800,773,323	13,604,724,402	664,281,104	117,622,256	674,727,953	19,862,129,038
Related parties' deposits at amortized cost	53,332,401	166,980,722	6,152,141	326,722	12,404,702	239,196,688
Acceptances payable	-	435,948,695	37,773,607	948,661	24,653,151	499,324,114
Borrowings from banks and financial institutions and central banks	3,964,214,854	839,890,942	-	-	-	4,804,105,796
Certificates of deposit	-	30,324,865	4,328,655	-	-	34,653,520
Provisions	57,858,104	46,506,783	917,354	6,209	20,790,749	126,079,199
Perpetual subordinated convertible loan	-	157,156,875	-	-	-	157,156,875
Other liabilities	72,751,366	193,866,125	4,494,632	1,214,794	26,423,504	298,750,421
Total liabilities	9,283,553,975	15,609,521,543	832,412,499	134,150,652	912,972,949	26,772,611,618
Currencies to be delivered	-	(723,740,272)	(35,343,065)	(38,868,084)	(241,634,597)	(1,039,586,018)
Currencies to be received	-	284,633,612	434,226,792	104,821,764	218,169,580	1,041,851,748
Discount	-	(254,407)	-	-	(27)	(254,434)
	-	(439,361,067)	398,883,727	65,953,680	(23,465,044)	2,011,296
Net on-balance sheet financial position	1,757,053,400	83,494,734	(16,702,946)	(7,984,691)	99,484,969	1,915,345,466

	December 31, 2017					
	LBP LBP'000	USD LBP'000	EURO LBP'000	GBP LBP'000	Other LBP'000	Total LBP'000
ASSETS						
Cash and deposits with central banks	467,210,580	2,769,077,633	21,641,289	1,879,509	157,405,268	3,417,214,279
Deposits with banks and financial institutions	16,515,961	2,068,593,294	167,408,716	63,824,573	124,073,859	2,440,416,403
Financial assets at fair value through profit or loss	179,385,374	36,717,450	-	-	-	216,102,824
Reverse repurchase agreements and loans to banks	1,679,487	215,513,368	-	3,084,254	102,317,932	322,595,041
Loans and advances to customers	1,060,759,961	4,250,446,535	327,546,301	35,178,411	847,181,680	6,521,112,888
Loans and advances to related parties	5,211,966	154,128,089	6,704,702	5,268,586	-	171,313,343
Investment securities	4,608,708,260	5,194,866,381	-	-	392,835,241	10,196,409,882
Customers' acceptance liability	-	267,515,581	107,774,064	94,525	1,181,430	376,565,600
Investments in associates and other investments	4,192,358	57,516,663	1,508	-	662,671	62,373,200
Assets acquired in satisfaction of loans	96,036,312	509,411,613	-	-	43,892,820	649,340,745
Goodwill	23,068,898	78,928,860	-	-	-	101,997,758
Property and equipment	266,690,236	8,821,092	438,084	-	8,076,353	284,025,765
Other assets	173,222,763	74,342,578	3,309,245	2,507,637	45,692,208	299,074,431
Total Assets	6,902,682,156	15,685,879,137	634,823,909	111,837,495	1,723,319,462	25,058,542,159
LIABILITIES						
Deposits from banks and financial institutions	64,994,077	358,701,769	71,298,927	7,287,017	337,941,735	840,223,525
Customers' deposits at fair value through profit or loss	-	-	-	-	-	-
Customers' deposits at amortized cost	4,617,034,970	12,846,088,327	685,537,323	105,923,846	987,721,090	19,242,305,556
Related parties' deposits at amortized cost	53,633,000	348,139,099	8,631,479	279,475	7,929,345	418,612,398
Acceptances payable	-	267,515,581	107,774,064	94,525	1,181,430	376,565,600
Borrowings from banks and financial institutions and central banks	481,251,634	699,561,866	-	-	-	1,180,813,500
Certificates of deposit	-	7,545,271	-	4,115,957	-	11,661,228
Provisions	77,878,720	22,549,970	209,543	822	27,831,518	128,470,573
Perpetual subordinated convertible loan	-	157,156,875	-	-	-	157,156,875
Other liabilities	67,739,913	191,777,073	5,316,789	2,505,032	75,787,511	343,126,318
Total liabilities	5,362,532,314	14,899,035,831	878,768,125	120,206,674	1,438,392,629	22,698,935,573
Currencies to be delivered	-	(564,362,695)	(30,703,291)	(23,628,911)	(200,441,949)	(819,136,846)
Currencies to be received	-	229,545,190	302,292,364	27,745,315	263,367,695	822,950,564
Discount	-	399,307	(220)	-	(98,742)	300,345
	-	(334,418,198)	271,588,853	4,116,404	62,827,004	4,114,063
Net on-balance sheet financial position	1,540,149,842	452,425,108	27,644,637	(4,252,775)	347,753,837	2,363,720,649

3- Exposure to Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Group's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on the Group's net interest income, while a long term impact is on the Group's net worth since the economic value of the Group's assets, liabilities and off-balance sheet exposures are affected.

The Group manages this risk by matching or hedging the repricing profile of assets and liabilities through risk management strategies.

The Board has established interest rate gap limits for stipulated periods.

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

Below is a summary of the Group's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between Lebanese Pound and foreign currencies base accounts:

Interest rate gap position in LBP:

	Non-interest bearing LBP'000	December 31, 2018										Grand Total LBP'000						
		Floating Interest Rate					Fixed Interest Rate											
		Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	Over 3 months less than 1 year	1 to 3 years	3 to 5 years		5 to 10 years	Over 10 years	Total			
ASSETS																		
Cash and deposits with central banks	448,782,346	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	448,782,346
Deposits with banks and financial institutions	16,950,998	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,950,998
Financial assets at fair value through profit or loss	-	7,925,350	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,925,350
Reverse repurchase agreements and loans to banks	-	-	827,389	-	-	-	-	-	-	-	-	-	-	-	-	-	-	827,389
Loans and advances to customers	47,575,708	47,617,841	41,758,581	43,043,563	68,306,213	254,852,152	471,017,049	31,893,269	27,404,523	35,839,894	13,358,971	3,742,650	112,239,307	1,086,410,414				
Loans and advances to related parties	-	15,541	-	-	169,026	435,379	506,051	-	-	-	-	-	-	1,125,997				
Investment securities	305,972,250	-	-	-	-	-	-	2,652,671	468,022,992	422,110,990	1,276,211,657	2,961,473,201	5,130,471,511	5,436,443,761				
Investments in associates and other investments	10,889,567	-	-	-	-	-	-	-	-	-	-	-	-	10,889,567				
Assets acquired in satisfaction of loans (Goodwill)	108,980,052	-	-	-	-	-	-	-	-	-	-	-	-	108,980,052				
Property and equipment	23,068,898	-	-	-	-	-	-	-	-	-	-	-	-	23,068,898				
Other assets	270,513,482	-	-	-	-	-	-	-	-	-	-	-	-	270,513,482				
Total Assets	1,308,099,523	55,598,817	42,585,970	43,043,563	68,475,239	255,287,531	471,523,100	34,562,992	1,733,698,718	458,031,169	3,206,815,854	3,362,924,899	83,338,353	158,923,160	11,040,607,375			
LIABILITIES																		
Deposits from banks and financial institutions	5,967,635	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,967,635
Customers' deposits at amortized cost	15,642,469	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,642,469
Related parties' deposits at amortized cost	3,804,169	33,032,536	1,975,217	96,849,377	63,607,397	19,103,358	8,264,839	198,073,515	30,023,285	43,589,116	8,339,019	6,255,734	286,280,669	4,800,773,323				
Borrowings from banks and financial institutions and central banks	282,849,069	-	-	-	-	-	-	230,612,044	1,224,844,000	27,819,211	2,172,573,530	25,517,000	3,681,365,785	3,964,214,854				
Provisions	57,858,104	-	-	-	-	-	-	-	-	-	-	-	-	57,858,104				
Other liabilities	72,739,064	12,302	-	-	-	-	-	-	-	-	-	-	-	72,751,366				
Total Liabilities	438,860,510	3,463,787,673	882,257,596	96,849,377	75,722,000	19,103,358	8,264,839	751,476,467	1,257,494,652	71,408,327	2,186,606,214	31,792,962	4,298,708,622	9,283,553,975				
Interest rate gap position	869,239,013	(3,408,228,856)	(839,671,626)	(53,805,814)	(7,246,761)	236,184,173	463,258,261	(716,913,475)	476,274,066	386,622,842	(1,020,209,640)	(3,333,131,937)	4,497,325,010	1,757,053,400				

December 31, 2017

	Non-interest bearing LBP'000	Floating Interest Rate				Fixed Interest Rate				Grand Total LBP'000						
		Up to 3 months LBP'000	3 months to 1 year LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000	5 to 10 years LBP'000	Over 10 years LBP'000	Over 3 months less than 1 year LBP'000	1 to 3 years LBP'000		3 to 5 years LBP'000	5 to 10 years LBP'000	Over 10 years LBP'000	Total LBP'000		
ASSETS																
Cash and deposits with central banks	298,462,322	27,923	-	-	-	-	-	726,178	-	-	-	-	107,420,619	60,574,538	168,720,335	467,210,580
Deposits with banks and financial institutions	1,971,055	14,544,906	-	-	-	-	-	27,923	14,544,906	-	-	-	-	-	-	16,515,961
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reverse repurchase agreements and loans to banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	(74,853,729)	101,530,899	37,085,187	1,679,487	53,839,455	40,599,565	1,679,487	1,679,487	18,946,345	2,279,645	2,279,645	18,946,345	32,829,331	125,330,053	179,385,374	1,679,487
Loans and advances to related parties	24,855,140	101,750	-	40,599,565	53,839,455	40,599,565	1,679,487	1,679,487	27,481,038	29,411,632	29,411,632	27,481,038	14,482,892	3,836,445	82,278,179	1,060,759,961
Investment securities	4,192,358	-	-	-	-	-	-	7,066,172	229,983,146	456,657,862	1,099,802,755	229,983,146	1,099,802,755	2,797,409,357	4,583,853,120	5,211,966
Investments in associates and other investments	96,036,312	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,192,358
Assets acquired in satisfaction of loans	23,068,898	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,068,898
Goodwill	266,690,236	-	-	-	-	-	-	-	-	-	-	-	-	-	-	266,690,236
Property and equipment	173,222,763	-	-	-	-	-	-	-	-	-	-	-	-	-	-	173,222,763
Other assets	813,645,355	116,205,458	37,085,187	42,279,052	54,056,774	42,279,052	7,792,350	1,074,799,793	276,410,529	488,349,139	488,349,139	276,410,529	1,254,535,597	2,987,149,393	5,014,237,008	6,902,682,156
LIABILITIES																
Deposits from banks and financial institutions	1,450	64,992,627	552,309,061	56,509,712	22,816,347	56,509,712	56,509,712	64,992,627	20,108,705	32,892,379	32,892,379	20,108,705	12,417,439	5,928,428	79,819,197	64,994,077
Customers' deposits at amortized cost	18,809,898	3,872,051,978	4,279,216	-	13,364,112	-	-	4,518,405,875	8,866,831	8,866,831	8,866,831	8,866,831	8,866,831	8,866,831	8,866,831	4,617,034,970
Related parties' deposits at amortized cost	3,480,604	29,184,491	-	-	-	-	-	50,065,506	1,829,047	1,829,047	1,829,047	1,829,047	1,829,047	1,829,047	1,829,047	53,633,000
Borrowings from banks and financial institutions and central banks	707,250	177,839,890	-	-	-	-	-	177,839,890	-	-	-	-	-	-	302,704,494	481,251,634
Provisions	77,878,720	-	-	-	-	-	-	-	-	-	-	-	-	-	-	77,878,720
Other liabilities	67,739,913	4,145,068,986	556,588,277	56,509,712	36,180,459	56,509,712	56,509,712	4,811,303,898	27,608,705	32,892,379	32,892,379	27,608,705	307,049,134	6,015,318	382,610,581	67,739,913
Total Liabilities	168,612,835	4,145,068,986	556,588,277	56,509,712	36,180,459	56,509,712	56,509,712	4,811,303,898	27,608,705	32,892,379	32,892,379	27,608,705	307,049,134	6,015,318	382,610,581	5,362,732,314
Interest rate gap position	645,027,520	(4,028,863,528)	(519,503,099)	(14,230,660)	17,876,313	(14,230,660)	(14,230,660)	(3,736,504,105)	248,801,824	455,456,760	455,456,760	248,801,824	947,486,463	2,981,134,075	4,631,626,427	1,540,149,812

Interest rate gap position in FCY:

	Non-interest bearing LBP'000	December 31, 2018										Grand Total LBP'000			
		Floating Interest Rate					Fixed Interest Rate								
		Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	Over 3 months less than 1 year	1 to 3 years	3 to 5 years		5 to 10 years	Over 10 years	Total
ASSETS															
Cash and deposits with central banks	347,062,253	300,820,188	721,490,547	993,414,910	-	-	2,044,479,587	-	-	-	742,462,124	-	-	1,949,793,711	4,341,335,551
Deposits with banks and financial institutions	633,838,289	-	-	-	-	-	-	-	-	-	-	-	-	550,363,334	1,184,401,623
Financial assets at fair value through profit or loss	44,830,764	-	-	-	-	-	-	-	-	-	-	-	-	2,621	44,833,385
Reverse repurchase agreements and loans to banks	1,151,363	-	16,534,016	-	-	-	16,534,016	-	-	-	-	-	-	1,479,573	19,164,952
Loans and advances to customers	372,838,737	251,480,145	672,555,987	252,988,763	144,618,435	124,953,109	2,910,722,349	1,479,573	88,833,901	158,472,718	144,531,351	-	-	1,003,400,678	4,286,964,764
Loans and advances to related parties	2,292,762	26,401,863	18,978,867	4,555,387	872,528	207,955	701,893,569	7,806,558	525,900	81,046	-	-	-	8,413,504	80,895,835
Investment securities	637,211,576	-	179,829	-	-	-	4,735,216	101,785,630	124,030,580	296,383,457	2,581,831,032	-	-	5,439,833,103	6,081,779,895
Customers' acceptance liability	497,517,806	-	-	-	-	-	145,320	-	-	-	-	-	-	-	497,663,126
Investments in associates and other investments	49,418,600	-	-	-	-	-	-	-	-	-	-	-	-	-	49,418,600
Assets acquired in satisfaction of loans	848,431,417	-	-	-	-	-	-	-	-	-	-	-	-	-	848,431,417
Goodwill	78,526,015	-	-	-	-	-	-	-	-	-	-	-	-	-	78,526,015
Property and equipment	16,054,712	-	-	-	-	-	-	-	-	-	-	-	-	-	16,054,712
Other assets	117,859,834	-	-	-	-	-	-	-	-	-	-	-	-	-	117,859,834
Total Assets	3,647,054,128	1,516,408,728	1,429,939,246	1,250,959,060	145,490,963	124,161,044	5,046,806,057	1,472,333,597	1,214,026,958	454,899,842	3,468,824,507	2,343,404,620	8,953,489,524	17,647,349,709	
LIABILITIES															
Deposits from banks and financial institutions	301,781,712	-	-	-	-	-	-	-	-	-	-	-	-	114,810,328	416,592,040
Customers' deposits at fair value through profit or loss	-	-	-	-	-	-	-	87,597,996	27,212,300	2	-	-	-	-	114,810,328
Customers' deposits at amortized cost	1,846,667,774	6,408,353,983	2,588,696,686	40,405,280	50,521,699	2,904,887	10,271,098,563	2,138,347,079	506,023,629	279,380,216	15,692,027	4,146,427	2,945,589,378	15,061,355,715	
Related parties' deposits at amortized cost	151,010,300	125,337,382	8,495,492	5,618,059	-	-	139,651,133	31,022,124	-	-	-	-	31,022,124	183,864,287	
Acceptances payable	493,178,794	-	145,320	-	-	-	145,320	-	-	-	-	-	-	493,324,114	
Borrowings from banks and financial institutions and central banks	(23,304)	381,362,057	6,708,088	176,862,112	65,821,299	-	686,713,084	153,201,162	-	-	-	-	153,201,162	839,890,942	
Provisions	68,221,095	-	-	-	-	-	-	34,653,520	-	-	-	-	34,653,520	102,874,615	
Perpetual subordinated convertible loan	225,498,140	-	-	-	-	-	-	157,156,875	-	-	-	-	157,156,875	382,655,015	
Other liabilities	2,958,513,241	6,915,738,307	2,604,045,586	1,362,696,199	106,226,579	2,904,887	11,098,092,785	2,601,994,986	533,233,939	279,380,218	15,692,027	4,146,427	3,434,489,617	225,999,055	
Total Liabilities	688,591,224	5,299,330,079	4,025,198,070	3,144,732,481	39,009,736	122,256,157	6,051,286,728	1,129,661,389	680,790,999	175,515,624	3,453,132,480	2,339,258,193	5,519,039,907	11,667,594,503	
Interest rate gap position															

December 31, 2017

	Floating Interest Rate					Fixed Interest Rate					Grand Total LBP'000		
	Up to 3 months LBP'000	3 months to 1 year LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000	5 to 10 years LBP'000	Over 10 years LBP'000	Total LBP'000	Over 3 months less than 1 year LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000		5 to 10 years LBP'000	Over 10 years LBP'000
ASSETS													
Non-interest bearing													
Cash and deposits with central banks	340,294,842	75,491,313	912,969,983	770,786,949	-	-	2,099,543,087	-	-	-	-	-	331,871,917
Deposits with banks and financial institutions	1,670,097,663	128,305,858	-	-	-	-	1,798,403,521	34,158,209	-	-	23,644,698	308,227,219	34,158,209
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	15,123	-	-	221,435	-	236,558
Reverse repurchase agreements and loans to banks	216,667,886	-	3,565,687	-	-	-	220,233,573	80,525,242	19,742,050	-	-	-	100,267,292
Loans and advances to customers	2,849,385,926	385,512,334	670,137,114	204,302,014	138,087,644	115,565,175	4,363,590,207	261,249,802	376,678,334	331,918,546	160,942,711	1,142,302,453	
Loans and advances to related parties	47,990,053	53,911,720	64,450,349	42,210,000	446,485	760,818	145,319,078	86,251	86,251	431,090	-	1,171,341	
Investment securities	-	-	-	-	-	-	-	-	-	-	-	-	-
Customer's acceptance liability	92,718,888	-	-	201,207,166	90,691,458	-	449,067,861	20,763,742	43,742,312	561,572,631	2,694,992,014	4,758,753,371	
Investments in associate and other investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Assets acquired in satisfaction of loans	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	5,217,155,260	589,309,505	1,705,034,853	1,219,106,129	229,225,587	116,325,983	9,076,157,322	396,112,118	440,248,927	893,922,267	1,646,507,404	3,014,732,292	6,368,009,141
LIABILITIES													
Deposits from banks and financial institutions	24,572,115	-	-	-	-	-	486,790,681	201,545,334	54,731,895	7,589,423	-	-	263,866,652
Customer's deposits at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-
Customer's deposits at amortized cost	810,174,026	1,504,404,839	744,513,126	372,151,108	42,739,096	3,036,229	11,280,792,402	1,521,455,517	698,645,210	292,223,488	18,094,453	3,885,490	2,534,304,158
Related parties' deposits at amortized cost	17,805,164	16,293,722	-	8,622,248	-	-	286,741,043	8,407,118	42,025,073	-	-	-	50,433,191
Acceptances payable	376,565,600	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings from banks and financial institutions and central banks	-	6,703,913	176,783,415	74,859,665	58,379,032	-	699,561,866	-	-	-	-	-	699,561,866
Certificates of deposit	50,591,853	-	-	-	-	-	11,661,228	-	-	-	-	-	11,661,228
Provisions	-	-	-	-	-	-	-	-	-	-	-	-	-
Perpetual subordinated convertible loan	-	-	-	-	-	-	157,156,875	-	-	-	-	-	157,156,875
Other liabilities	275,386,405	-	-	-	-	-	-	-	-	-	-	-	275,386,405
Total Liabilities	1,600,632,453	938,092,969	783,738,312	455,633,021	101,118,128	3,007,229	12,932,704,095	1,731,407,969	795,403,128	799,812,911	18,094,453	3,885,490	2,848,604,001
Interest rate gap position	-	(4,707,062,442)	(938,092,969)	763,473,108	128,072,459	(113,289,764)	(3,856,546,768)	(1,334,695,821)	(355,154,231)	(570,075,468)	(1,628,412,951)	(3,010,846,803)	(3,439,485,140)
													823,570,807

The effect of a 50 basis point change in interest rates upwards on the earnings of the Group for the subsequent fiscal year for the statement of financial position structure and exposure would be a decrease of LBP67.61billion for the year 2018 (LBP57.65billion for the year 2017), a downwards movement will have an inverse effect.

50. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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 fair values included in the table below for assets and liabilities for which fair value is disclosed were calculated for disclosure purposes only. 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.

The summary of the Group's classification of each class of assets and liabilities and their fair values are as follows:

		December 31, 2018				
Notes	Carrying Amount LBP'000	Fair Value			Total LBP'000	
		Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000		
Assets measured at:						
Fair value through profit or loss						
	8	2,621	2,621	-	-	2,621
Lebanese government bonds						
Quoted equity securities	8	662,503	662,503	-	-	662,503
Unquoted equity securities	8	44,168,261	-	41,586,577	2,581,684	44,168,261
		<u>44,833,385</u>	<u>665,124</u>	<u>41,586,577</u>	<u>2,581,684</u>	<u>44,833,385</u>
Fair value through other comprehensive income						
Lebanese Government Bonds	12	108,746,708	-	108,746,708	-	108,746,708
Equity securities – Quoted	12	222,012,146	222,012,146	-	-	222,012,146
Equity securities – Unquoted	12	101,792,016	-	16,123,340	85,668,676	101,792,016
Cumulative Preferred shares issued by banks	12	7,537,500	-	-	7,537,500	7,537,500
Non-cumulative preferred shares issued by banks	12	34,098,579	-	179,829	33,918,750	34,098,579
		<u>474,186,949</u>	<u>222,012,146</u>	<u>125,049,877</u>	<u>127,124,926</u>	<u>474,186,949</u>
Amortized cost						
Deposits with central banks	6	8,082,044,327	-	8,221,008,030	-	8,221,008,030
Deposits with banks and financial institutions	7	1,209,271,781	-	1,209,268,595	-	1,209,268,595
Loans to banks	9	19,992,341	-	19,205,161	-	19,205,161
Loans and advances to customers	10	5,375,184,178	-	-	5,365,208,515	5,365,208,515
Loans and advances to related parties	11	82,021,832	-	-	82,021,832	82,021,832
Lebanese Government bonds	12	3,117,892,357	18,376,046	2,828,561,941	-	2,846,937,987
Certificates of deposit issued by the Central Bank of Lebanon	12	7,541,331,548	-	7,361,286,609	-	7,361,286,609
Debt securities issued by banks	12	20,448,901	-	20,163,627	-	20,163,627
Debt securities issued by companies	12	37,499,300	27,573,288	9,660,159	-	37,233,447
Structured notes issued by companies	12	55,090,868	-	-	55,090,868	55,090,868
Other foreign government bonds	12	317,094,492	309,111,832	7,418,408	-	316,530,240
Assets acquired in satisfaction of loans	15	957,411,469	-	1,270,723,172	-	1,270,723,172
		<u>26,815,283,394</u>	<u>355,061,166</u>	<u>20,947,295,702</u>	<u>5,502,321,215</u>	<u>26,804,678,083</u>
Financial liabilities measured at Amortized cost						
Deposits from banks and financial institutions	19	751,215,967	-	750,963,169	-	750,963,169
Customers' deposits at amortized cost	20	19,862,129,038	-	19,600,773,442	-	19,600,773,442
Related parties' deposits at amortized cost	21	239,196,688	-	239,267,369	-	239,267,369
Borrowings from banks and financial institutions	22	4,804,105,796	-	4,804,105,796	-	4,804,105,796
Certificates of deposit	23	34,653,520	-	34,653,520	-	34,653,520
Perpetual subordinated convertible loan	25	157,156,875	-	157,156,875	-	157,156,875
		<u>25,848,457,884</u>	<u>-</u>	<u>25,586,920,171</u>	<u>-</u>	<u>25,586,920,171</u>

The summary of the Group's classification of each class of assets and liabilities and their fair values are as follows:

		December 31, 2017				
Notes	Carrying Amount LBP'000	Fair Value			Total LBP'000	
		Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000		
Assets measured at:						
Fair value through profit or loss						
Lebanese government bonds	8	3,006,722	-	3,006,722	-	3,006,722
Certificates of deposit issued by the Central Bank of Lebanon	8	176,882,542	-	176,882,542	-	176,882,542
Debt securities issued by companies	8	6,256,125	-	6,256,125	-	6,256,125
Quoted equity securities	8	773,726	773,726	-	-	773,726
Unquoted equity securities	8	29,184,029	-	25,813,656	3,370,373	29,184,029
		<u>216,103,144</u>	<u>773,726</u>	<u>211,959,045</u>	<u>3,370,373</u>	<u>216,103,144</u>
Fair value through other comprehensive income						
Quoted equity securities	12	245,305,152	245,305,152	-	-	245,305,152
Unquoted equity securities	12	93,487,002	-	17,567,432	75,919,570	93,487,002
Cumulative preferred shares issued by a Lebanese bank	12	7,537,500	-	-	7,537,500	7,537,500
Non-cumulative preferred shares issued by a Lebanese banks	12	34,114,353	-	195,603	33,918,750	34,114,353
		<u>380,444,007</u>	<u>245,305,152</u>	<u>17,763,035</u>	<u>117,375,820</u>	<u>380,444,007</u>
Amortized cost						
Deposits with central banks	6	3,235,342,712	-	3,290,660,831	-	3,290,660,831
Deposits with banks and financial institutions	7	2,440,416,403	-	2,440,416,403	-	2,440,416,403
Reverse repurchase agreements and loans to banks	9	322,595,041	-	322,595,041	-	322,595,041
Loans and advances to customers	10	6,521,112,888	-	-	6,569,536,084	6,569,536,084
Loans and advances to related parties	11	171,313,343	-	-	171,313,343	171,313,343
Lebanese government bonds	12	1,726,544,890	-	1,695,792,059	-	1,695,792,059
Certificates of deposit issued by the Central Bank of Lebanon	12	7,535,563,915	-	8,023,824,563	-	8,023,824,563
Debt securities issued by banks	12	20,448,573	-	20,431,526	-	20,431,526
Debt securities issued by companies	12	34,417,146	5,237,930	19,259,200	8,808,587	33,305,717
Notes issued by companies	12	121,080,493	-	-	121,080,493	121,080,493
Other foreign government bonds	12	377,910,538	338,739,439	26,112,693	-	364,852,132
Assets acquired in satisfaction of loans	15	649,340,745	-	1,029,017,989	-	1,029,017,989
		<u>23,156,086,687</u>	<u>343,977,369</u>	<u>16,868,110,305</u>	<u>6,870,738,507</u>	<u>24,082,826,181</u>
Liabilities measured at:						
Amortized cost						
Deposits from banks and financial institutions	19	840,223,525	-	838,857,291	-	838,857,291
Customers' deposits at amortized cost	20	19,242,305,556	-	18,928,384,358	-	18,928,384,358
Related parties' deposits at amortized cost	21	418,612,398	-	418,667,878	-	418,667,878
Borrowings from banks and financial institutions	22	1,180,813,500	-	1,180,813,500	-	1,180,813,500
Certificates of deposit	23	11,661,228	-	11,661,228	-	11,661,228
Perpetual subordinated convertible loan	25	157,156,875	-	157,156,875	-	157,156,875
		<u>21,850,773,082</u>	<u>-</u>	<u>21,535,541,130</u>	<u>-</u>	<u>21,535,541,130</u>

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

Government bonds, certificates of deposits and other debt instruments

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, commodity prices, implied volatilities, and credit spreads.

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

Equity shares of non-listed entities / preferred shares of local banks

The Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private entities, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value.

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 to banks

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

Government bonds, certificates of deposits and other debt securities

The 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 with similar remaining maturities and to counterparties with similar credit quality.

Deposits from banks and customers

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

Debt issued and other borrowed funds

Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2018 were approved by the Board of Directors in its meeting held on April 5, 2019.