BANQUE BEMO S.A.L.

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Banque Bemo S.A.L.
Beirut, Lebanon

Opinion

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

In our opinion, 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 *Code of Ethics of the Lebanese Association of Certified Public Accountants* that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Key audit matter	How our audit addressed the key audit matter
Adoption of IFRS 9: *Financial Instruments* The Group adopted IFRS 9 Financial Instruments (as revised in July 2014) including impairment requirements on its mandatory effective date of implementation on January 1, 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the consolidated financial statements. As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures and recorded an adjustment of LBP10.9billion to the opening retained earnings in the consolidated statement of changes in equity as at January 1, 2018. The changes required to processes, systems and controls to comply with IFRS 9 were significant, as the standard requires a fundamental change to the way and when credit losses are recognised and how these are measured by changing the impairment model from an Incurred Loss model to an Expected Credit Loss (ECL) model. There was a risk that: - Judgements, assumptions and estimates, which includes adopting a 'default' definition and methodologies for developing PDs at origination, lifetime-PDs, loss given default (LGD); and (exposure at default EAD) and macroeconomic models with a number of scenarios and probabilities for each scenario and other post-model adjustments and management overlays are inadequate; - Inadequate data, as well as lack of uniformity in the data is used which makes it difficult to develop models which are sufficient for IFRS 9 impairment requirements. - Inappropriate segmentation of portfolios is used to develop risk parameters.	We updated our understanding of the Group's adoption of IFRS 9 and identified the internal controls including entity level controls adopted by the Group for the accounting, processes and systems under the new accounting standard. In addition, our work performed includes the below procedures: - Evaluate the appropriateness of key technical decisions, judgments and accounting policy elections made by the Group to ensure compliance with IFRS 9 impairment requirements. - Evaluate the reasonableness of management's key judgements and estimates made in the ECL calculation, including but not limited to the selection of methods, models, assumptions and data sources. - Evaluate the appropriateness and testing the mathematical accuracy of the ECL model applied. - Test the controls related to the credit impairment process and verified the integrity of data used as input to the models - Evaluate post model adjustments and management overlays in order to assess the reasonableness of these adjustments. - Assess the reasonableness of forward looking information incorporated into the impairment calculations. - Assessment on whether significant increase in credit risk (SICR) indicators are present for the financial assets portfolio based on

Key audit matter	How our audit addressed the key audit matter
- The number and range of forward-looking scenarios are not representative of an appropriate range of possible outcomes. - The methodology used to allocate a probability to each scenario is inappropriate or unsupported. - Significant increases (or reductions) in credit risk (movements between Stage 1, Stage 2 and Stage 3) are not completely or accurately identified on a timely basis. - Assumptions incorporated in the ECL model are not updated on a timely basis. The Notes 3, 4 and 47 to the consolidated financial statements include disclosures on the Group's judgments, assumptions, estimates and methodologies adopted as well as information about impairment of the Group's financial assets.	IFRS 9 and the possible implications on the ECL staging and expected provisioning. - Credit file classification supports the staging of relevant exposures, on a sample basis. - Assessment of the ECL methodology, macroeconomic scenarios weightage, on a sample basis.

Other Information

Management is responsible for the Other Information included in the Annual Report. The Other Information does not include the financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the Other Information when it becomes available and, in doing so, consider whether the Other Information is materially inconsistent with the 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 auditor's 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's 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 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 Alfred Nehme for DFK Fiduciaire du Moyen Orient.

Beirut, Lebanon April 16, 2019	DFK Fiduciaire du Moyen Orient	Deloitte & Touche

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Cash and deposits with central banks	5	728,018,716	636,726,930
Deposits with banks and financial institutions	6	146,067,510	138,763,737
Financial assets at fair value through profit or loss	7	47,647,005	24,720,123
Loans to banks	8	7,627,631	12,838,776
Loans and advances to customers and related parties	9	1,097,276,883	1,149,622,946
Investment securities	10	504,956,750	565,025,349
Customers' liability under acceptances	11	17,610,136	12,779,303
Assets under leverage arrangement with the Central Bank of Lebanon	12	395,189,975	57,346,400
Investments in an associate	13	23,102,054	20,994,413
Assets acquired in satisfaction of loans	14	2,907,009	2,073,984
Property and equipment	15	60,565,263	32,957,002
Intangible assets	16	974,683	1,185,319
Other assets	17	18,838,058	11,122,554
Total Assets		3,050,781,673	2,666,156,836
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:	40		
Documentary and commercial letters of credit		22,441,565	14,729,004
Guarantees and standby letters of credit		119,447,344	126,423,165
Forward exchange contracts		280,982,973	284,675,052
FIDUCIARY DEPOSITS	41	98,335,405	77,443,805

THE ACCOMPANYING NOTES 1 TO 48 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

LIABILITIES	Notes	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Deposits and borrowings from banks and financial institutions	18	246,365,768	115,132,672
Customers and related parties accounts at amortized cost	19	1,970,902,202	2,081,306,132
Acceptance liability	11	17,670,896	12,779,303
Other term borrowings	20	15,715,494	11,904,958
Leverage arrangement with the Central Bank of Lebanon	12	395,189,975	57,346,400
Other liabilities	21	16,195,663	24,581,603
Provisions	22	6,926,206	8,427,265
		2,668,966,204	2,311,478,333
Subordinated bonds	23	95,523,886	91,830,511
Total liabilities		2,764,490,090	2,403,308,844
EQUITY			
Share capital	24	62,248,000	62,248,000
Treasury shares	24	(3,619,239)	(3,179,389)
Preferred shares	25	52,641,854	52,641,854
Shareholders' cash contribution to capital	26	29,104,984	29,104,984
Reserves	27	62,635,782	56,143,182
Retained earnings		46,974,064	36,625,566
Currency translation adjustment	13	479,261	450,312
Revaluation surplus (net)	15	16,942,104	-
Change in fair value of investment securities	10,13	(9,554,688)	1,030,666
Profit for the year	28	28,439,048	27,782,456
Equity attributable to the shareholders of the bank		286,291,170	262,847,631
Non-controlling interests		413	361
Total equity		286,291,583	262,847,992
Total Liabilities and Equity		3,050,781,673	2,666,156,836

THE ACCOMPANYING NOTES 1 TO 48 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31, 2018 LBP'000	2017 LBP'000
Interest income	30	161,539,542	124,027,797
Tax on interest	30	(6,493,638)	(113,494)
Interest expense	31	(101,960,728)	(82,065,775)
Net interest income		53,085,176	41,848,528
Fee and commission income	32	10,557,745	9,945,639
Fee and commission expense	33	(386,527)	(363,587)
Net fee and commission income		10,171,218	9,582,052
Net interest and other gains on financial assets at fair value through profit or loss	34	906,550	8,407,866
Gain on exchange		5,163,815	4,405,968
Other operating income, (net)	35	5,983,507	9,422,662
Net financial revenues		75,310,266	73,667,076
Provisions for expected credit losses (net)	36	(607,647)	(16,191)
Net financial revenues after net expected credit losses		74,702,619	73,650,885
Staff costs	37	(23,619,560)	(24,468,539)
Administrative expenses	38	(15,239,831)	(15,559,442)
Depreciation and amortization	15,16	(2,234,841)	(1,872,522)
Other income/(expense), net		192,944	443,348
		(40,901,288)	(41,457,155)
Profit before income tax		33,801,331	32,193,730
Income tax expense		(5,362,231)	(4,411,264)
Profit for the year	28	28,439,100	27,782,466
Attributable to:			
Equity holders of the Group		28,439,048	27,782,456
Non-controlling interests		52	10
		28,439,100	27,782,466
Basic and diluted earning per shares	39	405/66	393/1

THE ACCOMPANYING NOTES 1 TO 48 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Notes	Year Ended December 31, 2018 LBP'000	Year Ended December 31, 2017 LBP'000
Profit for the year		28,439,100	27,782,466
Other comprehensive income ("OCI"):			
Items that may be reclassified subsequently to profit or loss:			
Gain arising from currency translation adjustment	13	28,949	450,312
Change in fair value of investment securities		(8,929,382)	1,030,666
Net other comprehensive income/(loss) for the year		(8,900,433)	1,480,978
Total comprehensive income for the year		19,538,667	29,263,444
Attributable to:			
Equity holders of the Group		19,538,615	29,263,434
Non-controlling interests		52	10
		19,538,667	29,263,444

THE ACCOMPANYING NOTES 1 TO 48 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity Attributable to the Bank											Non-Controlling Interest	Total
	Capital	Treasury Shares	Preferred Shares	Shareholders' Cash Contribution to Capital	Legal and Other Reserves	Revaluation Real Estate	Currency Translation Adjustment	Change in Fair Value of Investment Securities	Retained Earnings	Profit for the Year	Total		
	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	62,248,000	(2,931,915)	52,641,854	29,104,984	50,065,272	-	-	-	27,384,124	23,842,788	242,355,107	101,141	242,456,248
Total comprehensive income	-	-	-	-	-	-	450,312	-	-	27,782,456	28,232,768	361	28,233,129
Allocation of income for the year 2016	-	-	-	-	6,077,910	-	-	-	17,764,878	(23,842,788)	-	-	-
Dividends paid (Note 29)	-	-	-	-	-	-	-	-	(8,599,028)	-	(8,599,028)	-	(8,599,028)
Acquisition of treasury shares (net) (Note 24)	-	(247,474)	-	-	-	-	-	-	-	-	(247,474)	-	(247,474)
Other movements (Note 13)	-	-	-	-	-	-	-	-	75,592	-	75,592	-	75,592
Change in fair value of investment securities (Note 13)	-	-	-	-	-	-	-	1,030,666	-	-	1,030,666	-	1,030,666
Minority interest of Bemo Investment	-	-	-	-	-	-	-	-	-	-	-	(101,141)	(101,141)
Balance at December 31, 2017	62,248,000	(3,179,389)	52,641,854	29,104,984	56,143,182	-	450,312	1,030,666	36,625,566	27,782,456	262,847,631	361	262,847,992
Effect of adoption of IFRS 9	-	-	-	-	-	-	-	-	(10,854,370)	-	(10,854,370)	-	(10,854,370)
Transfer from regulatory deferred liability	-	-	-	-	-	-	-	-	10,854,370	-	10,854,370	-	10,854,370
Change in fair value of financial assets at fair value through other comprehensive income on January 1, 2018 (Note 11)	-	-	-	-	-	-	-	-	(2,754,379)	-	(2,754,379)	-	(2,754,379)
Effect of ECL on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	(1,655,972)	1,655,972	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	28,949	(8,929,382)	-	28,439,048	19,538,615	52	19,538,667
Allocation of income for the year 2017	-	-	-	-	6,492,600	-	-	-	21,289,856	(27,782,456)	-	-	-
Dividends paid (Note 29)	-	-	-	-	-	-	-	-	(9,792,169)	-	(9,792,169)	-	(9,792,169)
Acquisition of treasury shares (net) (Note 24)	-	(439,850)	-	-	-	-	-	-	-	-	(439,850)	-	(439,850)
Other movements (Note 13)	-	-	-	-	-	-	-	-	(50,782)	-	(50,782)	-	(50,782)
Revaluation of real estate	-	-	-	-	-	16,942,104	-	-	-	-	16,942,104	-	16,942,104
Balance at December 31, 2018	62,248,000	(3,619,239)	52,641,854	29,104,984	62,635,782	16,942,104	479,261	(9,554,688)	46,974,064	28,439,048	286,291,170	413	286,291,583

THE ACCOMPANYING NOTES 1 TO 48 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31, 2018 LBP'000	2017 LBP'000
Cash flows from operating activities:			
Profit before tax		33,801,331	32,193,730
Adjustments to reconcile profit to net cash used in operating activities:			
Depreciation and amortization	15,16	2,234,841	1,872,522
Provision for contingencies	22	316,877	887,725
Write back of provision for contingencies	22	(358,000)	(1,151,073)
Assets acquired in satisfaction of loans	14	(833,025)	(27,040)
Provision for expected credit losses, (net)	36	607,647	(16,191)
Non-controlling interests		(52)	(100,790)
(Write-back)/provision for employees' end-of-service indemnities		(156,085)	1,264,184
Unrealized loss/(gain) on financial assets at fair value through profit or loss		370,162	1,551,297
Equity income from investment in associates		(2,097,287)	(1,385,715)
Gain from sale of property and equipment		5,882	(44,777)
Increase in deposits with central banks, banks and financial institutions		(234,120,272)	(26,458,091)
Decrease in loans to banks and financial institutions		5,211,145	4,673,534
(Increase)/decrease in trading assets at fair value through profit or loss		(23,297,044)	58,981,648
Decrease/(increase) in investment securities		45,430,823	(32,635,108)
Decrease/(increase) in loans and advances to customers and related parties		46,499,118	(109,033,187)
Net (increase)/decrease in other assets		(7,904,004)	1,815,433
Increase in non-interest earning compulsory reserve and deposits with central banks		5,159,034	33,884,625
Increase/(decrease) in due to banks and financial institutions		131,233,096	(11,518,440)
Increase in other borrowings		3,810,536	2,589,095
Decrease in customers' and related parties ' deposits at amortized cost		(110,403,930)	(107,839,430)
Net increase/(decrease) in other liabilities		966,008	(4,319,134)
Net (decrease)/increase in provisions		(367,436)	46,946
Settlements of provision for contingencies	22	(166,612)	(108,423)
Settlement of employees' end-of-service indemnity	22	(1,045,126)	(21,834)
Taxes paid		(4,652,948)	(6,370,994)
Net cash used in operating activities		(109,755,321)	(161,269,488)
Cash flows from investing activities:			
Acquisition of treasury shares (net)	24	(439,850)	(247,474)
Property and equipment	15	(11,610,100)	(10,570,902)
Proceeds from sale of property and equipment		3,868	83,398
Intangible assets	16	(198,322)	(533,138)
Net cash used in investing activities		(12,244,404)	(11,268,116)
Cash flows from financing activities:			
Dividends paid	29	(9,792,169)	(8,599,000)
Subordinated bonds		3,693,375	54,143,011
Net cash (used in)/provided by financing activities		(6,098,794)	45,544,011
Net decrease in cash and cash equivalents		(128,098,519)	(126,993,593)
Cash and cash equivalents - Beginning of year	43	306,385,164	433,378,757
Cash and cash equivalents - End of year	43	178,286,645	306,385,164

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1. GENERAL INFORMATION

Banque Bemo S.A.L. (the "Bank") is a Lebanese joint-stock company listed on the Beirut Stock Exchange and registered in the Commercial Register under Number 17837 and on the list of banks published by the Central Bank of Lebanon under Number 93. The Bank's headquarters are located in Beirut.

The Bank provides a full range of commercial, corporate and private banking activities through a network of 8 branches in Lebanon in addition to a branch in Limassol, Cyprus.

Banque Bemo S.A.L. is owned by Sharikat AL Istismarat Al Oropia Lil Shareq Al Aousat (Holding) S.A.L. to the extent of 61.06%.

These financial statements comprise the financial statements of the Bank and its subsidiaries (collectively referred to as the "Group") Refer to Note 3(A).

2. Application of New and Revised International Financial Reporting Standards (IFRSs)

2.1 New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs and amendments to IFRSs and Interpretations, which became effective for annual periods beginning on or after January 1, 2018, have been adopted in these consolidated financial statements.

2.1.1 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are mandatorily effective for an accounting period that begins on or after January 1, 2018. Transition provisions of IFRS 9 allow an entity not to restate comparatives. Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

a. Classification and measurement of financial assets

The Group early adopted IFRS 9 (2009) and IFRS 9 (2010) with respect to classification and measurement requirements of its financial assets and financial liabilities.

On January 1, 2018 the Group adopted IFRS 9 (July 2014) and therefore reassessed the classification and measurement of its financial assets and financial liabilities that have not been derecognised as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Refer to Note 3.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The impact on the classification of financial assets and their carrying amounts is disclosed under section (d) below.

b. Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new impairment model applies to all financial assets measured at amortised cost (including debt instruments measured at FVTOCI). It also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVTOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL
Stage 1 includes financial assets that did not experience a significant increase in credit risk since the initial recognition or that have low credit risk. For these assets, ECL are recognised on the gross carrying amount of the asset based on the expected credit losses that result from default events that are possible within 12 months after the reporting date. Interest is computed on the gross carrying amount of the asset.

Stage 2: Lifetime ECL
Stage 2 includes financial assets that have had a significant increase in credit risk (SICR) since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised.

The impact of the adoption of IFRS 9 impairment model on the Group's financial assets and their carrying values and equity is disclosed in section (d) below.

c. Hedge accounting

IFRS 9 incorporates new hedge accounting rules that align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

The existing hedging relationships continue to qualify and be effective under the IFRS 9 hedge accounting provisions and did not have any transition impact on the Group financial statements.

d. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVTOCI.
  - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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 January 1, 2018.

	Classification under IFRS 9 (2010) (31 December 2017) category	Amount LBP'000	Reclassification LBP'000	Re-measurement ECL LBP'000	Category	Classification under IFRS 9 (2014) (1 January 2018) Amount LBP'000
Financial assets						
Deposits with central banks	Amortized cost	632,223,225	-	(786,169)	Amortized cost	631,437,056
Deposits with banks and financial institutions	Amortized cost	138,763,737	-	(365,971)	Amortized cost	138,397,766
Financial assets at fair value through profit or loss	FVTPL	24,720,123	-	-	FVTPL	24,720,123
Loans and advances to customers & related parties	Amortized cost	1,149,622,946	-	(5,553,592)	Amortized cost	1,144,069,354
Financial assets at amortized cost	Amortized cost	625,552,669	(272,268,029)	(1,829,209)	Amortized cost	351,445,431
Financial assets at fair value through other comprehensive income	FVTOCI	1,606,260	272,268,029	(1,655,972)	FVTOCI	272,218,317
Acceptances	Amortized cost	12,779,303	-	(20,095)	Amortized cost	12,759,208
Unutilized Indirect facilities	Amortized cost	-		(643,362)	Amortized cost	-
Net impact on equity				(10,854,370)		

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 LBP10.86billion.

2.1.2 IFRS 15 Revenue from contracts with customers

In the current year, the Group has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. *IFRS 15* introduced a 5-step approach to revenue recognition. The impact of IFRS 15 is not material on the consolidated financial statements of the Group.

2.1.3 Other IFRSs and amendments

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

- Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.

- Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.

- 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.

- Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration:* The interpretation addresses foreign currency transactions or parts of transactions where:
  - there is consideration that is denominated or priced in a foreign currency;
  - the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
  - the prepayment asset or deferred income liability is non-monetary.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after January 1, 2018.

2 Adoption of new and revised Standards

2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New and revised IFRSs	Effective for Annual Periods Beginning on or After
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019

New and revised IFRSs	Effective for Annual Periods Beginning on or After
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	January 1, 2019
Amendment to IFRS 3 *Business Combinations* relating to definition of a business	January1, 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	January 1, 2020
IFRS 17 Insurance Contracts IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	January 1, 2021
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011): Relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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 amendment, except for IFRS 16 may have no material impact on the consolidated financial statements of the Group in the period of initial application. Management is still in the process of assessing the impact of IFRS 16 and therefore an estimate of any impact on the consolidated financial statements as of January 1, 2019 cannot be reasonably determined at present.

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:

- Financial assets and liabilities at fair value through profit or 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.
- Land and buildings under property and equipment (except for two plots that were revalued during 2018).

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 Banque Bemo S.A.L. incorporate the financial statements of the Bank and the entities controlled by the Bank and its subsidiaries.

Control is achieved when the Bank:

- 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 Bank 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 Bank 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 Bank 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 Bank obtains control over the subsidiary and ceases when the Bank 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 Bank gains control until the date the Bank ceases to control the subsidiary.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank 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;
- 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, 2018 comprise:

Company	Country of Incorporation	Date of Acquisition or Incorporation	Percentage of Ownership	Business Activities
			%	
Bemo Securitization S.A.L.	Lebanon	1998	96.00	Securitization & Structured Finance
Depository & Custody Company S.A.L.	Lebanon	2007	99.90	Depository and custody of securities
Bemo Investment Firm Ltd.	Dubai	2013	100	Investment

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-assess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, these 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 IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized 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. The primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollars ("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 reporting 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 U.S. Dollars 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 equity.

Cash flows provided by and used in foreign currencies under various activities, as included in the statement of cash flows, are converted into Lebanese Pounds at year-end exchange rates, except for cash and cash equivalents at the beginning of the year which is converted at the prior year closing exchange exchange rates and the effect of currency fluctuation, if any, is disclosed separately.

D. Financial Instruments:

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial 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 FVTPL) 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 FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss)

- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

Central Bank of Lebanon Circular # 143 dated November 7, 2017 prohibits recognition of day one profits on designated transactions concluded by banks between the Central Bank of Lebanon and banks and whose purpose is to secure yield adjustment to maturity on certain designated financial assets as part of the Central Bank's monetary policy. The Group recognized the designated financial assets at amortized cost. These non-conventional transactions with the Central Bank of Lebanon consist of non-transferable non-negotiable arrangements.

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

E. Financial Assets:

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

  - Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;

  - All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and

- The Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

<u>Debt instruments at amortised cost or at FVTOCI</u>

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interst on the principal outstanding (SPPI).

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

The Group reassess its business models each reporting period to determine whther the business models have changed since the preceding period.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

In the current and prior reporting period the Group has applied the fair value option and so has designated debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described below.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets.

Impairment

Policy applicable up to December 31, 2017:

Financial assets that are measured at amortized 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 recognized 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 recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized.

Policy applicable effective January 1, 2018:

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- deposits at banks;
- loans and advances to banks;
- loans and advances to customers;
- customers' liability under acceptances
- debt investment securities;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased or Originated Credit Impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and

- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;

- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;

- for loan commitments and financial guarantee contracts: as a provision; and

- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

F. Loans and Advances:

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading. Loans and advances are measured at amortized cost net of provision for credit losses where applicable.

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

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Equity instruments

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 recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred 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 that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination 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 IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative 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 OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI 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 OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Fair value is determined as described below.

<u>Other financial liabilities</u>

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

<u>Derecognition of financial liabilities</u>

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

H. Offsetting:

Financial assets and liabilities are set-off and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set-off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

I. Derivative Financial Instruments:

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.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized 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 income statement 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.

J. Investments in Associates:

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

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

The results and assets and liabilities of associates, except where the Group has control over the associates' financial and operating policies, are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The financial statements of the associates are prepared for the same reporting period of the Group.

K. Property and Equipment:

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of property and equipment, other than land and advance payments on capital expenditures, less their residual values, if any, over the estimated useful lives of the related assets. Depreciation is calculated systematically using the straight-line method on the basis of the following annual rates:

	Rate
	%
Property	2.5
Furniture and fixtures	7.5 to 8
Equipment	10 to 12
Computer hardware	20
Installations and leasehold improvements	15 to 20
Vehicles	12 to 20

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives estimated at five years.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

L. Intangible Assets:

Intangible assets are stated at cost less any accumulated impairment loss. Intangible assets, other than goodwill consist of computer software and are amortized over a period of 5 years and are subject to impairment testing.

M. Assets acquired in satisfaction of loans :

Policy applicable to Lebanese Group entities: Real estate properties acquired through the enforcement of collateral over loans and advances are stated at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities which require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated statement of profit or loss under "Other operating income, (net)". Gains resulting from the sale of repossessed assets are transferred to "Reserves from disposal of 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 from retained earnings to "Reserves for assets acquired in satisfaction of loans" in the following financial year.

N. 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.

O. Employees' Benefits:

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

<u>*Employees' End-of-Service Indemnities*</u>*: (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 and interest accrued by the Fund.

<u>*Defined Benefit Plans*</u>*: (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.

P. 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.

Q. Net Interest Income:

Policy applicable up to December 31, 2017:

Interest income and expense are recognized on an accrual basis, taking into account the amount of the principal outstanding and the rate applicable, except for non-performing loans and advances for which interest income is only recognized upon realization. Interest income and expense include discount and premium amortization.

Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and liabilities at amortized cost.
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Policy applicable effective January 1, 2018:

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net (loss)/income from financial assets at fair value through profit or loss'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

R. Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

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

S. Net (loss)/income from financial assets at fair value through profit or loss

Net income from financial instruments financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL and related interest income, expense and dividends.

T. 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 consolidated statement of profit or loss on a straight line basis over the lease term.

U. Treasury Shares:

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Gains on sale of treasury shares are recorded under a reserve account in equity. Losses in excess of previously recognized gains are charged to retained earnings.

V. Fiduciary Deposits:

Fiduciary assets are held or invested on behalf of customers on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, these assets are reflected as off-balance sheet accounts.

W. 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 directly in other comprehensive income, in which case the tax is also recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable profit for the year, using rates enacted at the 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.

Interest earned on part of debt security was subject to withheld tax by the issuer. Up to October 26, 2017, this tax was deducted at year-end from the corporate income tax liability and accounted for as prepayment on corporate income tax and reflected as a part of income provisions. Effective October 27, 2017, and following the tax amendments to law No. 64, withheld tax on interest earned on inter-bank deposits and debt security is no more considered as prepayment on corporate income tax, and it is considered as deductible expense for the purpose of computing the corporate income tax. Withholding tax on interest was increased from 5% to 7%.

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.

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 Bank 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, which comprise share options granted to employees, if applicable.

Y. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with original contractual maturities of three months or less and include: cash and balances with the central banks and deposits with banks and financial institutions.

Z. Dividends on Ordinary Shares:

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

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

A.A Deferred Restricted Contributions

Restricted contributions derived from special and non-conventional deals arrangement concluded with the regulator are deferred until designated conditions for recognition are met. At the time income is received it is deferred under "regulatory deferred liability" and applied to the designated purpose according to the regulator's requirements.

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 carrying 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.

Business model assessment:

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (Refer to the financial assets sections of note 3). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. The Group monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk:

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics:

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used:

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

B. Key Sources of Estimation Uncertainty:

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

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 (applicable up to December 31, 2017):

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances 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 his advances and the value of collateral and potential repossession.

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

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario:

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default:

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default:

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

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 47. For financial instruments that are 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.

5. CASH AND DEPOSITS WITH CENTRAL BANKS

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Cash on hand	12,145,284	9,242,940
Current accounts with Central Bank of Lebanon (of which compulsory reserves LBP17.1billion in 2018 and LBP22.1billion in 2017)	40,757,144	130,934,835
Current accounts with other central banks	1,275,412	416,480
Term placements with Central Bank of Lebanon	660,542,515	490,593,809
Accrued interest receivable	15,190,210	5,538,866
	729,910,565	636,726,930
Provision for expected credit losses	(1,891,849)	-
	728,018,716	636,726,930

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

Cash compulsory reserves with 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 subject to certain exemptions in accordance with the local banking regulations.

Current accounts with other central banks include the equivalent in Euro of LBP617million as at December 31, 2018 (LBP257million 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.

Term placements with Central Bank of Lebanon include an amount of LBP271billion as at December 31, 2018 (LBP283billion as at December 31, 2017) representing the equivalent in foreign currencies of amounts 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 deposit and borrowings obtained from non-resident financial institutions.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Checks in course of collection	13,782,274	15,897,315
Current accounts	39,614,702	55,557,323
Current accounts - related parties	2,168,555	5,411,036
Term placements	47,458,323	16,064,708
Margin accounts	43,225,932	45,805,242
Accrued interest receivable	193,035	28,113
	146,442,821	138,763,737
Provision for expected credit loss	(375,311)	-
	146,067,510	138,763,737

Deposits with banks and financial institutions include deposits in the amount of LBP1.71billion subject to right of set-off by the related correspondents against trade finance and other facilities at 2018 year end (LBP1.71billion against trade finance and other facilities as at December 31, 2017).

Margin accounts and pledged deposits are blocked against trade finance and treasury transactions (Refer to Note 44).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2018			December 31, 2017		
	LBP Base Accounts	Foreign Currency Base Accounts	Total	LBP Base Accounts	Foreign Currency Base Accounts	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	-	9,761,293	9,761,293	-	10,084,754	10,084,754
Lebanese treasury bills	240,321	-	240,321	223,268	-	223,268
Foreign Government bonds	-	37,199,071	37,199,071	-	-	-
Lebanese Government bonds	-	258,559	258,559	-	7,033,275	7,033,275
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	-	5,907,290	5,907,290
Corporate bonds	-	-	-	-	1,256,366	1,256,366
Accrued interest receivable	6,047	181,714	187,761	5,784	209,386	215,170
	246,368	47,400,637	47,647,005	229,052	24,491,071	24,720,123

The positive change in fair value of financial assets at fair value through profit or loss in the amount of LBP370million (LBP1.55billion in 2017) is recorded under "Net interest and other gains/(losses) on financial assets at fair value through profit or loss" (Note 34) in the consolidated statement of profit or loss.

8. LOANS TO BANKS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Discounted letters of credit and acceptances	7,627,631	12,838,776
	7,627,631	12,838,776

Loans to banks are reflected at amortized cost and represent letters of credit and acceptances discounted by customers and maturing subsequent to the statement of financial position date.

9. LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES

	December 31, 2018			December 31, 2017		
	Carrying Amount	Provision for expected credit losses	Net Carrying Amount	Carrying Amount	Allowance for Impairment	Net Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing Retail customers – stages 1 & 2:						
Mortgage loans	65,626,748	(330,948)	65,295,800	45,615,453	-	45,615,453
Personal loans	10,615,254	(53,532)	10,561,722	5,335,319	-	5,335,319
Overdrafts	30,599,559	(154,311)	30,445,248	43,385,340	-	43,385,340
Other	8,699,618	(43,871)	8,655,747	11,819,320	-	11,819,320
Performing corporate customers – stages 1 &2:						
Large enterprises	726,146,339	(3,661,885)	722,484,454	770,180,490	-	770,180,490
Small and medium enterprises	221,918,601	(1,119,114)	220,799,487	246,586,036	-	246,586,036
Non-performing loans – stage 3:						
Substandard	33,350,809	(1,968,054)	31,382,755	19,712,056	-	19,712,056
Bad and doubtful	13,125,654	(7,163,580)	5,962,074	14,204,524	(6,744,593)	7,459,931
Allowance for impairment for collectively assessed loans:						
Corporate loans	-	-	-	-	(2,095,422)	(2,095,422)
Retail loans	-	-	-	-	(34,460)	(34,460)
Accrued interest receivable	1,689,596	-	1,689,596	1,658,883	-	1,658,883
	1,111,772,178	(14,495,295)	1,097,276,883	1,158,497,421	(8,874,475)	1,149,622,946

The allocation of provision for expected credit losses by grade to their respective stage is presented as follows:

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Excellent and Strong (A+)	350,698	-	-	350,698
Good and Satisfactory(A)	1,982,545	-	-	1,982,545
Adequete (A-)	632,586	-	-	632,586
Marginal and Vulnerable (B & B-)	-	2,397,832	-	2,397,832
Substandard and doubtful (C,D,&E)	-	-	9,131,634	9,131,634
Total gross carrying amount	2,965,829	2,397,832	9,131,634	14,495,295

The movement of the provision for expected credit loss for the credit impaired loans and advances during 2018 is represented as follows:

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Loss allowance as at January 1, 2018	2,446,478	1,293,495	10,688,094	14,428,067
Additions upon implementation of IFRS9	2,956,315	217,383	(2,655,816)	517,882
Transfer to Stage 1	7,761	(7,761)	-	-
Transfer to Stage 2	(924,661)	924,661	-	-
Transfer to Stage 3	(1,520,064)	(29,946)	1,550,010	-
Write-backs	-	-	(224,529)	(224,529)
Write-offs	-	-	(226,125)	(226,125)
Provision for expected credit losses as at December 31, 2018	2,965,829	2,397,832	9,131,634	14,495,295

The changes in the carrying amounts of loans and advances to customers that contributed to changes in loss allowances is detailed as follows (excluding accrued interest):

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Carrying amount as at January 1, 2018	1,067,455,896	55,466,062	33,916,580	1,156,838,538
Changes in carrying amount:				
Transfer to Stage 1	15,522,509	(15,522,509)	-	-
Transfer to Stage 2	(16,382,675)	17,974,389	(1,591,714)	-
Transfer to Stage 3	(22,473,493)	(524,565)	22,998,058	-
Financial assets that have been derecognized	(36,955,587)	(2,844,124)	(8,395,807)	(48,195,518)
Write-offs	-	-	(226,125)	(226,125)
Write backs	-	-	(224,529)	(224,529)
New financial assets originated or purchased	1,890,216	-	-	1,890,216
Carrying amount as at December 31, 2018	1,009,056,866	54,549,253	46,476,463	1,110,082,582

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

	2017		
	Substandard Loans	Allowance for Impairment	Net Book Value
	LBP'000	LBP'000	LBP'000
Balance January 1	17,031,546	-	17,031,546
Withdrawals on existing loans	17,031,546	-	17,031,546
Settlements	(1,387,338)	-	(1,387,338)
Additions to unrealized interest	-	-	-
Write back of unrealized interest to income statement	20	-	20
Write-off	-	-	-
Balance December 31	19,712,056	-	19,712,056

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

	2017		
	Doubtful and Bad Loans	Allowance for Impairment	Net Book Value
	LBP'000	LBP'000	LBP'000
Balance January 1	14,107,735	(6,628,920)	7,478,815
Withdrawals on existing doubtful loans	77,707	-	77,707
Settlement of loans	(435,361)	-	(435,361)
Additions to unrealized interest and allowance for impairment	-	(111,867)	(111,867)
Write-back	311,483	128,873	440,356
Effect of exchange rates changes	142,960	(132,679)	10,281
Balance December 31	14,204,524	(6,744,593)	7,459,931

10. INVESTMENT SECURITIES

	December 31, 2018			December 31, 2017		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets at amortized cost (A)	167,130,956	263,573,384	430,704,340	197,479,814	357,377,838	554,857,652
Accrued interest receivable	3,715,440	4,226,728	7,942,168	4,268,987	4,292,450	8,561,437
Provision for expected credit losses	(569,343)	(1,881,006)	(2,450,349)	-	-	-
	170,277,053	265,919,106	436,196,159	201,748,801	361,670,288	563,419,089
Financial assets at fair value through other comprehensive income (B)	615,120	67,381,671	67,996,791	615,120	991,140	1,606,260
Accrued interest receivable	-	763,800	763,800	-	-	-
	615,120	68,145,471	68,760,591	615,120	991,140	1,606,260
	170,892,173	334,064,577	504,956,750	202,363,921	362,661,428	565,025,349

A. Financial assets at amortized cost are broken down as follows:

	December 31, 2018									
	LBP Base Accounts					C/V of F/Cy Base Accounts				
	Amortized Cost	Provision for Expected Credit Losses	Net Carrying Amount	Fair Value	Accrued Interest Receivable	Amortized Cost	Provision for Expected Credit Losses	Net Carrying Amount	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	95,521,447	(569,343)	94,952,104	92,647,078	1,712,649	-	-	-	-	-
Government bonds	-	-	-	-	-	92,043,722	(1,024,650)	91,019,072	83,490,250	2,733,896
Certificates of deposit issued by the Central Bank of Lebanon	70,109,509	-	70,109,509	61,267,524	1,973,781	155,618,509	(856,356)	154,762,153	129,338,133	1,295,297
Corporate bonds	1,500,000	-	1,500,000	1,500,000	29,010	15,911,153	-	15,911,153	15,981,163	197,535
	167,130,956	(569,343)	166,561,613	155,414,602	3,715,440	263,573,384	(1,881,006)	261,692,378	228,809,546	4,226,728

	December 31, 2017					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	131,054,143	133,603,498	2,485,582	-	-	-
Lebanese Government bonds	-	-	-	101,452,978	88,756,612	1,932,322
Certificates of deposit issued by the Central Bank of Lebanon	64,925,671	63,653,614	1,754,724	237,628,082	233,964,000	2,117,549
Corporate bonds	1,500,000	1,500,000	28,681	18,296,778	18,801,205	242,579
	197,479,814	198,757,112	4,268,987	357,377,838	341,521,817	4,292,450

The remaining periods to maturity of financial assets at amortized cost, denominated in Lebanese Pounds excluding accrued interest, are as follows:

	December 31, 2018					
	LBP Base Accounts					
	Nominal Value	Amortized Cost	Provision for Expected Credit Losses	Net Carrying Amount	Fair Value	Yield
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills:						
Up to one year	9,830,000	9,959,946	(34,668)	9,925,278	9,875,925	6.82%
1 year to 3 years	55,775,000	57,234,342	(199,218)	57,035,124	55,929,761	7.20%
3 years to 5 years	14,121,850	14,252,963	(56,031)	14,196,932	14,184,831	7.09%
5 years to 10 years	13,378,700	14,074,196	(279,426)	13,794,770	12,656,561	7.52%
	93,105,550	95,521,447	(569,343)	94,952,104	92,647,078	
Certificates of deposit issued by the Central Bank of Lebanon:						
1 year to 3 years	1,000,000	1,023,403	-	1,023,403	982,726	7.62%
3 years to 5 years	10,000,000	10,500,479	-	10,500,479	9,576,550	7.85%
5 years to 10 years	53,000,000	58,585,627	-	58,585,627	50,708,248	8.11%
	64,000,000	70,109,509	-	70,109,509	61,267,524	
Corporate bonds:						
1 year to 3 years	1,500,000	1,500,000	-	1,500,000	1,500,000	8.00%
	1,500,000	1,500,000	-	1,500,000	1,500,000	
	158,605,550	167,130,956	(569,343)	166,561,613	155,414,602	

Contractual Maturity	Nominal Value	Amortized Cost	Fair Value	Yield
	December 31, 2017			
	LBP Base Accounts			
	LBP'000	LBP'000	LBP'000	%
Lebanese treasury bills:				
Up to 3 months	6,920,000	6,921,651	7,159,440	5.58
3 months to 1 year	27,475,000	27,554,497	27,517,942	6.82
1 year to 3 years	65,510,000	65,975,447	66,872,382	6.95
3 years to 5 years	12,375,500	12,515,921	14,457,614	6.62
Beyond 5 years	17,220,050	18,086,627	17,596,120	6.52
	129,500,550	131,054,143	133,603,498	
Certificates of deposit issued by the Central Bank of Lebanon:				
3 years to 5 years	1,000,000	1,034,777	1,026,712	7.54
5 years to 10 years	58,000,000	63,890,894	62,626,902	8.02
	59,000,000	64,925,671	63,653,614	
Corporate bonds:				
3 years to 5 years	1,500,000	1,500,000	1,500,000	8.00
	1,500,000	1,500,000	1,500,000	
	190,000,550	197,479,814	198,757,113	

The remaining periods to maturity of financial assets at amortized cost, denominated in Foreign Currencies excluding accrued interest, are as follows:

Contractual Maturity	Nominal Value	Amortized Cost	Provision for Expected Credit Losses	Net Carrying Amount	Fair Value	Yield
	December 31, 2018					
	F/Cy Base Accounts					
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese Government bonds:						
3 years to 5 years	6,030,000	6,139,969	(67,891)	6,072,078	5,103,189	6.29%
5 years to 10 years	44,772,750	41,152,844	(869,415)	40,283,429	36,124,600	6.91%
Beyond 10 years	53,124,300	44,750,909	(87,344)	44,663,565	42,262,461	8.31%
	103,927,050	92,043,722	(1,024,650)	91,019,072	83,490,250	
Certificates of deposit issued by the Central Bank of Lebanon:						
3 years to 5 years	76,882,500	77,779,591	(428,016)	77,351,575	67,052,846	6.40%
5 years to 10 years	53,064,000	55,107,325	(303,250)	54,804,075	45,326,666	6.64%
Beyond 10 years	22,612,500	22,731,593	(125,090)	22,606,503	16,958,621	7.20%
	152,559,000	155,618,509	(856,356)	154,762,153	129,338,133	
Corporate Bonds:						
1 year to 3 years	7,160,625	7,147,570	-	7,147,570	7,160,625	5.98%
3 years to 5 years	1,584,538	1,584,538	-	1,584,538	1,584,538	7.19%
5 years to 10 years	7,236,000	7,179,045	-	7,179,045	7,236,000	6.55%
	15,981,163	15,911,153	-	15,911,153	15,981,163	
	272,467,313	263,573,384	(1,881,006)	261,692,378	228,809,546	

Contractual Maturity	Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	Yield %
	December 31, 2017			
	F/Cy Base Accounts			
Lebanese Government bonds:				
Up to 3 months	3,950,191	3,942,725	3,944,510	4.04
3 months to 1 year	37,688	37,708	37,548	5.15
1 year to 3 years	21,105,000	21,290,071	20,890,634	5.95
3 years to 5 years	7,630,965	8,271,575	7,977,382	7.59
5 years to 10 years	36,496,575	36,557,099	31,758,122	6.31
Beyond 10 years	31,793,175	31,353,800	24,148,416	6.84
	101,013,594	101,452,978	88,756,612	
Certificates of deposit issued by the Central Bank of Lebanon:				
1 year to 3 years	7,537,500	7,537,500	7,537,500	6.20
3 years to 5 years	91,957,500	91,983,161	91,957,500	6.17
5 years to 10 years	111,856,500	115,365,371	111,856,500	6.56
Beyond 10 years	22,612,500	22,742,050	22,612,500	7.20
	233,964,000	237,628,082	233,964,000	
Corporate Bonds:				
1 year to 3 years	2,261,250	2,261,250	2,261,250	7.00
3 years to 5 years	4,899,375	4,880,917	4,899,375	5.52
5 years to 10 years	11,218,679	11,154,611	11,640,580	6.85
	18,379,304	18,296,778	18,801,205	
	353,356,898	357,377,838	341,521,817	

The movement of financial assets at amortized cost, denominated in Lebanese Pounds excluding accrued interest, is summarized as follows:

	Lebanese Treasury Bills LBP'000	Certificates of Deposit issued by the Central Bank of Lebanon LBP'000	Corporate Bonds LBP'000	Total LBP'000
	2018			
Balance January 1	131,054,143	64,925,671	1,500,000	197,479,814
Reclassifications upon implementation of IFRS 9	(93,524,438)	(33,075,210)	-	(126,599,648)
Additions	63,510,000	35,000,000	-	98,510,000
Redemptions	(6,920,000)	-	-	(6,920,000)
Net variation in premium	1,401,742	3,259,048	-	4,660,790
Provision for expected credit losses	(569,343)	-	-	(569,343)
Balance December 31	94,952,104	70,109,509	1,500,000	166,561,613

	2017			
	Lebanese Treasury Bills	Certificates of Deposit Issued by the Central Bank of Lebanon	Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	149,290,331	56,084,668	-	205,374,999
Additions	27,693,500	51,000,000	1,500,000	80,193,500
Redemptions	(21,127,480)	-	-	(21,127,480)
Sales	(47,000,000)	(47,000,000)	-	(94,000,000)
Reclassification	23,521,200	1,000,000	-	24,521,200
Net variation in premium	(1,323,408)	3,841,003	-	2,517,595
Balance December 31	131,054,143	64,925,671	1,500,000	197,479,814

The movement of financial assets at amortized cost, denominated in Foreign Currencies excluding accrued interest, is summarized as follows:

	2018			
	Lebanese Government Bonds	Certificates of Deposit issued by the Central Bank of Lebanon	Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	101,452,978	237,628,082	18,296,778	357,377,838
Reclassifications upon implementation of FRS 9	(64,237,753)	(81,430,628)	-	(145,668,381)
Additions	62,406,731	-	-	62,406,731
Redemptions	(3,950,191)	-	(2,398,141)	(6,348,332)
Net variation in premium	(3,676,329)	(578,945)	12,516	(4,242,758)
Effect of exchange rates changes	48,286	-	-	48,286
Provision for credit expected losses	(1,024,650)	(856,356)	-	(1,881,006)
Balance December 31	91,019,072	154,762,153	15,911,153	261,692,378

	2017			
	Lebanese Government Bonds	Certificates of Deposit issued by the Central Bank of Lebanon	Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	115,685,102	245,750,426	19,819,866	381,255,394
Additions	84,397,388	15,075,000	2,638,126	102,110,514
Redemptions	(43,740,113)	-	(2,626,242)	(46,366,355)
Sales and exchange	(55,101,657)	(22,612,500)	(1,507,500)	(79,221,657)
Net variation in premium	212,258	(584,844)	(27,472)	(400,058)
Balance December 31	101,452,978	237,628,082	18,296,778	357,377,838

Gain from derecognition of financial assets at amortized cost, (net) consists of the following:

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Lebanese treasury bills	-	1,634,446
Certificates of deposit issued by the Central Bank of Lebanon	-	1,894,421
Lebanese Government bonds	-	(13,585)
	-	3,515,282

During the year 2017, the Group entered into several sales transactions of Lebanese Treasury bills, Lebanese Government bonds, certificates of deposit issued by the Central Bank of Lebanon, and Corporate bonds of aggregate carrying value of LBP47billion, LBP49billion, LBP47billion and LBP1.5billion, respectively.

B. Financial assets at fair value through other comprehensive income are broken down as follows:

	December 31, 2018				
	LBP Base Accounts		C/V of F/Cy Base Accounts		
	Cost	Fair Value	Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese Government bonds	-	-	29,127,915	23,102,111	368,125
Certificates of deposit issued by the Central Bank of Lebanon	-	-	46,732,500	40,251,907	374,434
Corporate bonds	-	-	3,081,423	3,081,423	21,241
Unquoted equity securities	615,120	615,120	946,230	946,230	-
	615,120	615,120	79,888,068	67,381,671	763,800

Following the adoption of IFRS 9 on January 1, 2018 the Group reclassified the following financial assets from amortized cost portfolio to financial assets at fair value through comprehensive income.

	Fair Value January 1, 2018	Carrying Value December 31, 2017	Change in Fair Value of Financial Assets at Fair Value Through Other Comprehensive Income on the Date of Adoption of IFRS 9
	LBP'000	LBP'000	LBP'000
Lebanese Government bonds	61,827,045	64,237,753	(2,410,708)
Certificates of deposit issued by the Central Bank of Lebanon	112,588,078	114,505,838	(1,917,760)
Lebanese treasury bills	95,098,527	93,524,438	1,574,089
	269,513,650	272,268,029	(2,754,379)

Unquoted equity securities, include an amount of LBP921million representing the Group's investment in "La Banque Outarde". During November 2017, the Group acquired 3,500 shares of La Banque Outarde in Senegal "LBO S.A" whose capital is divided into 100,000 shares of CFA100,000 each following the approval of the Central Bank of Lebanon on March 31, 2016. The total acquisition of the Group amounted to CFA350million constituting 3.5% of "LBO S.A" capital. The Group recorded the investment in Euro for the equivalent amount of EUR534,000 (C/V LBP921million) as at December 31, 2018. C/V LBP965million as at December 31, 2017.

The remaining periods to maturity of debt financial assets at fair value through other comprehensive income, denominated in Foreign Currencies excluding accrued interest, is as follows:

	Cost	Fair Value	Yield
	LBP'000	LBP'000	%
Lebanese Government bonds:			
3 years to 5 years	108,540	93,334	6.23%
5 years to 10 years	15,301,125	12,606,845	6.94%
Beyond 10 years	13,718,250	10,401,932	7.80%
	29,127,915	23,102,111	
Certificates of deposit issued by the Central Bank of Lebanon:			
3 years to 5 years	46,732,500	40,251,907	6.53%
	46,732,500	40,251,907	
Corporate Bonds:			
1 year to 3 years	1,272,423	1,272,423	5.80%
5 years to 10 years	1,809,000	1,809,000	7.25%
	3,081,423	3,081,423	
	78,941,838	66,435,441	

The movement of financial assets at fair value through other comprehensive income, denominated in Lebanese Pounds excluding accrued interest, is summarized as follows:

	2018			
	Lebanese Treasury Bills	Certificates of Deposit issued by the Central Bank of Lebanon	Unquoted Equity Securities	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	-	-	615,120	615,120
Reclassifications upon implementation of IFRS 9	95,098,527	33,197,550	-	128,296,077
Sales	(95,098,527)	(33,197,550)	-	(128,296,077)
Balance December 31	-	-	615,120	615,120

The movement of financial assets at fair value through other comprehensive income, denominated in Foreign Currencies excluding accrued interest, is summarized as follows:

	2018				
	Lebanese Government Bonds	Certificates of Deposit issued by the Central Bank of Lebanon	Corporate Bonds	Unquoted Equity Securities	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	-	-	-	991,140	991,140
Reclassifications upon implementation of IFRS 9	61,827,045	79,390,528	-	-	141,217,573
Additions	13,793,625	-	24,186,423	-	37,980,048
Redemptions	(37,687)	-	(21,105,000)	-	(21,142,687)
Sales	(58,566,375)	(40,702,500)	-	-	(99,268,875)
Reclassifications from fair value through profit and loss	9,836,261	6,030,000	-	-	15,866,261
Net variation in premium	245,679	970,489	-	-	1,216,168
Effect of exchange rates changes	-	-	-	(44,910)	(44,910)
Change in fair value of financial assets at fair value through other comprehensive income	(3,996,437)	(5,436,610)	-	-	(9,433,047)
Balance December 31	23,102,111	40,251,907	3,081,423	946,230	67,381,671

11. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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 statement of financial position for the same amount.

12. ASSETS UNDER LEVERAGE ARRANGEMENT WITH THE CENTRAL BANK OF LEBANON

	December 31,	
	2018	2017
	LBP'000	LBP'000
Term placements with Central Bank of Lebanon	330,368,000	-
Lebanese Treasury bills	64,821,975	57,346,400
	395,189,975	57,346,400

Assets under leverage arrangement consisting of term placements with the Central Bank of Lebanon and Lebanese Treasury bills in LBP (earning 10% interest) originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP (bearing 2% interest), purpose of which is to provide yield adjustment on certain transactions related to either fresh deposits in foreign currency or sale of foreign currency against LBP placed in term deposits at the Central Bank of Lebanon and/or Government securities in foreign currency. The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Term placements with Central Bank of Lebanon	255,898,125	46,355,625
Government bonds at amortized cost	60,781,040	-
	316,679,165	46,355,625

13. INVESTMENT IN AN ASSOCIATE

	Country of Incorporation	Interest Held	December 31, 2018 Carrying Value	December 31, 2017 Carrying Value
		%	LBP'000	LBP'000
Banque Bemo Saudi Fransi S.A.	Syria	22	23,102,054	20,994,413
			23,102,054	20,994,413

The movement of investment in an associate is as follows:

	2018	2017
	LBP'000	LBP'000
Balance January 1	20,994,413	18,052,156
Share in profit of an associate (Note 35)	2,097,287	1,385,715
Currency translation adjustment for the year	28,949	450,312
Change in fair value of investment securities	32,187	1,030,666
Other adjustment	(50,782)	75,564
Balance December 31	23,102,054	20,994,413

The movement of the currency translation adjustment for the years 2018 and 2017 is as follows:

	2018	2017
	LBP'000	LBP'000
Balance January 1	450,312	-
Additions	28,949	450,312
Balance December 31	479,261	450,312

The summarized consolidated financial statements of the associate, Banque Bemo Saudi Fransi S.A., are provided below:

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Total Assets	1,056,101,974	867,951,074
Total Liabilities	950,595,625	772,226,827
Equity of the group	105,009,371	95,245,403
Equity attributable to non controlling interests	496,978	478,844
Profit/(loss) for the year of the group	9,664,709	(7,133,089)
Profit/(loss) attributable to non controlling interests	9,646	(62,345)

Summarized consolidated statement of profit or loss:

	Year Ended December 31, 2018 LBP'000	Year Ended December 31, 2017 LBP'000
Interest income	43,132,797	30,907,610
Interest expense	(14,205,331)	(8,869,581)
Fees and commission income	7,281,439	6,700,492
Fees and commission expense	(1,777,795)	(2,539,400)
Administrative expenses	(6,823,861)	(5,868,525)
Staff costs	(13,683,825)	(12,779,106)
Provision for doubtful debts	(444,892)	62,958
Other provisions	(989,933)	(843,500)
Depreciation and amortization expense	(2,167,111)	(1,678,798)
Others	3,616,954	3,609,988
Income tax expense	(4,395,672)	(2,706,070)
Unrealized gain/(loss) on capital revaluation, net	131,585	(13,248,041)
	9,674,355	(7,251,973)

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

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

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. This regulatory reserve is reflected under equity. In this connection, an amount of LBP105million was appropriated in 2018 from 2017 income (LBP151million in 2017).

15. PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture	Computer Equipment	Vehicles	Installations and Leasehold Improvement	Advances on Capital Expenditures	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Gross Amount:								
Balance, January 1, 2017	7,222,927	8,445,646	2,517,022	6,759,196	934,534	9,189,044	6,645,952	41,714,321
Additions	-	-	180,668	418,756	66,523	3,376,629	6,528,326	10,570,902
Disposals	-	-	(24,637)	(232,802)	(153,871)	(961,734)	-	(1,373,044)
Balance, December 31, 2017	7,222,927	8,445,646	2,673,053	6,945,150	847,186	11,603,939	13,174,278	50,912,179
Additions	-	-	85,651	432,814	4,456	31,863	11,055,316	11,610,100
Revaluation	7,918,404	9,915,390	-	-	-	-	-	17,833,794
Disposals	-	-	(31,667)	(128,570)	(64,298)	(8,103)	-	(232,638)
Balance, December 31, 2018	15,141,331	18,361,036	2,727,037	7,249,394	787,344	11,627,699	24,229,594	80,123,435
Accumulated Depreciation:								
Balance, January1, 2017	-	1,767,883	2,052,065	5,129,352	439,914	8,357,363	-	17,746,577
Additions	-	214,472	82,757	469,274	108,452	668,068	-	1,543,023
Write-off on disposals	-	-	(23,750)	(210,521)	(140,447)	(959,705)	-	(1,334,423)
Balance, December 31, 2017	-	1,982,355	2,111,072	5,388,105	407,919	8,065,726	-	17,955,177
Additions	-	215,031	83,793	498,861	75,953	952,245	-	1,825,883
Disposals	-	-	(29,778)	(121,375)	(64,293)	(7,442)	-	(222,888)
Balance, December 31, 2018	-	2,197,386	2,165,087	5,765,591	419,579	9,010,529	-	19,558,172
Carrying Amount:								
December 31, 2018	15,141,331	16,163,650	561,950	1,483,803	367,765	2,617,170	24,229,594	60,565,263
December 31, 2017	7,222,927	6,463,291	561,981	1,557,045	439,267	3,538,213	13,174,278	32,957,002

The Bank's Board of Directors approved on July 20, 2016 the acquisition of 5,307m^2 of plot number 660 located in Medawar for a total consideration of USD20,945,000 (C/V LBP32billion) for the purpose of building the Bank's head quarters.

The addition to advances on capital expenditures during the year 2018 in the amount of LBP11billion, represents the fourth and fifth payments on plot number 660 as per acquisition contract (LBP6.5billion as second and third payment during the year 2017) as well as the first, second and third payments on the additional sections of plot number 660 purchased in April 2018 for a total consideration of LBP7billion.

During 2018, the Group revalued its land and buildings held in Ashrafieh and Bouchrieh, which resulted in a revaluation surplus in the amount of LBP17.8billion. The revaluation surplus was subject to withheld taxes at the rate of 5% amounting to LBP891million that was fully settled during 2018.

The addition to the installations and leasehold improvement during 2017 in the amount of LBP3.4billion are related to expansion and refurbishment works undertaken in Rabieh and Achrafieh branches.

16. INTANGIBLE ASSETS

	Purchased Software LBP'000
Cost:	
Balance, January 1, 2017	4,715,711
Acquisitions	533,138
Balance, December 31, 2017	5,248,849
Acquisitions	198,322
Write-off	(346,939)
Balance, December 31, 2018	5,100,232
Amortization:	
Balance, January 1, 2017	3,734,031
Amortization of the year	329,499
Balance, December 31, 2017	4,063,530
Amortization of the year	408,958
Write-off	(346,939)
Balance, December 31, 2018	4,125,549
Carrying Amount:	
December 31, 2018	974,683
December 31, 2017	1,185,319

17. OTHER ASSETS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Exchange difference on fixed exchange position	263,578	302,578
Fair value of forward exchange contracts	4,088,679	-
Stamps	108,845	106,666
Deferred charges	-	1,706
Receivables from securitization operations	2,401,151	1,976,254
Receivables from an associate and a related party bank	1,408,863	1,841,946
Prepayments	3,032,872	1,018,956
Receivables from a financial institution – credit and operations	2,307,582	2,338,920
Receivables from National Social Security Fund (Net of provision)	1,148,109	1,045,225
Sundry accounts receivable	4,078,379	2,490,303
	18,838,058	11,122,554

Provision for doubtful receivables of LBP183thousand was set up during 2018 against receivables from the National Social Security Fund (LBP295million for the year 2017). Total provision as at December 31, 2018 amounts to LBP899million (LBP842.1million as at December 31, 2017).

Receivables from an associate and a related party bank represent amounts paid by the Group on behalf of these related entities. The outstanding receivables is subject to interest at the annual rates of 6.5% and 4.5% respectively. Interest income earned during the year 2018 amounted to LBP106million recorded under interest income in the statement of profit or loss and other comprehensive income for the year ended December 31, 2018 (LBP185million during 2017) (Note 30).

18. DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Current deposits of banks and financial institutions	1,563,744	2,815,876
Current deposits – Related parties	57,083,786	62,182,609
Money market deposits	102,545,575	11,714,776
Money market deposits - Related parties	81,528,303	37,643,276
Accrued interest payable	3,644,360	776,135
	246,365,768	115,132,672

19. CUSTOMERS AND RELATED PARTIES ACCOUNTS AT AMORTIZED COST

	December 31,	
	2018	2017
	LBP'000	LBP'000
Deposits from customers:		
Current and demand deposits	323,179,592	346,120,411
Term deposits	1,510,611,957	1,555,894,355
Collateral against loans and advances	101,131,242	140,087,339
Margins and other accounts:		
Margins for irrevocable import letters of credit	2,628,481	1,385,252
Margins on letters of guarantee	5,995,146	7,342,537
Other margins	13,245,898	14,325,975
Margins on trading transactions	4,063,256	6,826,159
Accrued interest payable:	10,046,630	9,324,104
Total	1,970,902,202	2,081,306,132

Deposits from customers are allocated by brackets of deposits as follows:

	December 31, 2018		
	Total Deposits	% to Total Deposits	% to Total No. of Customers
	LBP'000	%	%
Less than LBP200million	147,850,546	7.50	72.33
From LBP200million to LBP1.5billion	594,473,946	30.16	21.81
Over LBP1.5billion	1,228,577,710	62.34	5.86
	1,970,902,202	100.00	100.00

	December 31, 2017		
	Total Deposits	% to Total Deposits	% to Total No. of Customers
	LBP'000	%	%
Less than LBP200million	145,886,620	7.01	72.20
From LBP200million to LBP1.5billion	684,847,233	32.90	22.31
Over LBP1.5billion	1,250,572,279	60.09	5.49
	2,081,306,132	100.00	100.00

Term deposits as at December 31, 2018 include fiduciary deposits received from a non-resident related party bank in the amount of LBP7.74billion (LBP11.4billion as at December 31, 2017).

The average balances of customers' deposits at amortized cost, including related party deposits, and related cost of funds over the last 3 years were as follows:

	LBP Base Accounts		F/Cy Base Accounts		
	Average Balance of Deposits	Average Interest Rate	Average Balance of Deposits	Average Interest Rate	Cost of Funds
	LBP'000	%	LBP'000	%	LBP'000
2018	165,435,961	7.43	1,796,131,166	4.4	86,434,512
2017	262,476,131	6.10	1,861,189,587	3.27	77,595,526
2016	347,215,150	6.17	1,715,030,692	3.03	73,312,232

20. OTHER TERM BORROWINGS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Other term borrowings	15,247,943	11,904,958
Accrued interest	467,551	-
	15,715,494	11,904,958

Other term borrowings, represent borrowing from Central Bank of Lebanon in LBP being facilities in accordance with 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.

The movement of other term borrowings, excluding accrued interest, during 2018 and 2017 is summarized as follows:

	2018	2017
	LBP'000	LBP'000
Balance January 1	11,904,958	9,315,863
Additions	3,342,985	2,589,095
Balance December 31	15,247,943	11,904,958

21. OTHER LIABILITIES

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Current tax liability (a)	4,997,380	2,617,096
Deferred tax liability	501,838	501,838
Withheld tax on salaries	673,774	674,951
Withheld tax on interest	620,507	568,151
Due to the National Social Security Fund	429,479	432,254
Checks and incoming payment orders in course of settlement	362,257	178,512
Accrued expenses	3,057,842	2,553,571
Payable to a related party	-	87,280
Sundry accounts payable	1,502,509	2,641,041
Forward exchange contracts	-	1,288,250
Regulatory deferred liability (b)	-	10,952,921
Other taxes payable (c)	4,050,077	2,085,738
	16,195,663	24,581,603

(a) The determination of income tax of the Group is presented as follows:

	2018 LBP'000	2017 LBP'000
Profit before income tax	33,801,331	32,193,730
Add: Non-deductible expenses/losses	1,010,489	258,549
Less:		
Non-taxable revenues/gains	(3,646,852)	(3,462,081)
Income of Cyprus branch and subsidiaries	(692,490)	(679,213)
Taxable income for the year	30,472,478	28,310,985
Enacted tax rate in Lebanon	17%	15.36%
	5,180,321	4,349,032
Add: Income tax provision - branches and subsidiaries	181,910	62,232
Income tax expense	5,362,231	4,411,264
Less: Tax paid during the year in the form of withholding tax	(260,403)	(1,754,413)
Less: Cyprus income tax paid during the year	(111,818)	(47,125)
	4,990,010	2,609,726
Brought forward balance from non-resident branch	7,370	7,370
Current tax liability	4,997,380	2,617,096

The Bank's tax returns for the fiscal years 2012 and 2013 were reviewed by the tax authorities resulting in additional taxes in the amount of LBP158million which was settled during 2019.

The Bank's tax returns for fiscal years 2014 to 2018 remain subject to review and assessment by the tax authorities. Any additional liability depends on the outcome of these reviews.

The tax returns of the Group's Lebanese subsidiaries since fiscal year 2014 remain subject to review and assessment by the tax authorities. Any additional liability depends on the outcome of these reviews.

(b) In accordance with the Central Bank of Lebanon Intermediary Circular number 446, deferred liability which is regulated in nature shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks, and that in anticipation of implementation of IFRS 9 for impairment, as and when quantified effective on January 1, 2018.

In light with the above, the Bank recognized during the year an amount of LBP10.9billion in the statement of changes in equity to offset the expected credit losses that resulted from the application of IFRS 9, in accordance with the Central Bank of Lebanon requirements as indicated above.

(c) Other taxes payable include the 7% taxes payable by the Group on credit interest accounts (5% during the year 2017).

22. PROVISIONS

Provisions consist of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Provision for employees' end-of-service indemnities	4,201,680	5,408,438
Provision for contingencies	2,199,512	2,614,681
Provision for loss on foreign currency position	317,580	404,146
Provision for expected credit losses (Note 36)	207,434	-
	6,926,206	8,427,265

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

	2018 LBP'000	2017 LBP'000
Balance January 1	5,408,438	4,152,995
(Write back)/ Additions (Note 37)	(156,085)	1,264,184
Settlements	(1,045,126)	(21,834)
Exchange difference	(5,547)	13,093
Balance December 31	4,201,680	5,408,438

The movement of the provision for contingencies was as follows:

	2018 LBP'000	2017 LBP'000
Balance January 1	2,614,681	2,986,452
Additions	109,443	887,725
Write-back	(166,612)	(1,151,073)
Settlements	(358,000)	(108,423)
Balance December 31	2,199,512	2,614,681

23. SUBORDINATED BONDS

This caption consists of the following:

	December 31,	
	2018 LBP'000	2017 LBP'000
Subordinated bonds	90,450,000	90,450,000
Accrued interest	5,073,886	1,380,511
	95,523,886	91,830,511

The exceptional general assembly of shareholders approved in its meeting held on September 5, 2017 the issuance of subordinated bonds in the amount of USD35million divided into 3,500 bonds of USD10,000 nominal value each. These bonds were issued on December 7, 2017 and mature on January 4, 2024 and are subject to an annual interest of 7% payable on June 30 and December 31 of each year.

The movement of subordinated bonds, excluding accrued interest, during 2017 and 2018 is summarized as follows:

	2018 LBP'000	2017 LBP'000
Balance January 1,	90,450,000	37,687,500
Additions	-	52,762,500
Balance December 31,	90,450,000	90,450,000

The exceptional general assembly of shareholders approved in its meeting held on October 24, 2014 the issuance of subordinated bonds in the amount of USD25million divided into 2,500 bonds of USD10,000 nominal value each. These bonds were issued on December 15, 2014 and mature on January 4, 2021 and are subject to an annual interest rate of 6% payable on December 31 and June 30 of each year.

Interest expense on subordinated bonds for the year ended December 31, 2018 amounting to LBP5.95billion is recorded under "Interest expense" in the consolidated statement of profit or loss (LBP2.5billion for the year ended December 31, 2017) (Note 31).

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purposes of computation of Risk Based Capital Ratio, to be amortized over a period of 5 years till maturity.

24. SHARE CAPITAL

The Bank's capital as at December 31, 2018 is composed of 62,000,000 issued shares of LBP1,004 each (62,000,000 shares of LBP1,004 each as at December 31, 2017) authorized and fully paid and divided as follows:

- Listed Shares : 51,400,000
- Unlisted Shares : 10,600,000

The movement of treasury shares during 2018 and 2017 was as follows:

	2018		2017	
	# of Shares	Amount LBP'000	# of Shares	Amount LBP'000
Balance - January 1	779,471	3,179,389	664,285	2,931,915
Acquisition	245,660	439,850	115,186	247,474
Balance - December 31	1,025,131	3,619,239	779,471	3,179,389

25. PREFERRED SHARES

On December 19, 2013, the Group issued Non-cumulative Perpetual Preferred Shares in the amount of USD35million (LBP52billion) on the basis of 350,000 shares at USD100. The Group offered discounts to preferred shares subscribers for the aggregate amount of USD80,960 (LBP122million). These preferred shares generate dividends at an annual rate of 7%.

26. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

This caption represents capital injection of USD19,306,789 made by shareholders, in the form of shareholders' cash contribution to capital, each to the extent of his/her shareholding in the Group's equity. Effective 2011, the General Assembly of shareholders approved to call-off interest on cash contribution to capital.

This type of equity instrument consists of non-refundable capital injection which could be converted into share capital and it has the advantage of being booked and maintained in foreign currencies which allows for hedging against national currency fluctuation.

27. RESERVES

	December 31,	
	2018	2017
	LBP'000	LBP'000
Legal reserve (a)	11,767,100	9,110,189
Reserve for general banking risks (b)	-	35,551,700
General reserve for performing loans	-	4,069,500
Free reserves	6,208,597	6,208,597
Non-distributable reserve	43,352,186	-
Reserve for assets acquired in satisfaction of loans (Note 14)	1,125,819	1,021,116
Reserve from disposal of assets acquired in satisfaction of loans (Note 14)	182,080	182,080
	62,635,782	56,143,182

(a) In accordance with the requirements of the Lebanese Money and Credit Law, the Group transfers since its inception 10% of its net income to the legal reserve account. This reserve is not available for distribution.

(b) The reserve for general banking risks is constituted according to local banking regulations from income 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. The cumulative reserve should not be less than 1.25% at the end of the 10th year (2007) and 2% at the end of the 20th year (2017). This reserve is constituted in Lebanese Pounds and in foreign currencies to the extent of LBP14billion and LBP25billion, respectively, in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution. In accordance with the basic circular No.143 issued by the Central Bank of Lebanon, the Bank is required to transfer reserve for general banking risks and the general reserve for performing loans to a non-distributable general reserve on November 2017.

28. PROFIT FOR THE YEAR

The consolidated profit for the year is allocated as follows between the Bank and its subsidiaries:

	Year Ended December 31, 2018		
	Group's Share	Non-Controlling Interests	Total
	LBP'000	LBP'000	LBP'000
Profit of the Bank	28,411,673	-	28,411,673
Profit/(loss) of subsidiaries:			
Bemo Securitization S.A.L.	143,375	-	143,375
Depository and Custody Company S.A.L.	51,786	52	51,838
Bemo Investment Firm Ltd.	(167,786)	-	(167,786)
Total	28,439,048	52	28,439,100

	Year Ended December 31, 2017		
	Group's Share	Non-Controlling Interests	Total
	LBP'000	LBP'000	LBP'000
Profit of the Bank	27,699,060	-	27,699,060
Profit/(loss) of subsidiaries:			
Bemo Securitization S.A.L.	18,596	-	18,596
Depository and Custody Company S.A.L.	9,876	10	9,886
Bemo Investment Firm Ltd.	54,924	-	54,924
Total	27,782,456	10	27,782,466

29. DIVIDENDS PAID

	2018	2017
	LBP'000	LBP'000
LBP100 per common share paid by the Bank in 2018 (LBP80 per share in 2017)	6,098,794	4,905,653
USD7 per preferred share paid by the Bank in 2018 (USD7 per share in 2017)	3,693,375	3,693,375
	9,792,169	8,599,028

30. INTEREST INCOME

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Interest income from:		
Term deposits with central banks (Note 5)	48,329,002	12,002,501
Deposits with banks and financial institutions	2,229,849	2,616,527
Deposits with related party banks and financial institutions	167,401	433,431
Financial assets at amortized cost	19,868,473	38,167,541
Financial assets at fair value through other comprehensive income	14,068,477	-
Loans to banks and financial institutions (Note 8)	-	41,848
Loans under reverse repurchase agreements (a)	-	256,504
Loans and advances to customers	76,770,938	70,147,871
Loans and advances to related parties	61,922	50,071
Interest realized on impaired loans and advances to customers (Note 9)	43,480	311,503
	161,539,542	124,027,797
Withheld taxes (Note 3W)	(6,493,638)	(113,494)
	155,045,904	12,914,303

(a) Loans under reverse repurchase agreement represent short-term loans granted to a resident financial institution, which matured during the year 2017.

Interest income on the Group's trading portfolio is included under "Net interest and other gains/(losses) on financial assets at fair value through profit or loss" (Note 34).

31. INTEREST EXPENSE

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Interest expense on:		
Borrowings from Central Bank of Lebanon (Note 18)	338,242	224,944
Deposits and borrowings from banks and financial institutions	3,725,367	1,056,806
Deposits and borrowings from related party banks and financial institutions	5,507,982	684,397
Customers' accounts at amortized cost	83,882,964	75,134,615
Related parties' accounts at amortized cost	2,551,548	2,460,911
Subordinated bonds (Note 23)	5,954,625	2,504,102
	101,960,728	82,065,775

32. FEE AND COMMISSION INCOME

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Commission on documentary credits	563,775	658,548
Commission on letters of guarantee	2,007,546	1,469,820
Commission on other customers' transactions	1,282,054	1,058,338
Service fees on customers' transactions	6,109,308	6,296,360
Other	595,062	462,573
	10,557,745	9,945,639

33. FEE AND COMMISSION EXPENSE

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Commission on transactions with banks	196,938	236,692
Other	189,589	126,895
	386,527	363,587

34. NET INTEREST AND OTHER GAINS / (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Dividends received on equity securities	572,779	477,748
Interest received on debt securities	500,061	3,574,926
Unrealized gain (Note 7)	370,162	1,551,297
Realized (loss)/gain	(536,452)	2,733,030
Recovery of principal of financial assets at fair value through profit or loss	-	70,865
	906,550	8,407,866

35. OTHER OPERATING INCOME/(LOSS), (NET)

	Year Ended December 31, 2018 LBP'000	Year Ended December 31, 2017 LBP'000
Dividends on financial assets at fair value through other comprehensive income	-	53,603
Share in profit of an associate (Note 13)	2,097,287	1,385,715
Revenues and commissions from securitization operations	4,365,502	4,443,807
Gain from derecognition of assets at amortized cost, (net)	-	3,515,282
Realized loss from sale of assets at fair value through other comprehensive income	(655,908)	-
Others	176,626	24,255
	5,983,507	9,422,662

36. PROVISION FOR EXPECTED CREDIT LOSSES, NET

	Deposits with central banks LBP'000	Deposits with banks and financial institutions LBP'000	Loans and advances to customers LBP'000	Financial assets classified at amortized cost LBP'000	Financial assets at fair value through other comprehensive income LBP'000	Acceptances LBP'000	Other assets LBP'000	Indirect and unutilized facilities LBP'000	Total LBP'000
Balance as of January 1, 2018	-	-	8,874,475	-	-	-	739,609	-	9,614,084
Effect of IFRS 9 adoption	786,169	365,971	5,553,592	1,829,209	1,655,972	20,095	-	643,362	10,854,370
Amended balance January 1, 2018	786,169	365,971	14,428,067	1,829,209	1,655,972	20,095	739,609	643,362	20,468,454
Additions	1,105,680	9,340	517,882	621,140	-	40,665	157,891	-	2,452,598
Write-back	-	-	(224,529)	-	(1,184,494)	-	-	(435,928)	(1,844,951)
Write-offs	-	-	(226,126)	-	-	-	-	-	(226,126)
Balance as of December 31, 2018	1,891,849	375,311	14,495,294	2,450,349	471,478	60,760	897,500	207,434	20,849,975

37. STAFF COSTS

	Year Ended December 31, 2018 LBP'000	Year Ended December 31, 2017 LBP'000
Salaries and related charges	21,431,693	20,875,831
Social Security contributions	2,343,952	2,328,524
(Write-back)/Provision for employees' end-of-service indemnities (net) (Note 22)	(156,085)	1,264,184
	23,619,560	24,468,539

38. ADMINISTRATIVE EXPENSES

	Year Ended December 31, 2018 LBP'000	Year Ended December 31, 2017 LBP'000
Travel and entertainment	399,016	334,581
Advertisement and publicity	1,322,148	1,032,763
Professional fees	2,693,317	4,949,519
Maintenance and repairs	1,730,685	1,410,626
Electricity and fuel	431,119	191,181
Telephone expenses	500,081	486,815
Printing and stationary	378,241	386,298
Rent and building services	2,005,951	1,894,231
Insurance	351,387	257,322
Subscriptions	1,678,813	1,574,288
Gifts and donations	168,607	122,919
Attendance fees	491,782	357,278
Fees and taxes	1,026,814	698,916
Other	2,061,870	1,862,705
	15,239,831	15,559,442

39. 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.

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

	2018 LBP'000	2017 LBP'000
Number of common shares outstanding during the year	62,000,000	62,000,000
Weighted average number of treasury shares	(999,344)	(706,082)
Weighted average number of common shares adjusted for the effect of treasury shares	61,000,656	61,293,918

	2018 LBP'000	2017 LBP'000
Net profit attributable to equity holders of the Group	28,439,048	27,782,456
Less dividends to preferred shares (Note 29)	(3,693,375)	(3,693,375)
Net profit attributable to equity holders of the Group	24,745,673	24,089,081
Basic earnings per share in LBP	405/66	393/1
Diluted earnings per share in LBP	405/66	393/1

40. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the financial position. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 2018 and 2017 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers.

41. FIDUCIARY DEPOSITS

	December 31,	
	2018 LBP'000	2017 LBP'000
Fiduciary deposits from customers invested in other banks	96,352	1,591,167
Fiduciary deposits for wealth management	43,057,714	32,407,242
Fiduciary deposits from customers invested in loans granted to other customers	55,181,339	43,445,396
	98,335,405	77,443,805

42. 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. Balances with related parties excluding accrued interest and balances eliminated on consolidation consist of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
Secured loans and advances	1,178,883	1,000,669
Unsecured loans and advances	59,216	78,226
Deposits	15,116,683	17,323,639
Associated companies:		
Direct facilities and credit balances:		
Unsecured loans and advances	6,503	5,583
Deposits	43,228,760	70,697,456
Indirect facilities:		
Letters of guarantee	829,885	791,905

Interest rates charged on balances outstanding are the same as applicable rates that would be charged in an arm's length transaction. Secured loans and advances are covered by real estate mortgages to the extent of LBP995million as at December 31, 2018 (LBP995million as at December 31, 2017).

The remuneration of executive management amounted to LBP2.4billion during 2018 (LBP2.69billion during 2017).

43. CASH AND CASH EQUIVALENTS

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Cash	12,145,284	9,242,940
Current accounts with central banks (excluding compulsory reserve)	24,979,724	109,139,449
Term placements with Central Bank of Lebanon	39,948,750	98,547,385
Checks for collection and current accounts with banks and financial institutions	55,565,531	76,865,674
Term placements with banks and financial institutions	45,647,356	12,589,716
	178,286,645	306,385,164

Term placements with central banks and banks and financial institutions represent inter-bank placements with an original term of 90 days or less.

Non Cash Transactions:

The statement of cash flow is prepared after excluding the effect of the following non-cash transactions:

	2018
	LBP'000
Operating Activities:	
Deposits with central banks	(1,891,849)
Deposits with banks and financial institutions	(375,311)
Loans and advances to customers and related parties	(5,846,945)
Investment securities	(2,450,350)
Customers' liability under acceptances	(60,760)
Other assets	(183,005)
Other liabilities	10,061,231
Provisions	(280,870)
Cumulative change in fair value of investment securities	(471,478)
Retained earnings	607,647
Revaluation	(16,942,104)
	(17,833,794)
Investing Activities:	
Property and equipment	17,833,794

44. COLLATERAL GIVEN

The carrying values of financial assets given as collateral are as follows:

	December 31, 2018		
	Pledged Amount	Nature of Facility	Amount of Facility
	LBP'000		LBP'000
Deposits with banks and Financial institutions	43,225,932	Forward contracts	152,059,537
		Options and swaps	7,779,733
	43,225,932	Acceptances less than one year	4,253,544

	December 31, 2017		
	Pledged Amount	Nature of Facility	Amount of Facility
	LBP'000		LBP'000
Deposits with banks and financial institutions	45,805,242	Forward contracts	119,780,892
		Options and swaps	35,180,455
		Acceptances less than one year	3,182,315
	45,805,242		

45. CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon, the Group's lead regulator.

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.

Pursuant to Central Bank Decision No 10848 dated December 7, 2011, adopted with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Ratio	December 31, 2015	December 31, 2016	December 31, 2017	December 31, 2018
	%	%	%	%
Common Equity Tier 1 ratio	8.00	8.5	9	10
Tier 1 ratio	10.00	11	12	13
Total Capital ratio	12.00	14	14.5	15

The Group's capital is split as follows:

Tier I capital: Comprises share capital after deduction of treasury shares, shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, reserves from appropriation of profits, retained earnings (exclusive of current year's net profit) and non-controlling interests, intangible assets and unfavorable change in fair value of investments at fair value through other comprehensive income are deducted from Tier I Capital.

Tier II capital: Comprises qualifying subordinated liabilities and 50% of the cumulative favorable change in fair value through other comprehensive income and other regulatory reserves.

Investments in associates are deducted from Tier I and Tier II capital.

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.

The Group has complied with imposed capital requirements throughout the year.

The Group's risk based capital ratio according to Central Bank of Lebanon directives and Basel III as of December 31, 2018 and 2017, is as follows:

	December 31,	
	2018	**2017**
	LBP million	**LBP million**
Risk-weighted assets	1,895,072	1,862,443
Credit risk	1,740,104	1,712,042
Market risk	26,890	39,257
Operational risk	128,078	111,144
Common equity Tier I (net)	204,520	196,923
Tier I capital	242,086	249,564
Tier II capital	99,379	82,912
Total capital	341,465	332,476
Capital adequacy ratio - Common Equity Tier I	10.79%	10.57%
Capital adequacy ratio - Tier I	13.57%	13.40%
Capital adequacy ratio - Tier I and Tier II	18.02%	17.85%

The Group's capital strategy is based on the following constraints:

- Comply with regulatory ratios, on individual and consolidated basis, primarily in respect of the Capital Adequacy Ratio under Central Bank of Lebanon directives and Basle III.
- Ensure a high Return on Equity for the common shareholders.
- Dividends payout policy is consistent to provide shareholders with acceptable dividend yield.

The Group's total equity funding consists of the following:

	Balances December 31,		Variation	
	2018 LBP'000	2017 LBP'000	Amount LBP'000	%
Equity allotted to common shares	233,649,316	210,205,777	23,443,539	11.15
Preferred shares	52,641,854	52,641,854	-	-
Subordinated bonds	95,523,886	91,830,511	3,693,375	4
Total equity	381,815,056	354,678,142		

46. SEGMENT INFORMATION

The Group's operating segments are organized as follows: Lebanon and subsidiaries.

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 two reportable business segments which reflect the basis on which senior management reviews operations:

	December 31, 2018			December 31, 2017		
	Lebanon and Middle East LBP'000	Cyprus LBP'000	Inter-Segment LBP'000	Lebanon and Middle East LBP'000	Cyprus LBP'000	Inter-Segment LBP'000
Total Assets	2,956,709,417	128,969,961	(34,897,705)	2,610,400,197	83,652,028	(27,895,389)
Total Liabilities	2,650,947,688	113,542,402	-	2,335,265,393	68,043,451	-
Total Equity	305,761,729	15,427,559	(34,897,705)	275,134,804	15,608,577	(27,895,389)
Profit for the year	27,955,948	483,152	-	27,248,888	533,578	-
Assets						
Cash and central banks	726,710,680	1,308,036	-	636,295,569	431,361	-
Deposits with banks and financial institutions	143,423,345	37,541,870	(34,897,705)	121,010,656	45,648,470	(27,895,389)
Assets under leverage arrangement with the Central Bank of Lebanon	395,189,975	-	-	57,346,400	-	-
Financial assets at fair value through profit or loss	25,159,452	22,487,553	-	24,616,120	104,003	-
Loans to banks and financial institutions	7,627,631	-	-	12,838,776	-	-
Loans and advances to customers and related parties	1,079,208,781	18,068,102	-	1,133,161,689	16,461,257	-
Investment securities	456,791,189	48,165,561	-	544,860,657	20,164,692	-
Customers' liability under acceptances	16,721,319	888,817	-	12,440,191	339,112	-
Investment in associate	23,102,054	-	-	20,994,413	-	-
Assets acquired in satisfaction of loans	2,907,009	-	-	2,073,984	-	-
Property and equipment	60,129,272	435,991	-	32,535,814	421,188	-
Intangible assets	969,740	4,943	-	1,166,558	18,761	-
Other	18,768,970	69,088	-	11,059,370	63,184	-
Liabilities						
Deposits and borrowings from banks	246,365,768	-	-	115,132,672	-	-
Other borrowings	15,715,494	-	-	11,904,958	-	-
Leverage arrangement with the Central Bank of Lebanon	395,189,975	-	-	57,346,400	-	-
Customers' accounts at amortized cost	1,858,659,731	112,242,471	-	2,014,005,208	67,300,924	-
Acceptance liability	16,782,079	888,817	-	12,440,191	339,112	-
Other liabilities	15,817,767	377,896	-	24,294,965	286,638	-
Provisions	6,892,988	33,218	-	8,310,488	116,777	-
Subordinated bonds	95,523,886	-	-	91,830,511	-	-

	December 31, 2018			December 31, 2017		
	Lebanon and Middle East LBP'000	Cyprus LBP'000	Inter-Segment LBP'000	Lebanon and Middle East LBP'000	Cyprus LBP'000	Inter-Segment LBP'000
Interest income	158,762,909	4,090,695	(1,314,062)	121,818,069	2,495,088	(285,360)
Tax on interest	(6,493,638)	-	-	(113,494)	-	-
Interest expense	(100,530,992)	(2,743,798)	1,314,062	(81,211,071)	(1,140,064)	285,360
Net interest income	51,738,279	1,346,897	-	40,493,504	1,355,024	-
Fee and commission income	10,299,095	258,650	-	9,464,220	481,419	-
Fee and commission expense	(384,961)	(1,566)	-	(363,119)	(468)	-
Net fee and commission income	9,914,134	257,084	-	9,101,101	480,951	-
Net interest and other gain on trading assets at fair value through profit and loss	1,000,030	(93,480)	-	8,153,952	253,914	-
Gain on exchange	5,163,663	152	-	4,405,957	11	-
Other operating income, (net)	5,976,392	7,115	-	9,621,105	(198,443)	-
Net financial revenues	73,792,498	1,517,768	-	71,775,619	1,891,457	-
Provision for credit losses (net)	(683,559)	75,912	-	(111,039)	94,848	-
Net financial revenues after net impairment charge	73,108,939	1,593,680	-	71,664,580	1,986,305	-
Staff costs	(23,226,362)	(393,198)	-	(24,076,269)	(392,270)	-
Administrative expenses	(14,631,218)	(608,613)	-	(14,614,903)	(944,539)	-
Depreciation and amortization	(2,175,384)	(59,457)	-	(1,817,042)	(55,480)	-
Other income	105,517	87,427	-	443,348	-	-
	(39,927,447)	(973,841)	-	(40,064,866)	(1,392,289)	-
Profit before income tax	33,181,492	619,839	-	31,599,714	594,016	-
Income tax expense	(5,225,544)	(136,687)	-	(4,350,826)	(60,438)	-
Profit for the year	27,955,948	483,152	-	27,248,888	533,578	-

47. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a risk management department and various committees to develop and monitor the Group's risk management policies and their implementation.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Regular review of risk management policies and systems to reflect changes in market conditions, products and services offered is the responsibility of the various committees and the Board of Directors. The Group, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

A. Credit Risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other Groups, and investments in debt securities that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

1. Management of credit risk

The Group's Board of Directors through its Board Risk Committee is responsible for the Group's credit risk management framework and ensures that the credit risk function is independent and has appropriate resources and practices, including an effective system of internal control, in order to maintain the Group's credit risk exposure within limits set by the Board, in line with the credit risk policy and in compliance with supervisory requirements.

Credit risk main activities include but are not limited to the following:

- Ensuring a robust governance framework for all credit decisions (initial approval and reviews) is in place and properly abided by;
- Identifying credit risks through the systematic review of all credit requests and investments carrying credit risks and issuing recommendations to the relevant committees (credit committee, ALCO…);
- Assessing and measuring credit risk at the level of individual exposures as well as on the level of the overall portfolio;

- Proposing mitigation techniques to cover for identified credit risks such as obtaining collateral, or diversifying the exposure at various levels (type of assets, maturities, industries, geographic location…);
- Monitoring on a continuous basis all exposures through various daily and periodic control reports;
- Establishing a grading system to rate exposures according to the credit risk (default risk) they carry, and periodically reviewing and updating them;
- Developing the Group's methodology for IFRS 9 application and the measurement of the ECL at the level of all exposures carrying a credit risk;
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

2. *Measurement of credit risk*

The Group recognizes expected credit loss allowances on the following financial instruments that are not measured at FVTPL:

1- Financial assets that are debt instruments.
2- Financial guarantee contracts issued.
3- Loan commitments issued.

The loss allowances for ECL are presented in the statement of financial position as follows:

a. Financial assets measured at amortized cost, as a deduction from the gross carrying amount.
b. Loans commitments, as a provision.
c. Debt securities measured at FVOCI, no loss allowance is recognized in the SFP because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

The Group measures the loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

a. Debt investment securities that are determined to have low credit risk at the reporting date.
b. Other financial instruments on which credit risk has not increased significantly since their initial recognition.

Loans and advances

the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In order to determine a significant increase in credit risk, requiring considering a downgrade of the exposure from Stage 1 to Stage 2, the Group looks at the following quantitative and qualitative criteria:

- Financial figures and ratios: the unavailability of financial statements over a period of more than three consecutive years leads to an automatic downgrade of the file to stage 2. In addition a review of financial statements showing a business activity deterioration and/or increased leverage and/or consecutive losses, and/or capital erosion and/or inability to generate sufficient cash flow could determine a staging downgrade to 2, subject to credit committee approval.
- Credit rating: a downgrade of the credit file to "follow-up and regularization (3)" indicates a warning signal and suggests a significant increase in credit risk. Accordingly a downgrade of the credit file rating to "3" as per the supervisory classification automatically triggers a downgrade from Stage 1 to Stage 2.
- Delays in repayment: delays in payment are an important indicator of the client's financial situation and his repayment ability. For corporate and SMEs, the Group adopts a 60-days past due rule, whereby delays in repayment for more than 60 days are submitted for review to the credit committee. A shift to stage 2 is subjected to the credit committee's review and decision based on a detailed individual analysis and the use of experienced credit judgment. It is to be noted that the 30-days past due presumption applied under IFRS 9 as an assumption to a significant increase in credit risk is rebutted mainly as a result of the Group's type of exposure where the retail segment is not significant; and based on historical experience in recovering associated debt .
- Account turnover: For non-committed facilities such as overdrafts, the Group looks at the account movement in order to determine the staging of the credit file; whereby an account movement below 50% of the facility amount within a one year period of time, is submitted for review to the credit committee. A shift to stage 2 is subjected to the credit committee's review and decision based on a detailed individual analysis and the use of experienced credit judgment.
- Rescheduling/restructuring: the rescheduling and restructuring of facilities are treated as a warning signal indicating a decrease in the client's creditworthiness. A downgrade to Stage 2 is considered upon the first rescheduling/restructuring of facilities. A second rescheduling/restructuring will automatically trigger a downgrade from Stage 1 to Stage 2.
- Reputational risk: a borrower subject to lawsuits or any type of reputational damage that could affect their financial and/or business position and subsequently their repayment ability is submitted for review to the credit committee. A shift to stage 2 is subjected to the credit committee's review and decision based on a detailed individual analysis and the use of experienced credit judgment.

- Systemic and forward looking criteria: The criteria includes a combination of forward looking information on the macroeconomic level, commercial sector and geographical region. Qualitative criteria is looked at on an individual basis upon the usual annual file renewals and more frequently, on a collective basis whenever deemed necessary based on market, economic, political updates and conditions.

A shift to Stage 2 is considered whenever one or more of the aforementioned criteria is met; the basis for determining a significant increase in credit risk is the credit risk rating at the date of initial recognition. i.e.: a significant increase in credit risk as compared to the credit risk profile at the date of initial recognition, triggers a staging downgrade.

Group's Classification	Loan Quality	IFRS9 Stages
Excellent (A+)	Performing Loans	Stage 1 Performing
Strong (A+)		
Good (A)		
Satisfactory (A)		
Adequate (A-)		
Marginal (B)		Stage 2 Under-Performing
Vulnerable (B-)		
Substandard (C)	Non- Performing Loans	Stage 3 Under-Performing
Doubtful (D)		
Bad (E)		

Impairment Methodology
The impairment methodology adopted by the Group is based on two approaches being:

- The collective assessment approach using historical write-offs. The Group's calculated Average Weighted Annual Loss Rate over the past 10 years is 0.05% and it is adjusted by adding a current conditions perspective and a forward-looking perspective on impairments.

- The individual assessment approach where the expected credit loss is determined on a single borrower basis using the PD model and following the formula: ECL = PD X LGD X EAD

When ECL is measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

-instrument type;
-collateral type;
-industry;
-geographic location of the borrower;

When ECL is measured on an individual basis the following is applied:

-Loans and advances classified at stage 1: the individual assessment only applies to facilities that exceed USD 10 million;
-Loans and advances classified at stage 2: only individual assessments is applied;
-Loans and advances classified at stage 3: specific provisions are booked based on discounting future cash flows.

1- <u>Probability of Default</u>

Files that are individually assessed, are analyzed based on one of the three S&P scoring models used to assess borrowers' probability of default.

The three S&P scorecards used by the Group are the following:

- Generic corporate model
- Real estate developers model
- High networth individuals model

The above models are used to define a borrower credit risk score on a scale from one to ten, which is mapped to S&P rating scales, to the Group's internal rating scale and to probabilities of default as follows:

<table>
<tr><th>Rating</th><th>S&P PD%</th><th>Group's Credit Risk Grades</th></tr>
<tr><td>1</td><td>0.005</td><td rowspan="4">Excellent (A+)</td></tr>
<tr><td>1.5</td><td>0.008</td></tr>
<tr><td>2</td><td>0.014</td></tr>
<tr><td>2.5</td><td>0.03</td></tr>
<tr><td>3</td><td>0.051</td><td>Strong (A+)</td></tr>
<tr><td>3.5</td><td>0.072</td><td>Good (A+)</td></tr>
<tr><td>4</td><td>0.105</td><td rowspan="6">Satisfactory (A)</td></tr>
<tr><td>4.5</td><td>0.159</td></tr>
<tr><td>5</td><td>0.222</td></tr>
<tr><td>5.5</td><td>0.342</td></tr>
<tr><td>6</td><td>0.489</td></tr>
<tr><td>6.5</td><td>0.81</td></tr>
<tr><td>7</td><td>1.3</td><td rowspan="5">Adequate (A-)</td></tr>
<tr><td>7.5</td><td>2.55</td></tr>
<tr><td>8</td><td>5.16</td></tr>
<tr><td>8.5</td><td>7.59</td></tr>
<tr><td>8.75</td><td>10.3</td></tr>
<tr><td>9</td><td>13.97</td><td rowspan="4">Marginal (B)</td></tr>
<tr><td>9.25</td><td>18.95</td></tr>
<tr><td>9.5</td><td>25.71</td></tr>
<tr><td>9.75</td><td>34.87</td></tr>
<tr><td>10</td><td>47.3</td><td>Vulnerable (C)</td></tr>
<tr><td>10</td><td>64.16</td><td>Doubtful (D)</td></tr>
<tr><td></td><td>100</td><td>Loss (E)</td></tr>
</table>

The above probabilities of default are used in the calculation of the 12-months expected credit loss.

For stage 2 the standard PD applied is set at a minimum of 13.97%. It is to be noted that the Group grants short to medium term loans only and the Group may assume that default rate does not change during the lifetime of the loan; however for conservative purposes, the Group assumed that PDs are expected to follow an incremental increase through the lifetime of the loan. A simple extrapolation technique is used where the 12-month PD is increased by a fixed 5% every year.

2- Loss Given Default

In addition to the borrower risk assessment, a facility risk assessment taking into consideration available collateral and guarantees is performed in order to determine the expected credit loss. For exposures without collateral, the LGD ratio of 45% prescribed by the BIS is applied. However for conservative purposes, the Group considers the claims on SME and retail classified clients as a subordinated claim and applies a 75% LGD on it. The following simplified LGD calculation is applied: LGD = 0.45 (or 0.75) – Recovery Rate. The RR is determined by the following formula: Value of collateral / Value of the exposure.

3- Exposure at Default

The exposure at default includes direct and indirect exposures at the reporting date in addition to any undrawn commitments. For indirect exposures and undrawn commitments a risk weight of 50% is applied to determine the exposure at default; noting that this methodology was suggested by the regulators. In addition to the above collective and individual assessments, the Group developed analysis, macro level and industry specific forecasts scenarios to adjust the ECL calculation by adding to it current and forward looking approaches

Netting arrangements

The Group 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.

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)

4. ***Financial assets with credit risk exposure and related concentrations***

(a) ***Exposure to credit risk and concentration by counterparty:***

The tables below reflect the Group's exposure to credit risk by counterparty segregated between the categories of financial assets:

(a.1) Deposits with banks and financial institutions (excluding accrued interest and provision for credit losses):

Bracket	December 31, 2018 Total Amount LBP'000	% to Total Deposits %
Less than LBP5billion	43,712,619	29.89
From LBP5billion to LBP15billion	41,997,837	28.72
Over LBP15billion	60,539,330	41.39
	146,249,786	100.00

Bracket	December 31, 2017 Total Amount LBP'000	% to Total Deposits %
Less than LBP5billion	33,850,920	24.40
From LBP5billion to LBP15billion	25,281,490	18.22
Over LBP15billion	79,603,214	57.38
	138,735,624	100.00

(a.2) Loans and advances to customers (excluding collective provision for credit losses and accrued interest and provision for credit losses):

Bracket	December 31, 2018 No. of Counter Parties	Total Amount LBP'000	% to Total %
Less than LBP500million	807	68,464,513	6.16
From LBP500million to LBP5billion	282	486,070,178	43.79
Over LBP5billion	49	555,547,891	50.05
	1,138	1,110,082,582	100.00

Bracket	December 31, 2017 No. of Counter Parties	Total Amount LBP'000	% to Total %
Less than LBP500million	937	69,519,551	5.96
From LBP500million to LBP5billion	282	488,501,137	41.86
Over LBP5billion	56	609,051,396	52.18
	1,275	1,167,072,084	100.00

Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers:

	December 31, 2018						
				Fair Value of Collateral Held			
	Carrying Amount	Provision for Credit Losses	Net Exposure	Pledged Funds	Property	Equities	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing Accounts							
Regular Accounts	1,059,801,391	(2,965,829)	1,056,835,562	96,937,169	230,613,292	16,163,902	343,714,363
Past due but not impaired:							
Between 60-90 days	1,232,728	-	1,232,728	-	-	-	-
Between 90-180 days	1,487,088	-	1,487,088	-	-	-	-
Beyond 180 days	2,774,508	-	2,774,508	-	-	-	-
Impaired:							
Substandard debts	33,350,809	(2,397,832)	30,952,977	-	40,235,175	-	40,235,175
Doubtful and bad debts	13,125,654	(9,131,634)	3,994,020	-	8,050,050	-	8,050,050
	1,111,772,178	(14,495,295)	1,097,276,883	96,937,169	278,898,517	16,163,902	391,999,588

	December 31, 2017						
				Fair Value of Collateral Held			
	Carrying Amount	Allowance for Impairment	Net Exposure	Pledged Funds	Property	Equities	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing Accounts	1,123,245,093	-	1,123,245,093	139,376,336	199,910,853	26,108,996	365,396,185
Past due but not impaired:							
Between 60-90 days	271,415	-	271,415	-	-	-	-
Between 90-180 days	700,988	-	700,988	-	-	-	-
Beyond 180 days	363,345	-	363,345	-	-	-	-
Impaired:							
Substandard debts	19,712,056	-	19,712,056	-	28,363,613	103,050	28,466,663
Doubtful and bad debts	14,204,524	(6,744,593)	7,459,931	-	8,050,050	-	8,050,050
Collective provision for loan impairment	-	(2,129,882)	(2,129,882)	-	-	-	-
	1,158,497,421	(8,874,475)	1,149,622,946	139,376,336	236,324,516	26,212,046	401,912,898

(b) Concentration of financial assets by industry or sector (excluding provisions for credit losses provision for loan impairment):

December 31, 2018	Sovereign LBP'000	Financial Services LBP'000	Real Estate Development LBP'000	Manufacturing LBP'000	Consumer Goods Trading LBP'000	Real Estate Trading LBP'000	Services LBP'000	Private Individuals LBP'000	Other LBP'000	Total LBP'000
Balance sheet Exposure:										
Cash and deposits with central banks	729,910,565	-	-	-	-	-	-	-	-	729,910,565
Deposits with banks and financial institutions	-	146,442,821	-	-	-	-	-	-	-	146,442,821
Financial assets at fair value through profit or loss	37,885,712	8,420,951	-	310,801	-	1,020,450	9,091	-	-	47,647,005
Investment securities	485,105,385	2,823,746	-	-	14,280,797	5,197,171	-	-	-	507,407,099
Loans to banks and financial institutions	-	7,627,631	-	-	-	-	-	-	-	7,627,631
Loans and advances to customers and related parties	-	3,525,297	240,970,820	165,120,047	473,188,747	-	54,885,762	174,081,505	-	1,111,772,178
Customers' liability under acceptances	-	-	-	5,782,073	11,888,823	-	-	-	-	17,670,896
Other financial assets	-	-	-	-	-	-	-	-	11,344,084	11,344,084
	1,252,901,662	168,840,446	240,970,820	171,212,921	499,358,367	6,217,621	54,894,853	174,081,505	11,344,084	2,579,822,279
Off-Balance sheet Risks:										
Documentary and commercial letters of credit	-	-	256,867	7,569,656	14,615,042	-	-	-	-	22,441,565
Guarantees and standby letters of credit	-	15,533,496	25,858,256	17,680,072	30,991,630	-	28,345,032	1,038,858	-	119,447,344
Forward Contracts	-	258,208,774	9,296,752	7,314,088	2,675,857	-	-	3,487,502	-	280,982,973

December 31, 2017	Sovereign LBP'000	Financial Services LBP'000	Real Estate Development LBP'000	Manufacturing LBP'000	Consumer Goods Trading LBP'000	Real Estate Trading LBP'000	Services LBP'000	Private Individuals LBP'000	Other LBP'000	Total LBP'000
Balance sheet Exposure:										
Cash and deposits with central banks	636,726,930	-	-	-	-	-	-	-	-	636,726,930
Deposits with banks and financial institutions	-	138,763,737	-	-	-	-	-	-	-	138,763,737
Financial assets at fair value through profit or loss	13,358,579	9,758,479	-	273,004	23,447	1,241,937	64,677	-	-	24,720,123
Loans to banks and financial institutions	-	12,838,776	-	-	-	-	-	-	-	12,838,776
Loans and advances to customers and related parties	-	20,350,512	224,298,668	158,786,270	499,810,110	-	85,791,813	169,460,048	-	1,158,497,421
Investment securities	543,351,051	1,504,838	-	-	13,905,013	6,264,447	-	-	-	565,025,349
Customers' Liability under acceptances	-	-	749,766	3,777,572	7,977,795	-	-	274,170	-	12,779,303
Other financial assets	-	-	-	-	-	-	-	-	9,692,648	9,692,648
	1,193,436,560	183,216,342	225,048,434	162,836,846	521,716,365	7,506,384	85,856,490	169,734,218	9,692,648	2,559,044,287
Off-Balance sheet Risks:										
Documentary and commercial letters of credit	-	-	182,196	6,823,554	7,723,254	-	-	-	-	14,729,004
Guarantees and standby letters of credit	-	20,776,679	33,212,142	21,037,705	14,860,264	-	35,584,981	951,394	-	126,423,165
Forward Contracts	-	250,774,571	10,336,031	7,480,670	13,699,076	-	-	2,384,704	-	284,675,052

(c) Concentration of financial assets and liabilities by geographical area:

	December 31, 2018					
	Lebanon	Middle East and Africa	Europe	North America	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with central banks	728,602,529	-	1,308,036	-	-	729,910,565
Deposits with banks and financial institutions	67,283,348	99,286	51,657,398	24,785,497	2,617,292	146,442,821
Financial assets at fair value through profit or loss	9,882,723	-	202,925	37,561,357	-	47,647,005
Loans to banks and financial institutions	7,627,631	-	-	-	-	7,627,631
Loans and advances to customers and related parties	1,057,052,072	33,179,703	14,892,111	47,603	6,600,689	1,111,772,178
Investment securities	506,460,869	921,006	25,224	-	-	507,407,099
Customers' liability under acceptances	16,782,079	796,887	91,930	-	-	17,670,896
Other financial assets	11,241,431	-	69,088	-	33,565	11,344,084
Total assets	2,404,932,682	34,996,882	68,246,712	62,394,457	9,251,546	2,579,822,279
LIABILITIES						
Deposits and borrowings from banks and financial institutions	84,116,335	139,989,368	17,649,926	4,525,504	84,635	246,365,768
Customers' accounts at amortized cost including related parties	1,281,997,056	423,857,971	84,620,571	72,100,021	108,326,583	1,970,902,202
Acceptance liability	-	50,083	10,457,104	501,738	6,661,971	17,670,896
Other term borrowings	15,715,494	-	-	-	-	15,715,494
Other financial liabilities	16,194,464	-	377,895	-	-	16,572,359
Subordinated bonds	95,523,886	-	-	-	-	95,523,886
Total liabilities	1,493,547,235	563,897,422	113,105,496	77,127,263	115,073,189	2,362,750,605
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK						
Documentary and commercial letters of credit	14,069,918	8,197,104	174,543	-	-	22,441,565
Guarantees and standby letters of credit	85,034,891	811,868	29,643,581	-	3,957,004	119,447,344
Forward exchange contracts	55,536,310	72,438,660	152,059,537	-	948,466	280,982,973

	December 31, 2017					
	Lebanon	Middle East and Africa	Europe	North America	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with central banks	636,295,417	-	431,361	-	152	636,726,930
Deposits with banks and financial institutions	37,033,291	4,080,670	59,063,677	37,079,232	1,506,867	138,763,737
Financial assets at fair value through profit or loss	24,227,235	-	289,826	202,906	156	24,720,123
Loans to banks and financial institutions	12,838,776	-	-	-	-	12,838,776
Loans and advances to customers and related parties	1,073,171,212	37,690,628	47,626,883	8,537	161	1,158,497,421
Investment securities	564,034,209	-	26,421	-	964,719	565,025,349
Customers' liability under acceptances	12,322,192	457,111	-	-	-	12,779,303
Other financial assets	10,790,572	-	63,185	-	268,797	11,122,554
Total Assets	2,370,712,904	42,228,409	107,501,353	37,290,675	2,740,852	2,560,474,193
LIABILITIES						
Deposits and borrowings from banks and financial institutions	41,092,690	74,039,982	-	-	-	115,132,672
Customers' and related parties' accounts at amortized cost	1,407,123,356	512,849,525	80,185,204	65,965,520	15,182,527	2,081,306,132
Acceptance liability	773,744	704,612	8,600,686	474,561	2,225,700	12,779,303
Other term borrowings	11,904,958	-	-	-	-	11,904,958
Other liabilities	24,079,545	-	286,638	-	215,420	24,581,603
Subordinated bonds	91,830,511	-	-	-	-	91,830,511
Total liabilities	1,576,804,804	587,594,119	89,072,528	66,440,081	17,623,647	2,337,535,179
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK						
Documentary and commercial letters of credit	11,667,431	3,061,573	-	-	-	14,729,004
Guarantees and standby letters of credit	83,243,615	14,230,625	28,947,794	1,131	-	126,423,165
Forward exchange contracts	105,759,204	38,119,049	140,796,799	-	-	284,675,052

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*

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).

Residual contractual maturities of financial assets and liabilities:

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

	December 31, 2018							
	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
Assets								
Cash and deposits with central banks	67,477,073	41,673,480	62,037,840	112,591,530	77,513,595	358,811,198	7,914,000	728,018,716
Deposits with bank sand financial institutions	62,304,384	69,854,678	13,908,448	-	-	-	-	146,067,510
Investment securities	10,267,317	-	9,925,278	67,978,520	150,050,843	188,142,468	78,592,324	504,956,750
Financial assets at fair value through profit or loss	9,949,055	-	37,449,622	-	-	240,321	8,007	47,647,005
Loans to banks and financial institutions	-	7,627,631	-	-	-	-	-	7,627,631
Loans and advances to customers and related parties	705,760,126	339,048,519	48,072,699	3,036,046	1,346,981	12,512	-	1,097,276,883
Customers' liability under acceptances	-	11,746,338	5,863,798	-	-	-	-	17,610,136
Other financial assets	11,344,084	-	-	-	-	-	-	11,344,084
Total Assets	867,102,039	469,950,646	177,257,685	183,606,096	228,911,419	547,206,499	86,514,331	2,560,548,715
Liabilities								
Other term borrowings	338,831	702,387	1,296,927	3,475,524	3,113,296	4,036,247	2,752,282	15,715,494
Deposits and borrowings from banks and financial institutions	62,990,735	87,855,068	55,456,653	39,931,029	81,405	50,878	-	246,365,768
Customers' accounts at amortized cost including related parties	359,159,004	1,018,779,169	446,616,406	74,785,089	51,965,034	19,597,500	-	1,970,902,202
Acceptance liability	-	11,807,098	5,863,798	-	-	-	-	17,670,896
Other financial liabilities	16,194,464							16,194,464
Subordinated bonds	5,073,886	-	-	37,687,500	-	52,762,500	-	95,523,886
Total Liabilities	443,756,920	1,119,143,722	509,233,784	155,879,142	55,159,735	76,447,125	2,752,282	2,362,372,710
Maturity Gap	423,345,119	(649,193,076)	(331,976,099)	27,726,954	173,751,684	470,759,374	83,762,049	198,176,005

	December 31, 2017							
	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
Assets								
Cash and deposits with central banks	146,133,121	98,547,385	11,898,405	145,419,525	69,423,450	141,305,044	24,000,000	636,726,930
Deposits with banks and financial institutions	80,933,281	51,107,880	6,722,576	-	-	-	-	138,763,737
Financial assets at fair value through profit or loss	10,299,925	75,375	82,110	-	5,616,357	2,417,313	6,229,043	24,720,123
Loans to banks and financial institutions	-	8,628,102	4,210,674	-	-	-	-	12,838,776
Loans and advances to customers related parties	660,115,700	434,881,969	53,495,246	1,097,258	32,773	-	-	1,149,622,946
Investment securities	10,167,699	10,864,375	27,592,205	97,064,267	120,186,350	245,054,601	54,095,852	565,025,349
Customers' liability under acceptances	-	11,291,099	1,488,204	-	-	-	-	12,779,303
Other financial assets	11,122,554	-	-	-	-	-	-	11,122,554
Total Assets	918,772,280	615,396,185	105,489,420	243,581,050	195,258,930	388,776,958	84,324,895	2,551,599,718
Liabilities								
Deposits and borrowings from banks and financial institutions	65,774,620	32,120,276	17,237,776	-	-	-	-	115,132,672
Customers' and related parties accounts at amortized cost	385,234,439	1,292,789,304	376,487,892	25,950,747	-	753,750	-	2,081,216,132
Acceptance liability	-	11,291,099	1,488,204	-	-	-	-	12,779,303
Other term borrowings	102,198	520,951	1,096,092	3,090,220	2,884,630	3,807,933	402,934	11,904,958
Other liabilities	24,581,603	-	-	-	-	-	-	24,581,603
Subordinated Bonds	1,380,511	-	-	-	37,687,500	52,762,500	-	91,830,511
Total Liabilities	477,073,371	1,336,721,630	396,309,964	29,040,967	40,572,130	57,324,183	402,934	2,337,445,179
Maturity Gap	441,698,909	(721,325,445)	(290,820,544)	214,540,083	154,686,800	331,452,775	83,921,961	214,154,539

Concentration of Liabilities by counterparty:

Information regarding the concentration of liabilities by counterparty is disclosed under the respective notes to the financial statements.

C. Market Risks

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

1. Management of market risks:

Market risks include interest rate risk and exchange risk.

The Group has established an Assets and Liabilities Management Committee (ALCO) to manage market risks. ALCO's primary objective is to maximize interest income spread and trading income while maintaining market risks at an appropriate level through regular management and measurement of these risks.

The Group has developed policies and procedures to manage market risks and ensure compliance with regulatory requirements and limits in addition to internal risk strategies and limits.

2. 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 as referred to below. 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 treasury department is responsible for monitoring the compliance with the regulatory ratios set by the regulatory authorities. ALCO is supported by the finance department by reports of any breach of these ratios.

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					
	LBP LBP'000	USD C/V in LBP LBP'000	EUR C/V in LBP LBP'000	GBP C/V in LBP LBP'000	Other Currencies C/V in LBP LBP'000	Total LBP'000
Assets						
Cash and deposits with central banks	69,088,313	515,722,978	142,915,107	276,798	15,520	728,018,716
Deposits with banks and financial institutions	30,673,225	42,043,345	58,245,697	10,611,951	4,493,292	146,067,510
Assets under leverage arrangement with the Central Bank of Lebanon	395,189,975	-	-	-	-	395,189,975
Financial assets at fair value through profit or loss	246,368	47,083,883	125,851	190,903	-	47,647,005
Loans to banks and financial institutions	-	7,627,631	-	-	-	7,627,631
Loans and advances to customers and related parties	41,807,455	889,615,802	137,264,837	3,480,026	25,108,763	1,097,276,883
Investment securities	172,382,332	331,628,188	946,230	-	-	504,956,750
Customers' liability under acceptances	-	14,848,844	2,761,292	-	-	17,610,136
Investments in associate	5,029,970	18,072,084	-	-	-	23,102,054
Assets Acquired in satisfaction of loans	-	2,907,009	-	-	-	2,907,009
Property and equipment	60,039,700	525,563	-	-	-	60,565,263
Intangible assets	969,740	4,943	-	-	-	974,683
Other assets	9,395,483	22,605,867	28,361,897	(63,288,085)	17,674,218	14,749,380
Total Assets	784,822,561	1,892,686,137	370,620,911	(48,728,407)	47,291,793	3,046,692,995
Liabilities						
Deposits and borrowings from banks and financial institutions	27,325,767	121,917,370	89,613,531	4,038,781	3,470,319	246,365,768
Customers' and related parties' accounts at amortized cost	160,292,713	1,566,975,338	197,829,873	37,144,108	8,660,170	1,970,902,202
Acceptance liability	-	14,909,603	2,761,293	-	-	17,670,896
Other term borrowings	15,510,731	204,763	-	-	-	15,715,494
Leverage arrangement with the Central Bank of Lebanon	395,189,975	-	-	-	-	395,189,975
Other liabilities	(4,381,916)	(20,605,793)	53,201,130	(26,625,505)	14,607,747	16,195,663
Provisions	2,631,859	4,263,302	31,045	-	-	6,926,206
Subordinated bonds	-	95,523,886	-	-	-	95,523,886
Total Liabilities	596,569,129	1,783,188,469	343,436,872	14,557,384	26,738,236	2,764,490,090
Currencies to be delivered	-	92,342,818	108,475,946	74,370,974	5,793,236	280,982,974
Currencies to be received	-	(107,271,750)	(135,073,668)	(11,082,111)	(23,466,767)	(276,894,296)
	-	(14,928,932)	(26,597,722)	63,288,863	(17,673,531)	4,088,678
Net on-balance sheet financial position	188,253,432	94,568,736	586,317	3,072	2,880,026	286,291,583

	December 31, 2017					
	LBP	USD	EUR	GBP	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets						
Cash and deposits with central banks	90,930,663	434,096,740	111,037,515	634,820	27,192	636,726,930
Deposits with banks and financial institutions	3,627,100	69,017,706	52,885,517	8,664,081	4,569,333	138,763,737
Assets under leverage arrangement with the Central Bank of Lebanon	57,346,400	-	-	-	-	57,346,400
Financial assets at fair value through profit or loss	229,052	24,108,349	135,705	247,017	-	24,720,123
Loans to banks and financial institutions	-	12,838,776	-	-	-	12,838,776
Loans and advances to customers	48,739,718	878,872,631	179,217,170	6,701,469	35,007,481	1,148,538,469
Loans and advances to related parties	2,069	1,071,559	-	10,849	-	1,084,477
Investment securities	202,363,921	361,670,288	991,140	-	-	565,025,349
Customers' liability under acceptances	-	6,045,468	6,297,264	-	436,571	12,779,303
Investment in associate	5,310,593	15,683,820	-	-	-	20,994,413
Assets acquired in satisfaction of loans	27,040	2,046,944	-	-	-	2,073,984
Property and equipment	32,373,224	583,778	-	-	-	32,957,002
Intangible assets	1,164,852	20,467	-	-	-	1,185,319
Other assets	3,148,926	6,870,412	1,101,629	-	1,587	11,122,554
Total Assets	445,263,558	1,812,926,938	351,665,940	16,258,236	40,042,164	2,666,156,836
Liabilities						
Deposits and borrowings from banks and financial institutions	7,366,838	62,797,923	34,298,857	4,866,871	5,802,183	115,132,672
Customers' accounts at amortized cost	214,754,330	1,564,102,065	186,202,742	22,276,060	5,753,255	1,993,088,452
Related parties' accounts at amortized cost	1,864,047	74,207,942	9,896,599	139,286	2,109,806	88,217,680
Acceptance liability	-	6,045,468	6,297,264	-	436,571	12,779,303
Other term borrowings	11,904,958	-	-	-	-	11,904,958
Leverage arrangement with the Central Bank of Lebanon	57,346,400	-	-	-	-	57,346,400
Other liabilities	19,463,773	133,633,888	(113,287,946)	11,101,170	(27,617,532)	23,293,353
Provisions	7,735,005	575,483	116,777	-	-	8,427,265
Subordinated bonds	-	91,830,511	-	-	-	91,830,511
Total Liabilities	320,435,351	1,933,193,280	123,524,293	38,383,387	(13,515,717)	2,402,020,594
Currencies to be delivered	-	194,466,486	58,723,054	20,380,981	11,104,531	284,675,052
Currencies to be received	-	(65,010,900)	(172,912,417)	(9,287,425)	(38,752,560)	(285,963,302)
	-	129,455,586	(114,189,363)	11,093,556	(27,648,029)	(1,288,250)
Net on-balance sheet financial position	124,828,207	9,189,244	113,952,284	(11,031,595)	25,909,852	262,847,992

3. *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 Group's net worth since the economic value of Group's assets, liabilities and off-balance sheet exposures are affected.

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

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 and bearing.

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:

	December 31, 2018								
			Fixed Interest Rate						
	Non-Interest Bearing	Floating Interest Rate	Over 3 Months Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total	Grand 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	42,464,313	302,095,955	-	-	16,733,250	358,811,198	7,914,000	383,458,448	728,018,716
Deposits with banks and financial institutions	14,673,729	117,485,333	13,908,448	-	-	-	-	13,908,448	146,067,510
Financial assets at fair value through profit or loss	9,949,055	-	37,449,622	-	-	240,321	8,007	37,697,950	47,647,005
Loans to banks and financial institutions	7,627,631	-	-	-	-	-	-	-	7,627,631
Loans and advances to customers	1,687,801	1,043,120,844	48,063,469	3,045,276	1,346,981	12,512	-	52,468,238	1,097,276,883
Investment securities	8,348,495	-	11,232,368	107,250,557	124,673,386	222,821,051	30,630,893	496,608,255	504,956,750
Customers' liability under acceptances	17,610,136	-	-	-	-	-	-	-	17,610,136
Other financial assets	11,344,084	-	-	-	-	-	-	-	11,344,084
Total Assets	113,705,244	1,462,702,132	110,653,907	110,295,833	142,753,617	581,885,082	38,552,900	984,141,339	2,560,548,715
Liabilities									
Deposits and borrowings from banks and financial institutions	3,434,837	147,410,966	55,456,653	39,931,029	81,405	50,878	-	95,519,965	246,365,768
Customers' accounts at amortized cost including related parties	9,515,011	1,368,423,162	446,616,406	74,785,089	51,965,034	19,597,500	-	592,964,029	1,970,902,202
Acceptance liability	17,670,896	-	-	-	-	-	-	-	17,670,896
Other term borrowings	-	1,041,218	1,296,927	3,475,524	3,113,296	4,036,247	2,752,282	14,674,276	15,715,494
Other financial liabilities	16,873,859	-	-	-	-	-	-	-	16,873,859
Subordinated bonds	5,073,886	-	-	37,687,500	-	52,762,500	-	90,450,000	95,523,886
Total Liabilities	52,568,489	1,516,875,346	503,369,986	155,879,142	55,159,735	76,447,125	2,752,282	793,608,270	2,363,052,105
Interest Rate Gap Position	61,136,755	(54,173,214)	(392,716,079)	(45,583,309)	87,593,882	505,437,957	35,800,618	190,533,069	197,496,610

	December 31, 2017								
			Fixed Interest Rate						
	Non-Interest Bearing	Floating Interest Rate	Over 3 Months Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total	Grand 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	37,488,082	432,275,554	-	-	1,658,250	141,305,044	24,000,000	166,963,294	636,726,930
Deposits with banks and financial institutions	62,178,302	69,862,859	6,722,576	-	-	-	-	6,722,576	138,763,737
Financial assets at fair value through profit or loss	10,299,925	75,375	82,110	-	5,616,357	2,417,313	6,229,043	14,344,823	24,720,123
Loans to banks and financial institutions	12,838,776	-	-	-	-	-	-	-	12,838,776
Loans and advances to customers and related parties	1,333,725	1,093,663,944	53,495,246	1,097,258	32,773	-	-	54,625,277	1,149,622,946
Investment securities	10,167,699	10,864,375	27,592,205	97,064,267	120,186,350	245,054,601	54,095,852	543,993,275	565,025,349
Financial assets at fair value through other comprehensive income	1,606,260	-	-	-	-	-	-	-	1,606,260
Customers' liability under acceptances	12,779,303	-	-	-	-	-	-	-	12,779,303
Other financial assets	9,692,648	-	-	-	-	-	-	-	9,692,648
Total Assets	158,384,720	1,606,742,107	87,892,137	98,161,525	127,493,730	388,776,958	84,324,895	786,649,245	2,551,776,072
Liabilities									
Deposits and borrowings from banks and financial institutions	1,826,377	96,068,519	17,237,776	-	-	-	-	17,237,776	115,132,672
Customers' accounts at amortized cost	9,136,241	1,599,932,356	357,315,358	25,950,747	-	753,750	-	384,019,855	1,993,088,452
Related parties' accounts at amortized cost	196,585	68,848,561	19,172,534	-	-	-	-	19,172,534	88,217,680
Acceptance liability	12,779,303	-	-	-	-	-	-	-	12,779,303
Other term borrowings	102,198	520,951	1,096,092	3,090,220	2,884,630	3,807,933	402,934	11,281,809	11,904,958
Other liabilities	24,581,603	-	-	-	-	-	-	-	24,581,603
Subordinated bonds	1,380,511	-	-	-	37,687,500	52,762,500	-	90,450,000	91,830,511
Total Liabilities	50,002,818	1,765,370,387	394,821,760	29,040,967	40,572,130	57,324,183	402,934	522,161,974	2,337,535,179
Interest Rate Gap Position	108,381,902	(158,628,280)	(306,929,623)	69,120,558	86,921,600	331,452,775	83,921,961	264,487,271	214,240,893

47. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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.

	December 31, 2018				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets measured at fair value through profit or loss:					
Quoted equity securities	9,761,293	9,761,293	-	-	9,761,293
Lebanese treasury bills	240,321	-	240,321	-	240,321
Foreign Government Bonds	37,199,071	-	37,199,071	-	37,199,071
Lebanese Government Bonds	258,559	-	258,559	-	258,559
	47,459,244	9,761,293	37,697,951	-	47,459,244
Financial assets at fair value through other comprehensive income:					
Unquoted equity securities	946,230	946,230	-	-	946,230
Government bonds	23,102,111	-	23,102,111	-	23,102,111
Certificates of deposit issued by Central Bank of Lebanon	40,251,907	-	40,251,907	-	40,251,907
Corporate bonds	3,696,543	3,696,543	-	-	3,696,543
	67,996,791	4,642,773	63,354,018	-	67,996,791
Financial assets at amortized cost:					
Lebanese treasury bills	94,952,104	-	92,647,078	-	92,647,078
Government bonds	91,019,072	-	83,490,250	-	83,490,250
Certificates of deposit issued by Central Bank of Lebanon	224,871,662	-	190,605,657	-	190,605,657
Corporate bonds	17,411,153	17,481,163	-	-	17,481,163
	428,253,991	17,481,163	366,742,985	-	384,224,148
Financial liabilities measured at amortized cost:					
Subordinated bonds	95,523,886	-	-	87,435,592	87,435,592

	December 31, 2017				
	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets measured at fair value through profit or loss:					
Quoted equity securities	10,084,754	10,084,754	-	-	10,084,754
Lebanese treasury bills	223,268	-	223,268	-	223,268
Lebanese Government bonds	7,033,275	-	7,033,275	-	7,033,275
Certificates of deposit issued by the Central Bank of Lebanon	5,907,290	-	5,907,290	-	5,907,290
Certificates of deposit issued by banks	-	-	-	-	-
Corporate bonds	1,256,366	1,256,366	-	-	1,256,366
	24,504,953	11,341,120	13,163,833	-	24,504,953
Financial assets at amortized cost:					
Lebanese treasury bills	131,054,143	-	133,603,498	-	133,603,498
Lebanese Government bonds	101,452,978	-	88,756,612	-	88,756,612
Certificates of deposit issued by Central Bank of Lebanon	302,553,753	-	297,617,614	-	297,617,614
Corporate bonds	19,796,778	20,301,205	-	-	20,301,205
	554,857,652	20,301,205	519,977,724	-	540,278,929
Financial liabilities measured at amortized cost:					
Subordinated bonds	91,830,511	-	-	88,890,633	88,890,633

Valuation techniques, significant unobservable inputs, and sensitivity of the input to the fair value

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

	Date of Valuation	Valuation Technique and key Inputs
Financial Assets		
Lebanese treasury bills	December 31, 2018, and December 31, 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - Local currency	December 31, 2018, and December 31, 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon - foreign currency	December 31, 2018, and December 31, 2017	DCF at a discount rate based on observable yield curve at measurement date
Lebanese Government bonds	December 31, 2018, and December 31, 2017	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Swap applicable to Lebanon subject to Illiquidity factor
Financial Liabilities		
At amortized cost:		
Subordinated bonds	December 31, 2018 and December 31, 2017	DCF at a discount rate determined based on unobservable input related to risk.

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

48. 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 March 21, 2019.