

BANK OF BEIRUT S.A.L.
AND SUBSIDIARIES

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Bank of Beirut S.A.L.
Beirut, Lebanon

Opinion

We have audited the accompanying consolidated financial statements of Bank of Beirut S.A.L. (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated 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 *Auditor's 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 matters	How our audit addressed the key audit matters?
<p><u>Impairment of financial assets</u></p> <p>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 LBP240billion to the opening retained earnings in the consolidated statement of changes in equity as at January 1, 2018.</p> <p>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.</p> <p>There was a risk that:</p> <ul style="list-style-type: none">- 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.	<p>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.</p> <p>In addition, our work performed includes the below procedures:</p> <ul style="list-style-type: none">- 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 matters	How our audit addressed the key audit matters?
<ul style="list-style-type: none"> - Inappropriate segmentation of portfolios is used to develop risk parameters. - 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. 	<p>IFRS 9 and the possible implications on the ECL staging and expected provisioning.</p> <ul style="list-style-type: none"> - 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.
<p>The Notes 2, 3(F), 4 and 53 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.</p>	

Impairment of Goodwill

As at December 31, 2018, the Group has goodwill of LBP88.5billion of which LBP86.6billion related the Group's acquisition of Bank of Sydney Ltd in prior years. Management performs an annual impairment test on the recoverability of the goodwill as required by International Financial Reporting Standards which is subjective in nature due to judgements made related to assumptions made by management. Due to the level of judgement and the significance to the Group's financial position, this is considered to be a key audit matter. Management performs the calculation of the impairment of goodwill using the average price-to-book ratio applicable to banks in Australia after applying a haircut to adjust for the size of the Australian subsidiary in addition to a premium of control.

The notes 3 and 17 to the consolidated financial statements include disclosures on the Group's judgements, assumptions, estimates and methodology adopted as well as information about impairment of goodwill.

The risk of inadequate determination of the impairment of goodwill was addressed in our audit by obtaining the impairment calculation used by Management and verifying the inputs related to price to book of top banks in Australia as at December 31, 2018 by comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the Group and the industry. We also assessed the reasonableness of the haircut and premium control applied by management.

Impairment of Investment in an Associate

The Group's investment in an associate in the amount of LBP23billion as at December 31, 2018 is considered material to the consolidated financial statements and related impairment involves considerable estimation uncertainty. The Group uses the equity method of accounting to account for the investment in the Group's consolidated financial statements. The determination of recoverable amount of the Group's investment in an associate relies on management's estimates of future cash flows and judgement with respect to the associate's performance. Due to the uncertainty of forecasting future cash flows, the level of management's judgement involved and the significance of the Group's investment in an associate this is considered to a key audit matter.

The notes 3, 4 and 14 to the consolidated financial statements include disclosures on the Group's judgements assumptions, estimates and methodology adopted as well as information about impairment of investment in an associate.

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.

Auditor's 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 auditor's 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 Joseph Khalife for Deloitte & Touche and Alfred Nehme for DFK Fiduciaire du Moyen Orient.

Beirut, Lebanon
April 23, 2019


DFK Fiduciaire du Moyen Orient


Deloitte & Touche

BANK OF BEIRUT S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Cash and deposits at central banks	5	7,137,979,450	6,576,913,590
Assets under leverage arrangement with the Central Bank of Lebanon	6	823,039,258	152,048,750
Deposits with banks and financial institutions	7	1,641,968,614	1,547,299,126
Financial assets at fair value through profit or loss	8	1,315,922,850	1,507,433,409
Loans to banks	9	255,316,224	292,410,807
Loans and advances to customers	10	8,555,503,383	8,445,100,947
Loans and advances to related parties	11	125,277,446	128,160,657
Investment securities	12	7,677,716,311	8,172,896,908
Customers' liability under acceptances	13	399,604,145	357,494,071
Investment in an associate	14	23,009,057	41,535,338
Assets acquired in satisfaction of loans	15	24,566,718	22,742,704
Property and equipment	16	295,172,636	280,703,585
Goodwill	17	88,466,704	88,564,254
Other assets	18	93,462,327	73,049,675
Total Assets		<u>28,457,005,123</u>	<u>27,686,353,821</u>
 Financial instruments with off-balance sheet risks			
Letters of guarantee and standby letters of credit	45	1,270,962,293	1,277,866,731
Documentary and commercial letters of credit	45	414,838,510	490,177,197
Notional amount of interest rate swap	45	104,064,240	10,837,232
Forward exchange contracts	45	1,455,812,887	1,394,131,152
Fiduciary accounts	46	165,422,536	169,787,000

THE ACCOMPANYING NOTES 1 TO 55 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANK OF BEIRUT S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

<u>LIABILITIES</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Deposits from banks and financial institutions	19	2,475,854,214	2,095,011,208
Customers' and related parties' deposits	20	20,218,646,101	20,107,581,304
Liabilities under acceptance	13	400,305,358	357,494,071
Other borrowings	21	567,949,842	840,732,674
Leverage arrangement with the Central Bank of Lebanon	6	823,039,258	152,048,750
Certificates of deposit	22	607,045	634,044
Other liabilities	23	364,963,190	528,083,050
Provisions	24	<u>63,835,212</u>	<u>58,227,365</u>
Total liabilities		<u>24,915,200,220</u>	<u>24,139,812,466</u>
 <u>EQUITY</u> 			
Common share capital	25	82,102,954	77,649,954
Common priority shares	25	150,753,015	150,753,015
Preferred shares	26	844,124,625	844,124,625
Shareholders' cash contribution to capital	27	20,978,370	20,978,370
Reserves	28	927,138,699	819,813,487
Retained earnings		424,084,310	367,273,650
Cumulative change in fair value of fixed currency positions designated as hedging instruments	25	(52,122,857)	(39,267,559)
Cumulative change in fair value of investment securities at fair value through other comprehensive income		6,872,444	2,278,016
Treasury shares	29	(70,283,647)	(105,831,043)
Currency translation adjustment		25,224,637	21,135,608
Profit for the year	43	<u>259,896,246</u>	<u>235,525,041</u>
Equity attributable to the equity holders of the Bank		2,618,768,796	2,394,433,164
Non-controlling interests	30	<u>923,036,107</u>	<u>1,152,108,191</u>
Total equity		<u>3,541,804,903</u>	<u>3,546,541,355</u>
Total Liabilities and Equity		<u>28,457,005,123</u>	<u>27,686,353,821</u>

THE ACCOMPANYING NOTES 1 TO 55 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANK OF BEIRUT S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended	
		December 31,	
		2018	2017
		LBP'000	LBP'000
Interest income	32	1,454,379,194	1,251,272,581
Less: tax on interest	32	(51,317,238)	(6,553,371)
Interest income, net of tax		1,403,061,956	1,244,719,210
Interest expense	33	(952,616,060)	(808,197,491)
Net interest income		<u>450,445,896</u>	<u>436,521,719</u>
Fee and commission income	34	167,294,419	163,431,229
Fee and commission expense	35	(26,656,740)	(26,108,780)
Net fee and commission income		<u>140,637,679</u>	<u>137,322,449</u>
Net income on financial assets at fair value through profit or loss	36	79,648,171	100,033,473
Gains on derecognition of financial assets at amortized cost (net)	12	641,383	427,788
Other operating income (net)	37	<u>34,753,901</u>	<u>18,708,986</u>
Net financial revenues		<u>706,127,030</u>	<u>693,014,415</u>
Write-back/(set up) of allowance for credit losses (net)	38	1,566,727	(23,011,034)
Write-back of allowance for loans to banks (net)	9	-	1,002,038
Other provisions (net)	39	(7,169,570)	(9,553,264)
Net financial revenues after allowance for credit losses		<u>700,524,187</u>	<u>661,452,155</u>
Staff costs	40	(182,802,542)	(174,580,298)
General and administrative expenses	41	(122,912,055)	(108,330,535)
Depreciation and amortization	42	(25,741,819)	(22,902,361)
Profit before income tax		369,067,771	355,638,961
Income tax expense	23	(53,967,205)	(44,105,339)
Deferred tax on undistributed profit	23	(3,453,187)	(3,377,969)
Profit for the year		<u>311,647,379</u>	<u>308,155,653</u>
Attributable to:			
Equity holders of the Bank	43	<u>259,896,246</u>	<u>235,525,041</u>
Non-controlling interests	30	<u>51,751,133</u>	<u>72,630,612</u>
Basic earnings per share in LBP	44	LBP <u>3,385</u>	LBP <u>2,994</u>
Basic earnings per priority share in LBP	44	LBP <u>4,659</u>	LBP <u>4,283</u>
Diluted earnings per share in LBP	44	LBP <u>3,385</u>	LBP <u>2,994</u>

THE ACCOMPANYING NOTES 1 TO 55 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANK OF BEIRUT S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year Ended December 31,	
		2018 LBP'000	2017 LBP'000
Profit for the year		311,647,379	308,155,653
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Change in fair value of investment securities at fair value through other comprehensive income		4,596,755	-
		<u>4,596,755</u>	<u>-</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustment related to foreign operations		4,089,029	(2,591,216)
Change in fair value of cash flow hedge		(1,111,445)	248,646
Revaluation of fixed and special currency positions to hedge investments in foreign entities	25	(12,855,298)	10,733,153
		<u>(9,877,714)</u>	<u>8,390,583</u>
Total other comprehensive (loss)/income for the year		<u>(5,280,959)</u>	<u>8,390,583</u>
Total comprehensive income for the year		<u>306,366,420</u>	<u>316,546,236</u>
Attributable to:			
Equity holders of the Bank		254,615,287	243,915,624
Non-controlling interests		51,751,133	72,630,612
		<u>306,366,420</u>	<u>316,546,236</u>

THE ACCOMPANYING NOTES 1 TO 55 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANK OF BEIRUT S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Common Share Capital LBP'000	Common Priority Shares LBP'000	Non- Cumulative Preferred Shares LBP'000	Shareholders' Cash Contribution to Capital LBP'000	Owned Building Revaluation Surplus LBP'000	Cumulative Change in Fair Value of Fixed Positions Designated as Hedging Instruments LBP'000	Cumulative Change in Fair value of Investment Securities at Fair Value through Other Comprehensive Income LBP'000	Reserve for Assets Acquired in Satisfaction of Loans LBP'000	Reserves and Retained Earnings LBP'000	Treasury Shares LBP'000	Currency Translation Adjustment LBP'000	Profit for the year LBP'000	Equity attributable to the Equity Holders of the Bank LBP'000	Non- Controlling Interests LBP'000	Total
Balance January 1, 2017	77,649,954	150,753,015	844,124,625	20,978,370	1,668,934	(50,090,712)	2,272,038	8,367,354	1,052,906,423	(56,878,375)	23,726,824	227,396,686	2,202,864,936	1,180,354,657	3,483,219,593
Allocation of 2016 profit	-	-	-	-	-	-	-	1,367,761	225,928,925	-	-	(227,396,686)	-	-	-
Dividends paid on preferred shares (Note 31)	-	-	-	-	-	-	-	(50,455,797)	-	-	-	(50,455,797)	-	(50,455,797)	
Dividends paid on common shares (Note 31)	-	-	-	-	-	-	-	(57,946,900)	-	-	-	(57,946,900)	-	(57,946,900)	
Dividends paid on priority shares (Note 31)	-	-	-	-	-	-	-	(6,030,121)	-	-	-	(6,030,121)	-	(6,030,121)	
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(72,055,871)	(72,055,871)	
Dividends on treasury shares	-	-	-	-	-	-	-	-	474,191	-	-	-	474,191	474,191	
Reclassification from free reserves (Note 15)	-	-	-	-	-	-	(105,589)	105,589	-	-	-	-	-	-	
Change in treasury shares	-	-	-	-	-	-	-	-	(48,952,468)	-	-	-	(48,952,468)	(48,952,468)	
Change in net asset value of funds	-	-	-	-	-	-	-	-	-	-	-	-	(32,111,280)	(32,111,280)	
Effect of transactions with funds	-	-	-	-	-	-	-	(34,998)	-	-	-	(34,998)	3,290,073	3,255,075	
Effect of exchange difference	-	-	-	-	-	-	5,978	-	10,592,719	-	-	-	10,598,697	10,598,697	
Total comprehensive income for the year 2017	-	-	-	-	-	(10,233,151)	-	-	248,646	-	(2,491,216)	215,525,041	243,915,634	77,630,612	716,546,336
Balance December 31, 2017	77,649,954	150,753,015	844,124,625	20,978,370	1,668,934	(39,267,559)	3,278,016	9,629,536	1,175,788,677	(105,831,043)	21,135,608	235,525,041	2,394,433,164	1,152,108,191	3,546,541,355
Effect of adoption of IFRS9 (Note 2)	-	-	-	-	-	-	-	-	(240,443,912)	-	-	-	(240,443,912)	-	(240,443,912)
Transfer from regulatory deferred liability (Note 23)	-	-	-	-	-	-	-	-	227,477,400	-	-	-	227,477,400	-	227,477,400
Allocation of 2017 profit	-	-	-	-	-	-	-	2,394,781	233,230,260	-	-	(235,525,041)	-	-	
Dividends paid on preferred shares (Note 31)	-	-	-	-	-	-	-	(56,827,662)	-	-	-	(56,827,662)	-	(56,827,662)	
Dividends paid on common shares (Note 31)	-	-	-	-	-	-	-	(66,638,935)	-	-	-	(66,638,935)	-	(66,638,935)	
Dividends paid on priority shares (Note 31)	-	-	-	-	-	-	-	(6,030,121)	-	-	-	(6,030,121)	-	(6,030,121)	
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(77,036,694)	(77,036,694)	
Dividends on treasury shares	-	-	-	-	-	-	-	-	51,106	-	-	-	51,106	51,106	
Reclassification from free reserves (Note 15)	-	-	-	-	-	-	(366,913)	366,913	-	-	-	-	-	-	
Issuance of common shares (Note 25)	4,453,000	-	-	-	-	-	-	81,987,050	-	-	-	-	86,440,050	-	86,440,050
Change in treasury shares	-	-	-	-	-	-	-	-	35,547,396	-	-	-	35,547,396	-	35,547,396
Change in net asset value of funds	-	-	-	-	-	-	-	-	-	-	-	-	(207,464,814)	(207,464,814)	
Effect of transactions with funds	-	-	-	-	-	-	-	(171,084)	-	-	-	(171,084)	3,678,291	3,507,207	
Effect of exchange difference	-	-	-	-	-	-	(2,327)	(9,981,240)	-	-	-	(9,983,567)	-	(9,983,567)	
Other	-	-	-	-	-	-	-	299,674	-	-	-	-	299,674	299,674	
Total comprehensive income for the year 2018	-	-	-	-	-	(12,855,208)	4,396,755	-	(1,111,465)	-	4,089,029	259,896,246	258,615,282	51,751,133	705,766,429
Balance December 31, 2018	82,102,954	150,753,015	844,124,625	20,978,370	1,668,934	(52,122,767)	6,872,441	11,557,391	1,312,996,681	(70,281,642)	25,224,637	259,896,246	2,618,788,796	923,016,107	3,541,804,903

THE ACCOMPANYING NOTES 1 TO 55 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANK OF BEIRUT S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended	
		December 31,	
		2018	2017
		LBP'000	LBP'000
Cash flows from operating activities:			
Profit for the year		311,647,379	308,155,653
Adjustments for:			
Income tax expense	23	53,967,205	44,105,339
Depreciation and amortization	42	25,741,819	22,902,361
(Write-back)/set up of allowance for credit losses (Net)	38	(1,566,727)	23,011,034
Write-back of provision for loans to banks	9	-	(1,002,038)
Deferred tax on profits for distribution	23	3,453,187	3,377,969
Unrealized loss on assets at fair value through profit or loss	36	36,198,841	4,261,166
Gain on sale of assets acquired in satisfaction of loans	37	(651,803)	(369,532)
Loss on sale on property and equipment	37	25,063	54,052
Share in profits of an associate	37	(1,105,118)	(900,983)
Provision for end of service indemnity for employees	24	5,137,271	4,376,454
Other adjustments and effect of difference on exchange		(2,598,569)	6,195,087
		430,248,548	414,166,562
Net decrease/(increase) in financial assets at fair value through profit or loss		155,311,718	(30,398,695)
Net decrease/(increase) in loans to banks		35,602,511	(28,104,967)
Net increase in loans and advances to customers	48	(260,025,646)	(1,381,891,368)
Net decrease/(increase) in loans and advances to related parties		38,975	(22,209,147)
Net increase in cash and deposits at central banks		(745,815,883)	(1,185,048,898)
Net decrease/(increase) in deposits with banks and financial institutions		21,757,977	(35,729,991)
Decrease in investment securities		453,423,528	946,696,464
Net increase in other assets	48	(37,158,542)	(2,858,721)
Net increase in deposits from banks and financial institutions		92,102,351	355,070,302
Net increase/(decrease) in other liabilities	48	18,237,148	(149,726,929)
Net increase in other provisions		3,855,228	9,005,487
Net increase in customers' and related parties' accounts at amortized cost		111,064,797	1,184,798,307
Settlement of end-of-service indemnity	24	(2,683,069)	(177,387)
Net cash provided by operating activities		<u>275,959,641</u>	<u>73,591,019</u>
Cash flows from investing activities:			
Property and equipment		(40,314,334)	(78,463,523)
Proceeds from sale of assets acquired in satisfaction of loans		1,092,680	2,562,750
Proceeds from sale of property and equipment		832,576	147,239
Dividends from investment in an associate	14	102,618	242,559
Net cash used in investing activities		<u>(38,286,460)</u>	<u>(75,510,975)</u>
Cash flows from financing activities:			
Dividends paid		(206,482,306)	(186,014,498)
Issuance of common shares		86,440,050	-
(Decrease)/increase in other borrowings		(272,782,832)	253,852,834
(Decrease)/increase in certificates of deposit		(26,999)	68,718
Non-controlling interests		(203,957,607)	(28,856,205)
Change in treasury shares		35,547,396	(48,952,468)
Net cash used in financing activities		<u>(561,262,298)</u>	<u>(9,901,619)</u>
Net decrease in cash and cash equivalents		(323,589,117)	(11,821,575)
Cash and cash equivalents - Beginning of year	48	<u>1,948,780,109</u>	<u>1,960,601,684</u>
Cash and cash equivalents - End of year	48	<u>1,625,190,992</u>	<u>1,948,780,109</u>

THE ACCOMPANYING NOTES 1 TO 55 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANK OF BEIRUT S.A.L. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

1. GENERAL INFORMATION

Bank of Beirut S.A.L. (the “Bank”) is a Lebanese joint stock company listed on the Beirut stock exchange, registered under number 13187 in the Lebanese commercial register and under number 74 in the list of banks published by the Central Bank of Lebanon. The Bank was established in Lebanon in 1963 and provides a full range of banking services and operates through a network of 74 branches throughout Lebanon with a focus in the city of Beirut and its suburbs. The Bank has a branch in Cyprus and 5 branches in the Sultanate of Oman, two subsidiary banks in the United Kingdom and Australia and representative offices in Dubai in the United Arab Emirates, Nigeria and Ghana. Further information on the Group’s structure is provided in Note 3(A). Information on other related party transactions of the Group is provided in Note 47.

The headquarters of Bank of Beirut S.A.L. are located in Fosh Street, Down Town Beirut, Lebanon.

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.

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)

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.
 - o The determination of the business model within which a financial asset is held.
 - o The designation of certain investments in equity instruments not held for trading as at FVTOCI.
 - o 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) (December 31, 2017)				Classification under IFRS 9 (2014) (January 1, 2018)		
	Category	Net Carrying Amount LBP'000	Reclassification LBP'000	Re-measurement		Category	Net Carrying Amount LBP'000
				ECL LBP'000	Deferred Tax LBP'000		
Financial assets:							
Cash and deposits at central banks	Amortized cost	6,576,913,590	-	27,423,852	-	Amortized cost	6,549,489,738
Deposits with banks and financial institutions	Amortized cost	1,547,299,126	-	815,375	-	Amortized cost	1,546,483,751
Financial assets at fair value through profit or loss	FVTPL	1,507,433,409	-	-	-	FVTPL	1,507,433,409
Loans to banks	Amortized cost	292,410,807	-	2,006,296	-	Amortized cost	290,404,511
Loans and advances to customers	Amortized cost	8,445,100,947	-	149,088,957	-	Amortized cost	8,296,011,990
Loans and advances to related parties	Amortized cost	128,160,657	-	1,411,971	-	Amortized cost	126,748,686
Financial assets at amortized cost	Amortized cost	8,162,185,826	-	52,767,196	-	Amortized cost	8,109,418,630
Financial assets at fair value through other comprehensive income	FVOCI	10,711,082	-	-	-	FVOCI	10,711,082
Customers' liability under acceptances	Amortized cost	357,494,071	-	601,432	-	Amortized cost	356,892,639
Other assets	Amortized cost	73,049,675	-	1,036,472	(1,904,576)	Amortized cost	73,917,779
		<u>27,100,759,190</u>	<u>-</u>	<u>235,151,551</u>	<u>(1,904,576)</u>		<u>26,867,512,215</u>
Non-Financial liabilities:							
Provision for expected credit losses for off-balance sheet commitments		<u>-</u>		<u>7,196,937</u>	<u>-</u>		<u>7,196,937</u>
Net impact on equity				<u>(242,348,488)</u>	<u>1,904,576</u>		<u>(240,443,912)</u>

The increase in impairment allowances when measured in accordance with IFRS 9 expected credit loss model compared to IAS 39 incurred loss model amounts to LBP240.43billion.

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.

2.2 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:

<u>New and revised IFRSs</u>	<u>Effective for Annual Periods Beginning on or After</u>
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 <i>Financial Instruments</i> : 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 <i>Leases</i> 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 <i>Investment in Associates and Joint Ventures</i> : Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 <i>Financial Instruments</i> 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

January 1, 2019

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.

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

January 1, 2020

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

January 1, 2020

IFRS 17 *Insurance Contracts*

January 1, 2021

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.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011):

Effective date
deferred
indefinitely.

Relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Adoption is still
permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for 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:

- Land and building acquired prior to 1993 are measured at their revalued amounts based on market prices prevailing in 1996, to compensate for the effect of the Upper – inflationary economy prevailing in the earlier years.
- 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 measured at fair value.

Assets and liabilities are prepared 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 Bank of Beirut S.A.L. incorporate the financial statements of the Bank and 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 interest 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 consist of the following:

	<u>Country of Business Incorporation</u>	<u>Year of Acquisition or Incorporation</u>	<u>Date of Ownership</u>		<u>Percentage of Activity</u>
			<u>2018</u>	<u>2017</u>	
Bank of Beirut UK LTD	United Kingdom	2002	100	100	Banking
Bank of Beirut Invest S.A.L.	Lebanon	2007	100	100	Investment Banking
Beirut Broker Company S.A.R.L.	Lebanon	1999	100	100	Insurance brokerage
BOB Finance S.A.L.	Lebanon	2006	100	100	Money Transfer
Cofida Holding S.A.L.	Lebanon	2008	100	100	Holding
Beirut Life S.A.L.	Lebanon	2010	90	90	Insurance (Life)
Bank of Sydney Ltd	Australia	2011	100	100	Banking
Optimal Investment Fund	Lebanon	2010	-	-	Mutual Fund
Beirut Preferred Fund II	Cayman Island	2013	1.23	1.17	Mutual Fund
BOB LBP Growth Fund	Lebanon	2015	-	-	Mutual Fund
Medawar 247 S.A.L.	Lebanon	2015	100	100	Real Estate
Medawar 1216 S.A.L.	Lebanon	2015	100	100	Real Estate

B. Business Combinations:

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

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

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

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

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

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates and other instruments".

D. Foreign Currencies:

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

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

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

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

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

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

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 rates and the effect of currency fluctuation, if any, is disclosed separately.

E. 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 non-conventional transactions concluded 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.

F. 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).

Debt instruments at amortised cost or at FVTOCI

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 interest 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 whether 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 favorable 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 a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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.

G. Financial Liabilities and Equity Instruments:

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 under note 54 below.

Other financial liabilities

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.

Derecognition of financial liabilities

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, such as foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps, are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. The resulting gain/loss is recognised 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. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm

commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Embedded derivatives

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

J. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

K. Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. The Group does not apply fair value hedge accounting of portfolio hedges of interest rate risk. In addition the Group does not use the exemption to continue using IAS 39 hedge accounting rules, i.e. the Group applies IFRS 9 hedge accounting rules in full.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Policy applicable up to December 31, 2017:

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

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

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated statement of profit or loss in "Net results on financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of profit or loss.

Policy applicable effective January 1, 2018:

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In some hedge relationships the Group designates only the intrinsic value of options. In this case the fair value change of the time value component of the option contract is deferred in OCI, over the term of the hedge, to the extent that it relates to the hedged item and is reclassified from equity to profit or loss when the hedged item does not result in the recognition of a non-financial item. The Group's risk management policy does not include hedges of items that result in the recognition of non-financial items, because the Group's risk exposures relate to financial items only.

The hedged items designated by the Group are time-period related hedged items, which means that the amount of the original time value of the option that relates to the hedged item is amortised from equity to profit or loss on a rational basis (e.g. straight-line) over the term of the hedging relationship.

In some hedge relationships the Group excludes from the designation the forward element of forward contracts or the currency basis spread of cross currency hedging instruments. In this case a similar treatment is applied to the one applied for the time value of options. The treatment for the forward element of a forward and the currency basis element is optional and the option is applied on a hedge by hedge basis, unlike the treatment for the time value of the options which is mandatory. For hedge relationships with forwards or foreign currency derivatives such as cross currency interest rate swaps, where the forward element or the currency basis spread is excluded from the designation the Group generally recognises the excluded element in OCI.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in OCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Where hedging gains/losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVTOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. If the Group no longer expects the transaction to occur that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain/loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and accumulated in the foreign currency translation reserve.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation.

L. 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.

M. Property and Equipment:

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

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

	<u>Rate</u>	<u>Years</u>
Buildings	2%	50
Furniture and equipment	8%	12.5
Computer equipment	20%	5
Vehicles	10%	10
Installation and improvement	25%	4

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized under "Other operating income" in the consolidated statement of profit or loss in the year the asset is derecognized.

N. Intangible Assets Other than Goodwill:

Intangible assets other than goodwill, are amortized on a straight-line basis at the rate of 20%. Intangible assets are subject to impairment testing. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates all other expenditure is expressed when incurred.

O. Assets acquired in satisfaction of loans:

The Lebanese banking entities of the Group account for collateral repossessed in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267. Repossessed assets should be sold within two years from the date of approval of repossession by the Banking Control Commission. 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" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for assets acquired in satisfaction of loans" starting in the following financial year.

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

P. Impairment of Tangible and Intangible Assets (Other than Goodwill):

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, 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.

The recoverable amount of the Group's owned properties and of properties acquired in satisfaction of loans, 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 an illiquidity factor and market constraints.

The impairment loss is charged to the consolidated statement of profit or loss.

Q. Provision for Employees' End-of-Service Indemnity / Staff Retirement Benefits:

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

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

Defined Benefit Plans: (Under other jurisdictions)

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

R. 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.

S. Interest Income and Expense:

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.

T. 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.

U. Net income/(loss) 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.

V. Dividend income

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

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 in other comprehensive income (OCI), in which case it is recognized in OCI.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of the items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Up to October 26, 2017, part of the debt securities invested by the Group is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

During 2017, Lebanese tax amendments and new taxes and duties were issued as per Law No. 64 dated October 26, 2017. These amendments include, but are not limited to, an increase in the Lebanese corporate income tax from 15% to 17% to be applied effective on October 27, 2017 onwards. In addition, the above mentioned withheld tax by the issuer is not allowed anymore to be deducted from the annual corporate income tax amount and is considered as a deductible expense for the purpose of calculating the corporate taxable income.

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. Fiduciary Accounts:

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

Y. 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 income statement on a straight line basis over the lease term.

Z. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with original maturities of a period of three months including: cash and balances with the Central Bank and deposits with other banks and financial institutions.

AA. Earnings per Share:

The Group presents basic and diluted earnings per share (EPS) data for its common 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 common shares.

AB. Dividends:

Dividends paid on common, priority and preferred shares are recognized as a liability and deducted from equity when they are approved by the General Assembly of the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

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

AC. 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.

AD. Insurance Contracts:

The Group issues contracts that transfer insurance risk.

Recognition and measurement:

Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect the ability of their dependents to maintain their current level of income. Long-term life insurance contracts issued by the Group insure human life events (for example death or survival). Premiums are shown before deduction of commission and are recognized as revenue when they become payable by the contract holder. Benefits are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is based on assumptions as to mortality, persistency and maintenance expenses that are established at the time the contract is issued.

Mathematical reserves for life insurance contracts:

Provisions for term life products are calculated as the difference between the actuarial present value of the Group's future liabilities and the actuarial present value of the policyholders' future premiums based on the tables of mortality and the actuarial interest rates as per the original tariffs. In case losses arise from liability adequacy tests, an additional provision is raised.

At each reporting date, an actuarial valuation of the life portfolio is carried out by a professional independent actuary and a technical assessment is performed in respect of mathematical reserves. Prevailing laws require that such actuarial valuation be carried out annually.

Outstanding claims reserves:

The outstanding claims reserves are made for all claims reported to the Group and still unpaid at the reporting date including an estimate for the cost of claims incurred but not reported (IBNR). Claims are recognized in the income statement when incurred based on estimated benefits.

Liability Adequacy Test:

Liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

Deferred Acquisition Cost:

Commissions that are related to securing new contracts and renewing existing contracts are capitalized as Deferred Acquisition Cost ("DAC"). All other costs are recognized as expenses when incurred. Deferred acquisition costs are subsequently amortized over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the income statement.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Going Concern:

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

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. Refer to note 3 and note 53 for more details.

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. See note 3 and note 53 for more details on ECL.

B. Key Sources of Estimation Uncertainty:

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

The Group based their assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment Losses on Financial Instruments (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.

Impairment of Goodwill:

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

Impairment of investment in an associate:

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

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 54. 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 AT CENTRAL BANKS

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Cash on hand	63,610,268	57,354,047
Non-interest earning accounts:		
Compulsory reserves with the Central Bank of Lebanon	382,903,022	378,769,847
Interest earning accounts:		
Current accounts with the Central Bank of Lebanon	94,877,860	74,510,133
Current accounts with other central banks	1,086,956,560	1,252,928,345
Term placements with the Central Bank of Lebanon (Note 6)	5,471,684,411	4,765,779,122
Term placements with other central banks	97,890	97,890
Accrued interest receivable, net of tax	<u>70,825,923</u>	<u>47,474,206</u>
	7,170,955,934	6,576,913,590
Allowance for expected credit losses – Note 53	<u>(32,976,484)</u>	<u>-</u>
	<u><u>7,137,979,450</u></u>	<u><u>6,576,913,590</u></u>

The non-interest earning compulsory reserves with the Central Bank of Lebanon (“BDL”) represent deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers’ deposits in Lebanese Pounds in accordance with local banking regulations.

Current accounts with other central banks also include the equivalent in Euro of LBP962million as at December 31, 2018 (LBP802million 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.

Current accounts with other central banks also include as at December 31 2018 the equivalent in Omani Riyal (OMR) of LBP1.96billion (LBP1.96billion as at December 31, 2017) as minimum reserve requirements at Central Bank of Oman.

Compulsory deposits are not available for use in the Group’s day-to-day operations.

Term placements with the Central Bank of Lebanon include as of December 31, 2018 and 2017, the equivalent in foreign currencies of LBP1,834billion and LBP1,717billion, respectively 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 loans acquired from non-resident financial institutions.

Accrued interest receivable as at December 31, 2018, is stated net of tax in the amount of LBP5.2billion on accrued interest on deposits with the Central Bank of Lebanon (LBP1.9billion as at December 31, 2017, effective October 27, 2017).

6. ASSETS UNDER LEVERAGE ARRANGEMENT WITH THE CENRAL BANK OF LEBANON

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Term placements with the Central Bank of Lebanon	475,616,000	6,027,050
Lebanese treasury bills classified at amortized cost	<u>347,423,258</u>	<u>146,021,700</u>
	<u>823,039,258</u>	<u>152,048,750</u>

As at December 31, 2018, assets under leverage arrangement consisting of term placements with the Central Bank of Lebanon and Lebanese Treasury bills classified at amortized cost in LBP earning coupon rates ranging between 6.74% per annum and 10.5% per annum and having maturities ranging between 2022 and 2033 (2017: coupon rates ranging between 6.74% per annum and 7.46% per annum and having maturities ranging between 2022 and 2027) originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP, bearing interest at the rate of 2% per annum and carrying same maturities, 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. The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Term placements with the Central Bank of Lebanon	604,658,250	122,258,250
Term placement with the Central bank of Lebanon in LBP originated from sale of foreign currency	<u>51,476,000</u>	<u>-</u>
	<u>656,134,250</u>	<u>122,258,250</u>

7. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Checks in course of collection	60,256,537	77,256,891
Current accounts	428,536,797	371,585,916
Current accounts - associate bank (Note 47)	7,426,776	14,081,443
Overnight placements	342,697,420	282,916,303
Term placements	625,441,679	726,925,177
Pledged deposits (Note 50)	176,013,275	72,854,829
Accrued interest receivable	<u>1,799,125</u>	<u>1,678,567</u>
	1,642,171,609	1,547,299,126
Allowance for expected credit losses – Note 53	(202,995)	-
	<u>1,641,968,614</u>	<u>1,547,299,126</u>

The Group has current accounts and term placements with banks amounting to LBP97.7billion and LBP41.2billion as of December 31, 2018 and 2017, respectively, subject to right of set-off against trade finance exposures related to financial institutions in the form of letters of credit, acceptances and letter of guarantee.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31, 2018</u>		
	<u>LBP</u>	<u>C/V of F/Cy</u>	<u>Total</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Quoted equity securities	-	10,872,005	10,872,005
Unquoted equity securities	-	48,540,304	48,540,304
Lebanese treasury bills	432,760,030	-	432,760,030
Lebanese Government bonds	-	235,285,861	235,285,861
Certificates of deposit issued by the Central Bank of Lebanon	246,164,268	247,131,383	493,295,651
Foreign Government treasury bills	-	77,533,343	77,533,343
Accrued interest receivable, net of tax	<u>10,680,816</u>	<u>6,954,840</u>	<u>17,635,656</u>
	<u>689,605,114</u>	<u>626,317,736</u>	<u>1,315,922,850</u>

	December 31, 2017		
	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000
Quoted equity securities	-	14,799,007	14,799,007
Unquoted equity securities	-	48,521,521	48,521,521
Lebanese treasury bills	658,381,693	-	658,381,693
Lebanese Government bonds	-	298,462,316	298,462,316
Certificates of deposit issued by the Central Bank of Lebanon	238,927,931	176,186,541	415,114,472
Foreign Government treasury bills	-	52,742,949	52,742,949
Accrued interest receivable, net of tax	13,080,965	6,330,486	19,411,451
	<u>910,390,589</u>	<u>597,042,820</u>	<u>1,507,433,409</u>

Net interest income, gains and losses on financial assets' portfolio at fair value through profit or loss are detailed under Note 36.

Accrued interest receivable as at December 31, 2018, is stated net of tax in the amount of LBP35million on interest from Lebanese Treasury bills in LBP and certificates of deposits issued by the Central Bank of Lebanon (LBP42million as at December 31, 2017, effective October 27, 2017).

9. LOANS TO BANKS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Loans to a resident housing bank (a)	9,278,800	13,303,200
Discounted acceptances (b)	101,264,112	137,216,049
Short term loans (c)	145,757,198	133,126,450
Short term loans – associate bank (c) – (Note 47)	-	9,179,430
Accrued interest receivable	1,037,102	847,574
Less: Deferred interest	(673,049)	(1,261,896)
	256,664,163	292,410,807
Less: Allowance for expected credit losses – Note 53	(1,347,939)	-
	<u>255,316,224</u>	<u>292,410,807</u>

(a) Loans to a resident housing bank represent 12 year LBP loans granted to this bank. Interest is collected semi-annually and reset every 3 years. The loans are payable after a grace period of 2 years from the withdrawal date in 10 annual equal installments. As a guarantee for these loans, the borrower has pledged in favour of the Group bills related to the housing loans granted to its customers.

(b) Discounted acceptances represent facilities derived from trade finance activity (discounted letters of credit) mainly granted to Middle Eastern and African banks. These balances are denominated in foreign currencies.

(c) Short term loans represent short term financing provided by the Group to an associate and other banks mainly against trade finance operations.

10. LOANS AND ADVANCES TO CUSTOMERS

	<u>December 31, 2018</u>		
	<u>Gross</u>	<u>Expected</u>	<u>Carrying</u>
	<u>Amount</u>	<u>Credit Loss</u>	<u>Amount</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Performing loans:			
Retail	3,475,043,029	(4,404,002)	3,470,639,027
Corporate and SME	4,985,330,996	(150,006,332)	4,835,324,664
Credit impaired:			
Retail	47,121,798	(14,667,799)	32,453,999
Corporate and SME	342,717,906	(134,399,760)	208,318,146
Accrued interest receivable	<u>8,767,547</u>	<u>-</u>	<u>8,767,547</u>
	<u>8,858,981,276</u>	<u>(303,477,893)</u>	<u>8,555,503,383</u>

	<u>December 31, 2017</u>		
	<u>Gross</u>	<u>Impairment</u>	<u>Carrying</u>
	<u>Amount</u>	<u>Allowance</u>	<u>Amount</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Performing loans:			
Retail	3,299,919,466	(1,603,497)	3,298,315,969
Corporate and SME	4,925,359,416	(24,432,154)	4,900,927,262
Credit impaired:			
Retail	73,704,156	(24,722,050)	48,982,106
Corporate and SME	295,121,116	(105,712,812)	189,408,304
Accrued interest receivable	<u>7,467,306</u>	<u>-</u>	<u>7,467,306</u>
	<u>8,601,571,460</u>	<u>(156,470,513)</u>	<u>8,445,100,947</u>

Loans and advances to customers as at December 31, 2018, include advances denominated in USD, Euro, AUD and Arab Emirates Dirham (AED) in the equivalent amount of LBP531.6billion, LBP149billion, LBP13.5billion and LBP21.8billion, respectively, granted to certain customers against credit balances in the same currencies under “customers’ and related parties’ deposits “. Subsequent to the date of the statement of the financial position, the customers settled the advances against the credit balances.

Loans and advances to customers as at December 31, 2017, include advances denominated in USD and Arab Emirates Dirham (AED) in the equivalent amount of LBP724billion and LBP35billion, respectively, granted to certain customers against credit balances in the same currencies under “Customers’ and related parties’ deposits”. Subsequent to the date of the statement of the financial position, the customers settled the advances against the credit balances.

Performing loans and advances to customers as at December 31, 2018, include loan balances in U.S. Dollar aggregating to LBP6.8billion (LBP12billion as at December 31, 2017) granted to customers against credit balances in Lebanese Pounds aggregating LBP8.6billion (LBP14billion as at December 31, 2017) and margins in U.S. Dollar aggregating LBP3.7billion (LBP6billion as at December 31, 2017) reflected under “Customers’ and related parties’ deposits”.

Loans and advances to customers include creditors accidentally debtors’ balances aggregating to LBP10.4billion as at December 31, 2018 (LBP13.6billion in 2017).

Loans and advances to customers as at December 31, 2018 are stated net of advances related to multi-currency trading in the aggregate of LBP2.8billion (LBP6.8billion in 2017) which are offset against the corresponding credit balances.

The movement allowance for expected credit losses during 2018 is summarized under Note 53.

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

	<u>2017</u> <u>LBP’000</u>
Balance, January 1	(132,319,123)
Additions to allowance for impairment (Note 38)	(26,794,499)
Write-back to profit or loss (Note 38)	3,794,966
Write-off	154,634
Effect of exchange rate changes and other movements	(1,306,491)
Balance, December 31	<u>(156,470,513)</u>

11. LOANS AND ADVANCES TO RELATED PARTIES

	December 31, 2018		
	Gross Amount	Expected Credit Loss	Carrying Amount
	LBP'000	LBP'000	LBP'000
Performing Loans:			
Retail	11,591,066	(38,330)	11,552,736
Corporate and SME	116,420,549	(2,805,906)	113,614,643
Accrued interest receivable	110,067	-	110,067
	<u>128,121,682</u>	<u>(2,844,236)</u>	<u>125,277,446</u>

	December 31, 2017		
	Gross Amount	Impairment Allowance	Carrying Amount
	LBP'000	LBP'000	LBP'000
Performing Loans:			
Retail	17,600,262	-	17,600,262
Corporate and SME	110,435,339	-	110,435,339
Accrued interest receivable	125,056	-	125,056
	<u>128,160,657</u>	<u>-</u>	<u>128,160,657</u>

Loans and advances to related parties are partially covered by collaterals (Refer to Note 47).

Loans and advances to related parties as at December 31, 2018 are stated net of advances related to multi-currency trading in the aggregate of LBP1.9billion (LBP2billion in 2017) which are offset against the corresponding credit balances.

12. INVESTMENT SECURITIES

	December 31, 2018						
	Fair Value through Other Comprehensive Income			Amortized Cost			Grand Total
	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	LBP'000
Unquoted equity securities	9,916,114	5,765,316	15,681,430	-	-	-	15,681,430
Lebanese treasury bills	-	-	-	972,387,429	-	972,387,429	972,387,429
Lebanese Government bonds	-	-	-	-	3,364,782,151	3,364,782,151	3,364,782,151
Foreign Government bonds	-	-	-	-	98,405,690	98,405,690	98,405,690
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	1,891,435,870	842,687,088	2,734,122,958	2,734,122,958
Certificates of deposit issued by financial private sector	-	-	-	-	19,020,225	19,020,225	19,020,225
Bonds issued by financial private sector	-	-	-	-	405,713,158	405,713,158	405,713,158
	9,916,114	5,765,316	15,681,430	2,863,823,299	4,730,608,312	7,594,431,611	7,610,113,041
Accrued interest receivable, net of tax	-	-	-	59,171,413	54,903,120	114,074,533	114,074,533
	9,916,114	5,765,316	15,681,430	2,922,994,712	4,785,511,432	7,708,506,144	7,724,187,574
Allowance for expected credit losses – Note 53	-	-	-	(4,947,942)	(41,523,321)	(46,471,263)	(46,471,263)
	<u>9,916,114</u>	<u>5,765,316</u>	<u>15,681,430</u>	<u>2,918,046,770</u>	<u>4,743,988,111</u>	<u>7,662,034,881</u>	<u>7,677,716,311</u>
	December 31, 2017						
	Fair Value through Other Comprehensive Income			Amortized Cost			Grand Total
	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	LBP'000
Unquoted equity securities	5,319,359	5,391,723	10,711,082	-	-	-	10,711,082
Lebanese treasury bills	-	-	-	1,453,485,198	-	1,453,485,198	1,453,485,198
Lebanese Government bonds	-	-	-	-	3,534,612,705	3,534,612,705	3,534,612,705
Foreign Government bonds	-	-	-	-	89,622,830	89,622,830	89,622,830
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	1,531,817,844	843,384,233	2,375,202,077	2,375,202,077
Certificates of deposit issued by financial private sector	-	-	-	-	904,500	904,500	904,500
Bonds issued by financial private sector	-	-	-	-	593,376,444	593,376,444	593,376,444
	5,319,359	5,391,723	10,711,082	2,985,303,042	5,061,900,712	8,047,203,754	8,057,914,836
Accrued interest receivable, net of tax	-	-	-	57,867,969	57,114,103	114,982,072	114,982,072
	<u>5,319,359</u>	<u>5,391,723</u>	<u>10,711,082</u>	<u>3,043,171,011</u>	<u>5,119,014,815</u>	<u>8,162,185,826</u>	<u>8,172,896,908</u>

A) Financial assets at fair value through other comprehensive income:

Investments at fair value through other comprehensive income include an amount of LBP5.5billion as at December 31, 2018 representing the Group's share in startups/incubators established based on co-sharing agreements with the regulator providing the funding (LBP5.1billion as at December 31, 2017).

B) Financial assets at amortized cost:

	December 31, 2018							
	LBP				F/Cy			
	Amortized Cost LBP'000	Accrued Interest Receivable LBP'000	Expected Credit Loss LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Accrued Interest Receivable LBP'000	Expected Credit Loss LBP'000	Fair Value LBP'000
Lebanese treasury bills	972,387,429	16,009,826	(4,947,942)	989,552,820	-	-	-	-
Lebanese Government bonds	-	-	-	-	3,364,782,151	38,238,541	(36,636,890)	2,883,538,995
Foreign Government bonds	-	-	-	-	98,405,690	917,954	-	99,618,563
Certificates of deposit issued by the Central Bank of Lebanon	1,891,435,870	43,161,587	-	1,888,161,587	842,687,088	13,043,176	(4,747,153)	859,136,717
Certificates of deposit issued by financial private sector	-	-	-	-	19,020,225	72,699	-	19,094,638
Bonds issued by financial private sector	-	-	-	-	405,713,158	2,630,750	(139,278)	409,580,673
	<u>2,863,823,299</u>	<u>59,171,413</u>	<u>(4,947,942)</u>	<u>2,877,714,407</u>	<u>4,730,608,312</u>	<u>54,903,120</u>	<u>(41,523,321)</u>	<u>4,270,969,586</u>

	December 31, 2017					
	LBP			F/Cy		
	Amortized Cost LBP'000	Accrued Interest Receivable LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Accrued Interest Receivable LBP'000	Fair Value LBP'000
Lebanese treasury bills	1,453,485,198	22,974,175	1,468,680,568	-	-	-
Lebanese Government bonds	-	-	-	3,534,612,705	39,003,696	3,372,905,813
Foreign government bonds	-	-	-	89,622,830	935,642	89,811,267
Certificates of deposit issued by the Central Bank of Lebanon	1,531,817,844	34,893,794	1,559,969,599	843,384,233	13,323,675	844,737,273
Certificates of deposit issued by financial private sector	-	-	-	904,500	58,510	904,500
Bonds issued by financial private sector	-	-	-	593,376,444	3,792,580	591,495,225
	<u>2,985,303,042</u>	<u>57,867,969</u>	<u>3,028,650,167</u>	<u>5,061,900,712</u>	<u>57,114,103</u>	<u>4,899,854,078</u>

During 2018, the Group entered into several exchange transactions with the Central Bank of Lebanon of certificates of deposit in Lebanese Pounds classified at amortized cost with a nominal value of LBP1,212billion and Lebanese treasury bills classified at amortized cost with a nominal value of LBP322.7billion against certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds with a nominal value of LBP1,570billion.

The above transactions resulted in aggregate losses in the amount of LBP38.1billion which are deferred as a yield adjustment to be amortized to profit or loss over the period remaining to maturity of the acquired securities. An amount of LBP1.2billion was amortized and recorded under "Interest income" in the consolidated statement of profit or loss for the year ended December 31, 2018.

During 2017, the Group entered into several exchange transactions of Lebanese Government bonds in U.S. Dollars classified at amortized cost with a nominal value of LBP227.6billion against Lebanese Government bonds in U.S. Dollars with a nominal value of LBP227.6billion.

The above transactions resulted in aggregate capital gains in the amount of LBP6.14billion which are deferred as a yield enhancement to be amortized to profit or loss over the period remaining to maturity of the acquired securities. An amount of LBP596million was amortized and recorded under "Interest income" in the consolidated statement of profit or loss for the year ended December 31, 2018 (LBP414million for the year ended December 31, 2017).

During 2018 and 2017, the Group entered into several exchange and sales transactions of investment securities at amortized cost that resulted in net gains of LBP641million in 2018 (LBP428million in 2017) recorded under the consolidated statement of profit or loss as shown below:

Gains on derecognition of financial assets at amortized cost resulted from the following:

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Lebanese Government bonds	299,958	(142,264)
Lebanese treasury bills	174	6,223
Bonds issued by financial private sector	<u>341,251</u>	<u>563,829</u>
	<u>641,383</u>	<u>427,788</u>

The sales transactions were entered into for the purpose of liquidity management upon withdrawal of earmarked deposits.

Certain investment securities at amortized cost are pledged against facilities (Note 50).

13. 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.

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Customers' liability under acceptance	400,305,358	357,494,071
Allowance for expected credit losses – Note 53	(701,213)	-
	<u>399,604,145</u>	<u>357,494,071</u>

14. INVESTMENT IN AN ASSOCIATE

The movement of the investment balance during 2018 and 2017 is as follows:

	2018		2017	
	USD	C/V in LBP'000	USD	C/V in LBP'000
Balance at January 1	27,552,463	46,749,318	30,574,390	46,090,894
Share in net profit (Note 37)	733,080	1,105,118	597,667	900,983
Distribution of dividends	(68,072)	(102,419)	(160,901)	(242,559)
Balance at December 31	28,217,471	47,752,017	31,011,156	46,749,318
Less: Allowance for impairment	(12,954,415)	(24,742,960)	(3,458,693)	(5,213,980)
Balance at December 31	<u>15,263,056</u>	<u>23,009,057</u>	<u>27,552,463</u>	<u>41,535,338</u>

The movement of allowance for impairment during 2018 and 2017 is summarized as follows:

	2018 LBP'000	2017 LBP'000
Balance, January 1	5,213,980	5,213,980
Additions (Note 37)	11,300,000	-
Transfer from "provision for risks and charges" (Note 24)	8,228,980	-
Balance, December 31	<u>24,742,960</u>	<u>5,213,980</u>

The following tables illustrate summarized financial information of the Group's investment in an African bank:

December 31, 2018						
Total Assets	Total Liabilities	Net Assets	Net Profit	Share in Ownership	Group's share of net Assets	Group's share in Profit
LBP'000	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000
305,377,843	198,661,122	106,716,721	5,525,592	20	21,343,344	1,105,118
December 31, 2017						
Total Assets	Total Liabilities	Net Assets	Net Profit	Share in Ownership	Group's share of net Assets	Group's share in Profit
LBP'000	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000
405,915,896	267,049,018	138,866,878	4,504,913	20	27,773,376	900,983

15. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through extinguishment and/or restructuring of debt.

The movement of assets acquired in satisfaction of loans was as follows:

	<u>Real Estate</u> <u>LBP'000</u>
Gross Amount:	
Balance January 1, 2017	25,793,595
Additions	168,593
Disposals	(2,193,218)
Balance December 31, 2017	23,768,970
Additions	2,264,891
Disposals	(440,877)
Balance December 31, 2018	<u>25,592,984</u>
Allowance for impairment:	
Balance December 31, 2017	(1,026,266)
Balance December 31, 2018	<u>(1,026,266)</u>
Carrying Amount:	
Balance December 31, 2018	<u>24,566,718</u>
Balance December 31, 2017	<u>22,742,704</u>

During 2018, the Group sold assets acquired in satisfaction of loans with an aggregate cost of LBP441million (LBP2.2billion during 2017). The sales resulted in a gain in the amount of LBP652million during 2018 (LBP370million during 2017) recorded in the consolidated statement of profit or loss under "Other operating income (net)" (Note 37).

The fair value of assets acquired in satisfaction of loans amounted to LBP36.7billion as at December 31, 2018 (LBP35.8billion as at December 31 2017). The valuation is made by Bank's internal experts and/or external experts.

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and should be liquidated within 2 years. Up to July 20, 2018, in case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non-performing loans are met and subject to the approval of the Central Bank of Lebanon. Effective July 20, 2018, the regulatory reserve of all assets acquired in satisfaction of loans where the 2 years grace period for disposal elapses on or after July 20, 2018 should be appropriated from profit over a period of 20 years. This regulatory reserve is reflected under equity. In this connection, an amount of LBP2.29billion was appropriated in 2018 (LBP1.37billion in 2017). An amount of LBP367million was transferred during 2018 to retained earnings upon the sale of the related foreclosed assets (LBP106million in 2017) (Note 28).

16. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2018 and 2017 was as follows:

	Buildings and Real Estate	Furniture	Equipment	Vehicles	Installations and Improvement	Advance Payments on Capital Expenditure	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Gross Amount:							
Balance, January 1, 2018	250,635,545	42,539,441	59,228,318	830,620	78,908,949	11,083,829	443,226,702
Additions	17,445,749	2,904,254	5,494,013	-	900,033	15,313,886	42,057,935
Disposals	-	(22,885)	(649,282)	(70,480)	(1,211,314)	(534,823)	(2,488,784)
Transfers between categories	-	165,223	109,444	-	10,449,728	(10,724,395)	-
Transfers to intangible assets	-	-	-	-	-	(1,704,528)	(1,704,528)
Write-off to general and administrative	(673,676)	-	-	-	-	(735,793)	(1,409,469)
Other	-	-	-	-	-	(334,666)	(334,666)
Effect of exchange rate changes	(2,376,064)	(109,853)	(684,573)	(6,906)	(869,099)	(25,885)	(4,072,380)
Balance, December 31, 2018	<u>265,031,554</u>	<u>45,476,180</u>	<u>63,497,920</u>	<u>753,234</u>	<u>88,178,297</u>	<u>12,337,625</u>	<u>475,274,810</u>
Accumulated depreciation:							
Balance, January 1, 2018	(29,696,259)	(25,204,404)	(44,480,116)	(486,192)	(62,356,146)	-	(162,223,117)
Additions (Note 42)	(3,073,781)	(3,073,562)	(5,354,526)	(95,721)	(8,788,576)	-	(20,386,166)
Disposals	-	3,479	320,807	70,480	1,236,380	-	1,631,146
Effect of exchange rate changes	16,285	59,571	434,361	2,045	663,701	-	1,175,963
Balance, December 31, 2018	<u>(32,753,755)</u>	<u>(28,214,916)</u>	<u>(49,079,474)</u>	<u>(509,388)</u>	<u>(69,244,641)</u>	<u>-</u>	<u>(179,802,174)</u>
Impairment allowance:							
Balance, December 31, 2018	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>
Carrying amount:							
Balance, December 31, 2018	<u>231,977,799</u>	<u>17,261,264</u>	<u>14,418,446</u>	<u>243,846</u>	<u>18,933,656</u>	<u>12,337,625</u>	<u>295,172,636</u>

	Buildings and Real Estate LBP'000	Furniture LBP'000	Equipment LBP'000	Vehicles LBP'000	Installations and Improvement LBP'000	Advance Payments on Capital Expenditure LBP'000	Total LBP'000
Gross Amount:							
Balance, January 1, 2017	182,235,080	40,839,053	52,034,601	734,401	71,341,848	16,207,927	363,392,910
Additions	55,736,067	1,723,073	3,092,283	239,750	646,829	17,813,830	79,251,832
Disposals	-	(269,793)	(380,865)	(148,802)	(153,046)	-	(952,506)
Transfers between categories	11,434,492	183,807	4,011,606	-	6,358,199	(21,988,104)	-
Transfers to intangible assets	-	-	-	-	-	(180,900)	(180,900)
Write-off to general and administrative	-	-	-	-	-	(788,311)	(788,311)
Effect of exchange rate changes	1,229,906	63,301	470,693	5,271	715,119	19,387	2,503,677
Balance, December 31, 2017	<u>250,635,545</u>	<u>42,539,441</u>	<u>59,228,318</u>	<u>830,620</u>	<u>78,908,949</u>	<u>11,083,829</u>	<u>443,226,702</u>
Accumulated depreciation:							
Balance, January 1, 2017	(26,919,656)	(22,158,956)	(39,872,440)	(486,774)	(54,055,413)	-	(143,493,239)
Additions (Note 42)	(2,774,193)	(3,180,214)	(4,619,922)	(84,869)	(7,959,551)	-	(18,618,749)
Disposals	-	190,443	352,278	86,148	122,346	-	751,215
Effect of exchange rate changes	(2,410)	(55,677)	(340,032)	(697)	(463,528)	-	(862,344)
Balance, December 31, 2017	<u>(29,696,259)</u>	<u>(25,204,404)</u>	<u>(44,480,116)</u>	<u>(486,192)</u>	<u>(62,356,146)</u>	<u>-</u>	<u>(162,223,117)</u>
Impairment allowance:							
Balance, December 31, 2017	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>
Carrying amount:							
Balance, December 31, 2017	<u>220,639,286</u>	<u>17,335,037</u>	<u>14,748,202</u>	<u>344,428</u>	<u>16,552,803</u>	<u>11,083,829</u>	<u>280,703,585</u>

Additions during 2018 to “Buildings and Real Estates” include LBP9.5billion represent mainly costs incurred in connection with the acquisition of new premises for the purpose of expanding, existing or opening branches in the future.

Additions during 2018 to “furniture”, “equipment” and “advance payments on capital expenditures” represent mainly costs incurred in connection with the opening and refurbishment of branches in Lebanon.

During 2017, the Group acquired a plot of land adjacent to previously acquired plots in Medawar area for a consideration of LBP25.8billion fully settled in 2017. These plots were acquired for the purpose of building a new head office.

Furthermore, during 2017 the Group transferred from advance payments on capital expenditures to Buildings and real estate an amount of LBP11.43billion representing the acquisition cost of premises to be used by the Group as branches in several areas in the Greater Beirut area.

In addition, during 2017, the Group acquired a building in the city of London for a consideration of GBP15million (LBP29.85billion) fully settled in 2017. The purpose of this building is to relocate the offices of the Group’s subsidiary in London.

17. GOODWILL

	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
Beirut Life S.A.L.	452,265	-	452,265	452,265	-	452,265
Bank of Sydney Ltd	-	86,582,170	86,582,170	-	86,582,170	86,582,170
Bank of Beirut (UK) Ltd	-	1,432,269	1,432,269	-	1,529,819	1,529,819
	<u>452,265</u>	<u>88,014,439</u>	<u>88,466,704</u>	<u>452,265</u>	<u>88,111,989</u>	<u>88,564,254</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The Group has determined that each subsidiary constitutes a single cash generating unit and tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash generating unit is determined from value in use calculations or market comparability approach, as applicable. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to net interest margin during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Business. The growth rates are based on industry growth forecasts. Changes in net interest margin are based on expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the subsidiary and extrapolates cash flows for the review period based on the assumption that the cash flows will remain relatively stable throughout the period under review.

The market average multiple of equity for acquisitions of similar sized cash generating units is used to determine the recoverable amount of the cash generating unit when using the market comparability approach.

18. OTHER ASSETS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Medical costs receivable from National Social security Fund (a)	9,117,490	7,162,860
Intangible assets (b)	19,130,194	14,600,240
Fair value of derivatives assets (c)	19,431,077	8,764,514
Premium on forward deals (net)	-	305,826
Deferred tax asset (d)	3,177,302	2,088,806
Prepayments	13,496,784	13,424,644
Regulatory blocked deposit (e)	4,500,000	4,500,000
Sundry accounts receivable	23,940,021	20,395,290
Other	<u>1,774,825</u>	<u>1,807,495</u>
	94,567,693	73,049,675
Allowance for expected credit losses – Note 53	(1,105,366)	-
	<u>93,462,327</u>	<u>73,049,675</u>

(a) Medical costs receivable from the National Social Security Fund represent medical expenses settled by the Group to employees and expected to be recovered within three years from the date they were incurred because of substantial settlement delays by the National Social Security Fund.

(b) The movement of intangible assets is disclosed as follows:

	Software LBP'000	Key Money LBP'000	Payments on Purchase of Intangible Assets LBP'000	Total LBP'000
Cost:				
Balance, January 1, 2017	25,647,880	1,658,250	2,138,824	29,444,954
Additions	5,405,601	-	-	5,405,601
Transfers from property and equipment	180,900	-	-	180,900
Transfer to prepayments	-	-	(2,072,812)	(2,072,812)
Write-off to profit or loss	-	-	(66,012)	(66,012)
Effect of exchange rate changes	832,051	-	-	832,051
Balance, December 31, 2017	32,066,432	1,658,250	-	33,724,682
Additions	7,918,885	-	-	7,918,885
Transfers from property and equipment	1,704,528	-	-	1,704,528
Disposals	(77,538)	-	-	(77,538)
Effect of exchange rate changes	(129,942)	-	-	(129,942)
Balance, December 31, 2018	41,482,365	1,658,250	-	43,140,615
Amortization:				
Balance, January 1, 2017	(14,669,402)	-	-	(14,669,402)
Amortization for the year (Note 42)	(3,955,949)	-	-	(3,955,949)
Effect of exchange rate changes	(499,091)	-	-	(499,091)
Balance, December 31, 2017	(19,124,442)	-	-	(19,124,442)
Amortization for the year (Note 42)	(5,042,144)	-	-	(5,042,144)
Disposals	77,538	-	-	77,538
Effect of exchange rate changes	78,627	-	-	78,627
Balance, December 31, 2018	(24,010,421)	-	-	(24,010,421)
Net Book Value:				
Balance, December 31, 2018	17,471,944	1,658,250	-	19,130,194
Balance, December 31, 2017	12,941,990	1,658,250	-	14,600,240

(c) The fair value of derivative assets consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Interest rate swap	63,623	723,947
Forward contracts	19,367,454	8,040,567
	19,431,077	8,764,514

(d) Deferred tax asset consists of deferred tax on the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Depreciation of property and equipment	845,036	739,759
Provisions	1,793,940	1,306,357
Other	538,326	42,690
	<u>3,177,302</u>	<u>2,088,806</u>

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

19. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Current accounts from banks and financial institutions	505,459,552	571,645,700
Current accounts - associate bank (Note 47)	621,830	2,773,895
Short term deposits (a)	1,956,839,929	1,193,081,844
Pledged deposits (b)	3,007,873	314,544,237
Pledged deposits - associate bank (c) (Note 47)	-	6,411,052
Accrued interest payable	9,925,030	6,554,480
	<u>2,475,854,214</u>	<u>2,095,011,208</u>

(a) Short-term deposits include withdrawals from the Arab Trade Finance Program facility in the amount of LBP10.9billion (USD7,225,535) as of December 31, 2018 (LBP7.6billion (USD5,046,948) in 2017). This facility was granted to the Group to finance imports and exports among Arab countries.

Short-term deposits also include as at December 31, 2018 deposits in the amount of LBP323billion (LBP53billion in 2017) secured by pledged securities at amortized cost and pledged deposits with banks amounting to LBP800billion and LBP67billion, respectively, as at December 31, 2018 (LBP135billion in 2017) (Note 50).

(b) Pledged deposits represent deposits pledged by non-resident banks to the favor of the Group against trade finance activities.

(c) Pledged deposits from an associate bank represent collateral received by the Group against short term loans granted (Note 9).

20. CUSTOMERS' AND RELATED PARTIES' DEPOSITS

	December 31, 2018		
	LBP	F/Cy	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers:			
Current and demand deposits	370,194,234	1,586,958,992	1,957,153,226
Term deposits	4,380,692,968	11,584,267,444	15,964,960,412
Credit accounts against loans and advances	370,943,431	1,101,250,418	1,472,193,849
Margins for irrevocable import letters of credit	-	103,578,011	103,578,011
Margins on letters of guarantee	11,533,036	96,125,892	107,658,928
Other margins	6,752,869	22,150,828	28,903,697
	<u>5,140,116,538</u>	<u>14,494,331,585</u>	<u>19,634,448,123</u>
Accrued interest payable	51,550,182	75,300,524	126,850,706
	<u>5,191,666,720</u>	<u>14,569,632,109</u>	<u>19,761,298,829</u>
Deposits from related parties:			
Current and demand deposits	1,948,334	31,665,782	33,614,116
Term deposits	28,389,754	321,393,017	349,782,771
Credit accounts against loans and advances	278,482	72,401,111	72,679,593
Margins on letters of guarantee	4,936	9,981	14,917
Other margins	-	754	754
	<u>30,621,506</u>	<u>425,470,645</u>	<u>456,092,151</u>
Accrued interest payable	156,454	1,098,667	1,255,121
	<u>30,777,960</u>	<u>426,569,312</u>	<u>457,347,272</u>
Total deposits	<u>5,222,444,680</u>	<u>14,996,201,421</u>	<u>20,218,646,101</u>
	December 31, 2017		
	LBP	F/Cy	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers:			
Current and demand deposits	349,310,617	1,897,332,338	2,246,642,955
Term deposits	4,793,211,089	10,916,116,276	15,709,327,365
Credit accounts against loans and advances	381,392,848	953,189,444	1,334,582,292
Margins for irrevocable import letters of credit	-	28,382,941	28,382,941
Margins on letters of guarantee	11,940,108	116,191,990	128,132,098
Other margins	6,044,340	21,828,543	27,872,883
	<u>5,541,899,002</u>	<u>13,933,041,532</u>	<u>19,474,940,534</u>
Accrued interest payable	46,731,617	61,331,710	108,063,327
	<u>5,588,630,619</u>	<u>13,994,373,242</u>	<u>19,583,003,861</u>
Deposits from related parties:			
Current and demand deposits	1,493,642	35,737,248	37,230,890
Term deposits	35,082,301	379,664,355	414,746,656
Credit accounts against loans and advances	359,479	71,162,746	71,522,225
Margins on letters of guarantee	46,067	9,887	55,954
Other margins	171	1,847	2,018
	<u>36,981,660</u>	<u>486,576,083</u>	<u>523,557,743</u>
Accrued interest payable	158,474	861,226	1,019,700
	<u>37,140,134</u>	<u>487,437,309</u>	<u>524,577,443</u>
Total deposits	<u>5,625,770,753</u>	<u>14,481,810,551</u>	<u>20,107,581,304</u>

Customers' and related parties' deposits at amortized cost are allocated by brackets of deposits as follows (excluding accrued interest payable):

December 31, 2018				
	LBP	F/Cy		
	Total	Total	% of	% of
	Deposits	Deposits	Customers	Deposits
	LBP'000	LBP'000		
Deposits from customers:				
Less than LBP 500 million	2,459,971,253	3,743,776,773	96.43	31.60
From LBP 500 million to LBP 1.5 billion	901,838,318	2,525,269,921	2.55	17.45
From LBP 1.5 billion to LBP 5 billion	562,605,859	2,366,528,611	0.78	14.92
Over LBP 5 billion	<u>1,215,701,108</u>	<u>5,858,756,280</u>	<u>0.24</u>	<u>36.03</u>
	<u>5,140,116,538</u>	<u>14,494,331,585</u>	<u>100.00</u>	<u>100.00</u>
Deposits from related parties:				
Less than LBP 500 million	2,758,415	9,190,190	75.31	2.02
From LBP 500 million to LBP 1.5 billion	1,526,191	9,661,396	9.76	1.89
From LBP 1.5 billion to LBP 5 billion	3,392,400	16,646,837	5.88	4.25
Over LBP 5 billion	<u>22,944,500</u>	<u>389,972,222</u>	<u>9.05</u>	<u>91.85</u>
	<u>30,621,506</u>	<u>425,470,645</u>	<u>100.00</u>	<u>100.00</u>
	<u>5,170,738,044</u>	<u>14,919,802,230</u>		
December 31, 2017				
	LBP	F/Cy		
	Total	Total	% of	% of
	Deposits	Deposits	Customers	Deposits
	LBP'000	LBP'000		
Deposits from customers:				
Less than LBP 500 million	2,702,663,422	3,301,097,444	96.27	30.83
From LBP 500 million to LBP 1.5 billion	1,008,212,148	2,311,156,793	2.61	17.04
From LBP 1.5 billion to LBP 5 billion	622,199,141	2,439,502,272	0.85	15.72
Over LBP 5 billion	<u>1,208,824,291</u>	<u>5,881,285,023</u>	<u>0.27</u>	<u>36.41</u>
	<u>5,541,899,002</u>	<u>13,933,041,532</u>	<u>100.00</u>	<u>100.00</u>
Deposits from related parties:				
Less than LBP 500 million	3,977,540	7,939,654	80.56	2.28
From LBP 500 million to LBP 1.5 billion	1,180,174	19,596,522	9.43	3.97
From LBP 1.5 billion to LBP 5 billion	3,780,965	31,851,381	6.08	6.81
Over LBP 5 billion	<u>28,042,981</u>	<u>427,188,526</u>	<u>3.93</u>	<u>86.94</u>
	<u>36,981,660</u>	<u>486,576,083</u>	<u>100.00</u>	<u>100.00</u>
	<u>5,578,880,662</u>	<u>14,419,617,615</u>		

Deposits from customers include as at December 31, 2018 coded deposit accounts in the aggregate of LBP33.1billion (LBP31.3billion as at December 31, 2017). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include as at December 31, 2018 deposits of fiduciary nature received from resident and non-resident banks for a total amount of LBP167billion and LBP512billion respectively (LBP159billion and LBP704billion in 2017).

The average balance of customers' deposits and related cost of funds over the last 3 years are as follows:

Year	Average Balance of Deposits LBP'000	Allocation of Deposits		Cost of Funds LBP'000	Average Cost of Funds %
		LBP	F/Cy		
		%	%		
Year 2018	18,296,340,042	30	70	862,091,142	4.71
Year 2017	17,384,842,902	32	68	748,608,580	4.31
Year 2016	16,665,078,049	34	66	711,280,296	4.27

The average balance of related parties' deposits and related cost of funds over the last 3 years are as follows:

Year	Average Balance of Deposits LBP'000	Allocation of Deposits		Cost of Funds LBP'000	Average Cost of Funds %
		LBP	F/Cy		
		%	%		
Year 2018	426,418,898	9	91	16,209,134	3.80
Year 2017	452,767,828	8	92	16,509,477	3.65
Year 2016	371,664,306	10	90	14,500,037	3.90

21. OTHER BORROWINGS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Borrowings from Central Bank of Lebanon (a)	556,311,685	532,162,953
Short term borrowing from Central Bank of Lebanon (b)	-	188,437,500
Borrowings from other central banks (Note 50)	-	100,330,387
Borrowings from the European Investment Bank (c)	5,784,294	12,469,372
	562,095,979	833,400,212
Accrued interest payable	5,853,863	7,332,462
	<u>567,949,842</u>	<u>840,732,674</u>

(a) Borrowings from Central Bank of Lebanon as of December 31, 2018 and 2017 represent 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 that the Group granted at its own risk to customers pursuant to certain conditions, rules and mechanism.

(b) During November 2017, the Group was granted a short term loan in the amount of USD125million (LBP188.4billion) by the Central Bank of Lebanon for a period of 3 months. The loan was fully settled during 2018 upon maturity.

(c) Borrowings from European Investment Bank are summarized as follows:

December 31, 2018	December 31, 2017	Final Maturity Year	Average Interest Rate
C/V LBP'000	C/V LBP'000		%
-	2,232,098	2018	3.87
1,870,370	4,949,590	2019	4.03
748,174	1,217,434	2020	4.93
3,165,750	4,070,250	2022	4.84
<u>5,784,294</u>	<u>12,469,372</u>		

Borrowings from the European Investment Bank were obtained to finance loans granted to customers in the manufacturing sector.

The movement of borrowings is detailed as follows:

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Balance, January 1	833,400,212	583,395,387
Financing cash flows	24,148,732	300,577,575
Settlements	(295,452,965)	(50,572,750)
Balance, December 31	<u>562,095,979</u>	<u>833,400,212</u>

22. CERTIFICATES OF DEPOSIT

	<u>December 31,</u>			
	<u>2018</u>		<u>2017</u>	
	<u>C/V of F/Cy</u>	<u>Average Interest Rate</u>	<u>C/V of F/Cy</u>	<u>Average Interest Rate</u>
	<u>LBP'000</u>	<u>%</u>	<u>LBP'000</u>	<u>%</u>
Certificates of deposit	604,066	2.25	630,933	2.25
Accrued interest payable	<u>2,979</u>		<u>3,111</u>	
	<u>607,045</u>		<u>634,044</u>	

23. OTHER LIABILITIES

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Checks and incoming payment orders in course of settlement	50,277,018	49,004,410
Fair value of derivative financial liabilities (a)	8,578,459	10,399,431
Dividends payable	8,587,066	6,603,457
Deferred tax liability (b)	9,652,227	7,827,907
Accrued expenses	33,714,573	35,781,862
Deferred income	6,609,603	6,486,973
Income tax payable (c)	46,618,111	24,018,425
Withheld taxes	13,041,331	11,791,259
Fair value of financial guarantees	3,897,789	2,491,182
Margins on letters of credit - banks	121,345,948	94,279,503
Margins on letters of credit - associate bank (Note 47)	264	1,016,559
Margins on letters of guarantee - banks	9,766,405	6,289,592
Sundry accounts payable	36,609,657	33,139,256
Unfavorable exchange difference on fixed currency position (Note 25)	49,082	175,833
Regulatory deferred liability (d)	-	238,777,401
Discount on forward deals (net)	<u>16,215,657</u>	<u>-</u>
	<u>364,963,190</u>	<u>528,083,050</u>

(a) Fair value of derivative financial liabilities consists of the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Interest rate swap (Note 45)	1,152,989	44,169
Forward contracts	<u>7,425,470</u>	<u>10,355,262</u>
	<u>8,578,459</u>	<u>10,399,431</u>

The Group uses interest rate swaps, and forward contracts for hedging purposes only. These represent commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.

(b) The deferred tax liability consists of the following:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Deferred tax liability on undistributed profits from subsidiaries	9,652,227	7,749,040
Other	<u>-</u>	<u>78,867</u>
	<u>9,652,227</u>	<u>7,827,907</u>

The movement of deferred tax liability which relates to undistributed profits from subsidiaries during 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Balance at January 1	7,749,040	6,571,071
Additions	3,453,187	3,377,969
Settlements	<u>(1,550,000)</u>	<u>(2,200,000)</u>
Balance at December 31	<u>9,652,227</u>	<u>7,749,040</u>

During 2018, four of the Group's subsidiaries paid cash dividends in the amount of LBP15.5billion (four of the Group's subsidiaries paid cash dividends in the amount of LBP22billion during 2017). The related distribution tax amount of LBP1.55billion (LBP2.2billion during 2017) was settled from the deferred tax liability in 2018.

At December 31, 2018, a deferred tax liability for temporary differences related to the undistributed profits of foreign subsidiaries was not recognized on the grounds that management has committed to retain the profits in two of its foreign subsidiaries for purpose of permanent capitalization of profits.

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

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Income before income tax	369,067,771	355,638,961
Income from subsidiaries, managed funds and foreign branches	(101,127,769)	(117,217,192)
	267,940,002	238,421,769
<u>Add: Non-deductible expenses</u>	35,892,352	26,327,906
<u>Less: Non-taxable revenues or revenues subject to tax in previous periods</u>	(54,110,467)	(63,635,833)
Taxable income	<u>249,721,887</u>	<u>201,113,842</u>
Income tax (17% for 2018; 15.36% for 2017)	42,452,721	30,891,086
<u>Add: Income tax expense on subsidiaries and foreign branches</u>	<u>11,514,484</u>	<u>13,214,253</u>
Tax expense for the year	53,967,205	44,105,339
Less: Tax paid during the year in the form of withholding tax	-	(13,316,663)
Less: Subsidiaries and foreign branches income tax paid	(7,349,094)	(6,770,251)
Income tax payable as at December 31	<u>46,618,111</u>	<u>24,018,425</u>

The tax returns of the Bank and most of its Lebanese subsidiaries for the years 2015 to 2018 remain subject to examination and final tax assessment by the tax authorities. Any additional liability depends on the result of these reviews.

Oman branch's tax assessments for the years 2015 to 2018 have yet to be finalized by the Secretariat General for Taxation. The management believes that additional taxes, if any, in respect of open tax assessments would not be material to the Group's results and financial position as of the reporting date.

(d) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from sale of treasury bills in Lebanese pounds against investment in medium term certificates of deposits in foreign currency issued by the Central Bank of Lebanon under deferred liability which is regulated in nature, and 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. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Group received a surplus of LBP238.8billion, net of tax in the amount of LBP42billion, which was credited to “Regulatory deferred liability” under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above.

During 2017, the tax payable on regulatory deferred liability amounting to LBP42billion was settled in full.

In light with the above, the Group appropriated on January 1, 2018 an amount of LBP227.5billion, net of tax, out of this surplus to equity under “Reserves and Retained Earnings” to offset the expected loss provisions resulted from the application of IFRS 9 and transferred an amount of LBP11.3billion net of tax to income (Note 37) against impairment loss of investment in an associate (Note 14), in accordance with the Central Bank of Lebanon requirements as indicated above.

24. PROVISIONS

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Provision for staff and executive management termination indemnity (a)	36,279,094	33,824,892
Provision for risks and charges (b)	1,281,375	9,495,355
Provision for loss on foreign currency position	194,000	194,000
Provision for expected credit losses on off-balance sheet commitments – Note 53	4,934,559	-
Provision for insurance contracts liabilities	21,022,993	14,587,290
Other	123,191	125,828
	<u>63,835,212</u>	<u>58,227,365</u>

(a) The movement of provision for staff termination indemnity is as follows:

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Balance January 1	33,824,892	29,625,825
Additions (Note 40)	5,137,271	4,376,454
Settlements	(2,683,069)	(177,387)
Balance December 31	<u>36,279,094</u>	<u>33,824,892</u>

(b) The movement of provision for risks and charges is as follows:

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Balance January 1	9,495,355	6,556,059
Additions (Note 39)	-	3,000,000
Prior year adjustments	15,000	(60,704)
Transfer to provision for investment in an associate (Note 14)	(8,228,980)	-
Balance December 31	<u>1,281,375</u>	<u>9,495,355</u>

25. SHARE CAPITAL

At December 31, 2018, the authorized ordinary share capital of Bank of Beirut S.A.L. was LBP82.1billion consisting of 56,234,900 fully paid shares of LBP1,460 par value each (LBP77.65billion consisting of 53,184,900 fully paid of LBP1,460 par value each, at December 31, 2017).

During 2018, the Group issued 3,050,000 common shares, listed on the Beirut Stock Exchange at an issue price of USD18.8 per share aggregating to USD57,340,000. The par value of each share is LBP1,460. The approval of the Capital Market Authority was obtained on April 18, 2018. The approval of the Central Bank of Lebanon was obtained on September 10, 2018.

As of December 31, 2018 and 2017, the Group had 4,762,000 Series 2014 priority shares (common shares) in the amount of USD100,002,000 with an issue price of USD21 and a par value of LBP1,460. These priority shares earn non-cumulative annual dividends of 4% of the issue price. Any dividends remaining after the payment of priority dividends following the payment of preferred shares dividends, shall be shared on a prorata basis exclusively among the holders of the priority and common shares of the Bank.

Subject to the absence of the Extension Period set below, the earning by the Series 2014 Priority Shares of the Priority Dividend will, automatically and without the need for the approval of, or consultation with, the holders of the Priority Shares, finally cease immediately following the Ordinary General Meeting of the Bank's shareholders that will examine the Bank's audited financial statements for the financial year 2019; without prejudice, however, to the right of the holders of such Priority Shares to receive the distribution of the Priority Dividend, if any, resolved by the Bank's Ordinary General Meeting of shareholders for the financial year 2019. As a result, the Series 2014 Priority Shares will cease to be identified as a special class within the Common Shares of the Bank and become mere Common Shares subject to the rights and obligations devolving on all the Bank's Common Shares.

The Bank shall have the right, but not the obligation, to resolve, prior to the holding of the above mentioned General Meeting, the extension of the Priority Period for two consecutive years (the "Extension Period").

As of December 31, 2018, the Bank's capital was partly hedged by maintaining a fixed currency position to the extent of USD13.17million (USD47.17million as at December 31, 2017). The revaluation of this position resulted in unfavorable exchange difference in the amount of LBP49million recorded under "Other liabilities" as at December 31, 2018 (LBP176million as at December 31, 2017) (Note 23).

As of December 31, 2018 and 2017, the Group had a fixed foreign currency position for an amount of GBP13.6million to partially hedge its investment in a foreign subsidiary in the United Kingdom. The revaluation of this position as of December 31, 2018 resulted in unfavorable variance of LBP5.44billion (unfavorable variance of LBP3.96billion in 2017) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

Moreover, as of December 31, 2018 and 2017, the Group had a fixed spot position for an amount of AUD98million to partially hedge its investment in a foreign Australian subsidiary bank. The revaluation of this position as of December 31, 2018 resulted in an unfavorable variance of LBP46.68billion (unfavorable variance of LBP35.30billion in 2017) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

26. PREFERRED SHARES

	December 31,	
	2018	2017
	LBP'000	LBP'000
Non-cumulative perpetual redeemable Series "G" preferred shares	188,362,125	188,362,125
Non-cumulative perpetual redeemable Series "H" preferred shares	203,512,500	203,512,500
Non-cumulative perpetual redeemable Series "I" preferred shares	188,437,500	188,437,500
Non-cumulative perpetual redeemable Series "J" preferred shares	113,062,500	113,062,500
Non-cumulative perpetual redeemable Series "K" preferred shares	<u>150,750,000</u>	<u>150,750,000</u>
	<u>844,124,625</u>	<u>844,124,625</u>

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

<u>Non-cumulative perpetual redeemable preferred shares</u>	<u>Number of Shares</u>	<u>Share's issue price</u>	<u>Benefits</u>	<u>Listed on Beirut Stock Exchange</u>
Series "G"	3,570,000	USD 35	6.75% per year	No
Series "H"	5,400,000	USD 25	7% per year	Yes
Series "I"	5,000,000	USD 25	6.75% per year	Yes
Series "J"	3,000,000	USD 25	6.5% per year	Yes
Series "K"	4,000,000	USD 25	6.5% per year	Yes

The Group has the right, at its sole discretion, to redeem on each redemption date all or part of the Series "G", "H", "I", "J" and "K" preferred shares (but not less than 25%). Redemption date means for the first time the financial year during which falls the 5th anniversary of the Extraordinary General Meeting of the Group's shareholders which ascertains the validity and payment of the capital increase by virtue of which the Preferred Shares are issued; and every consecutive 2 years thereafter.

In the event of liquidation of the Bank, holders of preferred shares Series "G", "H", "I", "J" and "K" rank senior to the holders of common and priority shares.

27. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is for a total amount of LBP20.98billion (USD13,916,000) as at December 31, 2018 and 2017 and it is non-interest bearing.

This sort of instrument is accounted for in foreign currency and therefore allows hedging against national currency exchange fluctuation. According to local banking regulations, cash contribution to capital is considered as Tier I capital.

28. RESERVES

	December 31,	
	2018	2017
	LBP'000	LBP'000
Legal reserve (a)	197,558,615	174,851,872
Reserve for general banking risks (b)	-	289,296,012
Special reserves setup from net release of provision for credit losses	2,096,757	2,134,330
Reserves restricted for capital increase (c)	32,168,878	31,427,755
General reserve for performing loans (d)	-	7,286,200
Issue premiums on common shares (e)	385,505,908	303,518,858
Non-distributable general reserves (f)	296,582,212	-
Owned buildings' revaluation surplus	1,668,934	1,668,934
Regulatory reserve for assets acquired in satisfaction of loans (Note 15)	<u>11,557,395</u>	<u>9,629,526</u>
	<u>927,138,699</u>	<u>819,813,487</u>

- (a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit for Lebanese entities. This reserve is not available for distribution. During 2018, an amount of LBP22.7billion was appropriated to legal reserves (LBP22.2billion during 2017).
- (b) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Lebanese bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution. During 2018, this reserve was transferred to non-distributable general reserves in accordance with BDL Basic circular # 143.
- (c) The movement of reserves restricted for capital increase during 2018 and 2017 was as follows :

	2018	2017
	LBP'000	LBP'000
Opening balance	31,427,755	30,211,523
Additions	<u>741,123</u>	<u>1,216,232</u>
Ending balance	<u>32,168,878</u>	<u>31,427,755</u>

During 2018, in compliance with BCC circular no. 173, the Group appropriated an amount of LBP370million (LBP1.2billion in 2017) representing gains from disposals of assets acquired in satisfaction of debts from net income of the previous year to reserves restricted for capital increase (Note 15).

- (d) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Bank and its local banking subsidiaries are required to transfer from net profit to general reserve for performing loans the equivalent of:
- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.
 - 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

During 2018, this reserve was transferred to non-distributable general reserves in accordance with BDL Basic circular # 143 .

- (e) The movement of issue premiums on common shares during 2018 and 2017 was as follows:

	<u>2018</u> LBP'000	<u>2017</u> LBP'000
Opening balance	303,518,858	303,518,858
Additions (Note 25)	<u>81,987,050</u>	<u>-</u>
Ending balance	<u>385,505,908</u>	<u>303,518,858</u>

- (f) The movement of non-distributable general reserves during 2018 and 2017 was as follows:

	<u>2018</u> LBP'000	<u>2017</u> LBP'000
Opening balance	-	-
Transfer from reserve for general banking risk (b)	289,296,012	-
Transfer from general reserve for performing loans (d)	<u>7,286,200</u>	<u>-</u>
	<u>296,582,212</u>	<u>-</u>

In accordance with BDL Basic Circular # 143 issued in November 2017, banks are no longer by the end of the year 2017, required to setup reserves for general banking risks and other reserves for credit risks. Banks are required to appropriate the excess after implementation of IFRS 9 impairment on January 1, 2018, to non-distributable general reserves.

29. TREASURY SHARES

The Group is authorized to buy back up to one third of its listed shares on the Beirut Stock Exchange from its free reserves.

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>USD</u>	<u>USD</u>
Common Shares	1,420,809	29,963,283
Priority Shares	1,021,545	241,521
	<u>2,442,354</u>	<u>30,204,804</u>
<u>Preferred Shares</u>		
Series "G"	20,429,872	20,041,372
Series "H"	6,360,017	6,287,963
Series "I"	12,366,987	10,304,725
Series "J"	3,023,162	1,845,340
Series "K"	2,000,259	1,518,809
	<u>44,180,297</u>	<u>39,998,209</u>
Total	<u>46,622,651</u>	<u>70,203,013</u>
C/V LBP'000	<u>70,283,647</u>	<u>105,831,043</u>

The preferred shares classified as treasury shares are held by the non-controlling interests related to the consolidated funds.

During 2018, The Group sold 2,131,788 common shares with an aggregate carrying value of USD30million.

30. NON-CONTROLLING INTERESTS

	<u>December 31, 2018</u>		
	<u>Beirut</u>	<u>Managed</u>	<u>Total</u>
	<u>Life SAL</u>	<u>Funds</u>	<u>Total</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Share in:			
Capital	225,000	929,439,969	929,664,969
Retained earnings	3,086,111	(61,466,106)	(58,379,995)
Profit for the year	818,402	50,932,731	51,751,133
	<u>4,129,513</u>	<u>918,906,594</u>	<u>923,036,107</u>

	December 31, 2017		
	Beirut Life SAL	Managed Funds	Total
	LBP'000	LBP'000	LBP'000
Share in:			
Capital	225,000	1,137,183,116	1,137,408,116
Retained earnings	2,438,492	(60,369,029)	(57,930,537)
Profit for the year	647,619	71,982,993	72,630,612
	<u>3,311,111</u>	<u>1,148,797,080</u>	<u>1,152,108,191</u>

31. DIVIDENDS PAID

	2018	2017
	LBP'000	LBP'000
LBP1,150 (LBP1,000 for 2017) per ordinary share (common and priority)	66,638,935	57,946,900
LBP1,266.3 priority shares Series 2014	6,030,121	6,030,121
LBP3,561.47 (LBP3,561.47 for 2017) per preferred share Series "G"	12,714,443	12,714,443
LBP2,638.13 (LBP2,638.13 for 2017) per preferred share Series "H"	14,245,875	14,245,875
LBP2,543.91 (LBP2,543.91 for 2017) per preferred share Series "I"	12,719,531	12,719,531
LBP2,449.69 (LBP2,449.69 for 2017) per preferred share Series "J"	7,349,063	7,349,063
LBP2,449.69 (LBP856.72 for 2017) per preferred share Series "K"	9,798,750	3,426,885
	<u>129,496,718</u>	<u>114,432,818</u>

Subsequent to the date of the consolidated statement of financial position, the following dividends were proposed by the board of directors in respect of 2018. These dividends have not been provided for in the consolidated financial statements for the year ended December 31, 2018.

	LBP'000
LBP1,150 per ordinary share (common and priority)	70,146,435
LBP1,266.3 priority shares Series 2014	6,030,121
LBP3,561.47 per preferred share Series "G"	12,714,443
LBP2,638.13 per preferred share Series "H"	14,245,875
LBP2,543.91 per preferred share Series "I"	12,719,531
LBP2,449.69 per preferred share Series "J"	7,349,063
LBP2,449.69 per preferred share Series "K"	9,798,750
	<u>133,004,218</u>

32. INTEREST INCOME

	<u>2018</u>		
	<u>Interest Income</u>	<u>Withheld Tax</u>	<u>Net Interest Income</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Interest income from:			
Deposits with central banks	414,788,961	(26,635,999)	388,152,962
Deposits with banks and financial institutions	23,984,160	(124,809)	23,859,351
Loans to banks	8,656,217	-	8,656,217
Investment securities at amortized cost	530,717,920	(24,556,430)	506,161,490
Loans and advances to customers	470,563,996	-	470,563,996
Loans and advances to related parties	5,667,940	-	5,667,940
	<u>1,454,379,194</u>	<u>(51,317,238)</u>	<u>1,403,061,956</u>

	<u>2017</u>		
	<u>Interest Income</u>	<u>Withheld Tax</u>	<u>Net Interest Income</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Interest income from:			
Deposits with central banks	261,674,857	(3,129,301)	258,545,556
Deposits with banks and financial institutions	21,284,101	-	21,284,101
Loans to banks	8,929,797	-	8,929,797
Investment securities at amortized cost	528,704,943	(3,424,070)	525,280,873
Loans and advances to customers	409,851,400	-	409,851,400
Loans and advances to related parties	5,153,485	-	5,153,485
Interest recognized on non-performing loans and advances to customers	15,673,998	-	15,673,998
	<u>1,251,272,581</u>	<u>(6,553,371)</u>	<u>1,244,719,210</u>

33. INTEREST EXPENSE

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Interest expense on:		
Deposits from banks and financial institutions	63,707,958	34,863,897
Deposits from customers	862,091,142	748,608,580
Deposits from related parties	16,209,134	16,509,477
Other borrowings	10,593,685	8,202,061
Certificates of deposit issued by the Group	14,141	13,476
	<u>952,616,060</u>	<u>808,197,491</u>

34. FEE AND COMMISSION INCOME

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Commissions on documentary credits	44,334,747	44,923,517
Commissions on letters of guarantee	12,765,535	13,272,118
Commissions on money transfers' transactions	7,281,593	8,779,869
Insurance brokerage and service fees	37,954,665	38,707,089
Commissions on fiduciary accounts	1,703,952	1,316,289
Commissions on banking services	31,423,042	26,851,212
Commissions on credit cards	13,592,451	13,752,476
Commissions on capital market transactions	13,093,404	12,577,233
Other	<u>5,145,030</u>	<u>3,251,426</u>
	<u>167,294,419</u>	<u>163,431,229</u>

35. FEE AND COMMISSION EXPENSE

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Commissions on transactions with banks and financial institutions	648,372	1,237,248
Commissions on credit cards	5,432,053	4,758,793
Commissions on fiduciary deposits	1,558,746	1,263,600
Commissions on loans	2,951,355	2,577,566
Commissions on money transfers transactions	1,940,545	2,228,169
Commissions on insurance transactions	8,776,214	9,752,501
Other	<u>5,349,455</u>	<u>4,290,903</u>
	<u>26,656,740</u>	<u>26,108,780</u>

36. NET INCOME ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Interest income, net of tax	104,673,535	96,449,822
Change in fair value (net)	(36,198,841)	(4,261,166)
Gain on sale	6,930,782	3,365,376
Dividends received	<u>4,242,695</u>	<u>4,479,441</u>
	<u>79,648,171</u>	<u>100,033,473</u>

37. OTHER OPERATING INCOME (NET)

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Share in profits of an associate (Note 14)	1,105,118	900,983
Impairment loss on investment in an associate (Note 14)	(11,300,000)	-
Transfer from regulatory deferred liability (Note 23)	11,300,000	-
Foreign exchange gain	19,896,410	20,643,885
Gain/(loss) on forward contracts	4,851,901	(4,239,384)
Gain on sale of assets acquired in satisfaction of loans (Note 15)	651,803	369,532
Loss on sale of property and equipment	(25,063)	(54,052)
Dividends on other investments	8,613	316,145
Other (net)	8,265,119	771,877
	<u>34,753,901</u>	<u>18,708,986</u>

38. ALLOWANCE FOR CREDIT LOSSES (NET)

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Net impairment loss on financial assets	(2,335,435)	22,999,533
Loss from write-off of loans	768,708	34,078
Collections on loans transferred to the off-balance sheet	-	(22,577)
	<u>(1,566,727)</u>	<u>23,011,034</u>

39. OTHER PROVISION (NET)

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Provision for insurance liabilities (Note 24)	7,169,570	6,059,415
Provision for risks and charges (Note 24)	-	3,000,000
Other (net)	-	493,849
	<u>7,169,570</u>	<u>9,553,264</u>

40. STAFF COSTS

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Salaries	114,640,997	111,299,007
Social Security contributions	16,396,924	14,844,184
Executive board members remunerations	17,252,858	16,832,334
Provision for end of service indemnities (Note 24)	5,137,271	4,376,454
Other staff benefits	<u>29,374,492</u>	<u>27,228,319</u>
	<u>182,802,542</u>	<u>174,580,298</u>

41. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Management fees	6,935,322	8,409,374
Cleaning	2,783,599	2,433,747
Telephone, mail and other communication expenses	6,455,902	6,089,253
Office supplies	3,454,387	4,076,327
Advertising and marketing expenses	12,535,171	10,836,341
Electricity and fuel	3,852,757	3,510,494
Maintenance and repair fees	15,605,889	14,362,414
Subscription fees	2,492,389	2,406,052
Donation and gifts	1,519,311	1,659,040
Reception and entertainment	1,678,025	2,085,024
Professional and regulatory fees	12,513,610	9,923,802
Research and development expenses	1,849,285	1,330,705
Rent expense under operating leases	13,328,398	11,571,920
Insurance expenses	1,795,712	2,085,298
Travel and related expenses	4,032,664	3,668,893
Centrale des risques	697,791	673,193
Taxes and fiscal charges	9,592,424	6,700,870
Miscellaneous expenses	<u>21,789,419</u>	<u>16,507,788</u>
	<u>122,912,055</u>	<u>108,330,535</u>

42. DEPRECIATION AND AMORTIZATION

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Depreciation of property and equipment (Note 16)	20,386,166	18,618,749
Amortization of deferred software charges (Note 18)	5,042,144	3,955,949
Amortization of deferred advertising charges	<u>313,509</u>	<u>327,663</u>
	<u>25,741,819</u>	<u>22,902,361</u>

43. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The consolidated profit for the year attributable to the equity holders of the Bank is allocated as follows:

	Year-Ended December 31, 2018		
	Profit before	Current and	Net Profit
	Tax	Deferred Tax	Net Profit
	LBP'000	LBP'000	LBP'000
Bank of Beirut S.A.L	259,790,059	(40,648,004)	219,142,055
Profit/(loss) of subsidiaries:			
Bank of Beirut UK LTD	13,633,240	(2,457,798)	11,175,442
Bank of Sydney Ltd	18,068,439	(5,463,171)	12,605,268
Bank of Beirut Invest S.A.L	16,699,207	(2,625,711)	14,073,496
BOB Finance S.A.L	3,665,031	(631,811)	3,033,220
Cofida Holding S.A.L	2,054,166	(4,980)	2,049,186
Beirut Broker Company S.A.L	11,133,798	(1,892,668)	9,241,130
Beirut Life S.A.L	8,427,082	(243,062)	8,184,020
Medawar 247 S.A.L	(15,581)	-	(15,581)
Medawar 1216 S.A.L	(350,246)	-	(350,246)
	333,105,195	(53,967,205)	279,137,990
Consolidation eliminations and adjustments	(15,788,557)	(3,453,187)	(19,241,744)
	<u>317,316,638</u>	<u>(57,420,392)</u>	<u>259,896,246</u>

	Year-Ended December 31, 2017		
	Profit before	Current and	Net Profit
	Tax	Deferred Tax	Net Profit
	LBP'000	LBP'000	LBP'000
Bank of Beirut S.A.L	229,314,227	(29,865,193)	199,449,034
Profit/(loss) of subsidiaries:			
Bank of Beirut UK LTD	18,606,646	(3,804,745)	14,801,901
Bank of Sydney Ltd	17,879,017	(5,532,741)	12,346,276
Bank of Beirut Invest S.A.L	17,611,034	(2,493,048)	15,117,986
BOB Finance S.A.L	3,763,391	(581,360)	3,182,031
Cofida Holding S.A.L	2,248,644	(4,965)	2,243,679
Beirut Broker Company S.A.L	10,643,334	(1,639,854)	9,003,480
Beirut Life S.A.L	6,659,624	(183,433)	6,476,191
Medawar 247 S.A.L	(16,632)	-	(16,632)
Medawar 1216 S.A.L	(15,500)	-	(15,500)
	306,693,785	(44,105,339)	262,588,446
Consolidation eliminations and adjustments	(23,685,436)	(3,377,969)	(27,063,405)
	<u>283,008,349</u>	<u>(47,483,308)</u>	<u>235,525,041</u>

44. EARNINGS PER SHARE

The computation of the basic earnings per share is based on the Group's net income before non-recurring income and the weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
<u>Earnings:</u>		
Earnings for the purpose of basic earnings per share (net income for the year attributable to equity holders of the Bank)	259,896,246	235,525,041
Less: Dividends proposed to non-cumulative preferred shares	(56,827,662)	(56,827,662)
Net income after distribution to non-cumulative preferred shares	<u>203,068,584</u>	<u>178,697,379</u>
Less: Dividends proposed to non-cumulative priority shares	(6,030,121)	(6,030,121)
Net earnings for the purpose of basic earnings per shares	<u>197,038,463</u>	<u>172,667,258</u>
<u>Number of Shares:</u>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	53,474,728	52,986,943
Weighted average number of priority shares for the purpose of basic earnings per share	<u>4,734,779</u>	<u>4,677,788</u>
Weighted average number of shares for priority and ordinary shares	<u>58,209,507</u>	<u>57,664,731</u>
Effect of dilutive potential ordinary shares, preferred shares	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>58,209,507</u>	<u>57,664,731</u>
Basic earnings per common share	<u>LBP 3,385</u>	<u>LBP 2,994</u>
Basic earnings per priority common share	<u>LBP 4,659</u>	<u>LBP 4,283</u>
Diluted earnings per share	<u>LBP 3,385</u>	<u>LBP 2,994</u>

The conversion effect of Series "G" preferred shares and Series 2014 priority shares was excluded from the calculation of diluted earnings per share for 2018 and 2017 since they have anti-dilutive effect.

45. 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 balance sheet. 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, and these contracts are fully hedged by the Group.

As of December 31, 2018 and 2017, the Group had an interest rate swap outstanding to hedge cash flows detailed as follows:

	December 31,			
	2018		2017	
	Original Currency	C/V LBP'000	Original Currency	C/V LBP'000
	AUD		AUD	
Principal amount	98,000,000	104,064,240	9,200,000	10,837,232
Fair value (Note 23)	1,085,800	1,152,989	37,496	44,169

46. FIDUCIARY ACCOUNTS

Fiduciary accounts are invested as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Back-to-back lending	60,966,658	55,245,892
Equity securities (long position)	80,255,420	84,392,331
Derivatives	(1,979,580)	(3,279,190)
Debt leverage	26,180,039	33,427,967
	<u>165,422,536</u>	<u>169,787,000</u>

47. 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 consist of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Shareholders, directors and other key management personnel and close family members and their related companies:		
Direct facilities and credit balances:		
Secured loans and advances	85,649,848	89,609,711
Unsecured loans and advances	42,361,767	38,425,890
Deposits	(456,092,147)	(523,557,743)
Accrued interest receivable	110,067	125,056
Accrued interest payable	(1,255,121)	(1,019,700)
Indirect facilities:		
Letters of guarantee	4,499,890	4,499,136
Associates		
Direct facilities and credit balances:		
Current accounts – associate bank (Note 7)	7,426,776	14,081,443
Short term loans – associate bank (Note 9)	-	9,179,430
Deposits from associate (Note 19)	(621,830)	(9,184,947)
Acceptances	-	1,309,845
Margins on letters of credit (Note 23)	(264)	(1,016,559)
Indirect facilities:		
Letters of credit	-	130,985

Secured loans and advances are covered as of December 31, 2018 by real estate mortgages to the extent of LBP6.9billion (LBP6.3billion as of December 31, 2017), and pledged deposits of the respective borrowers to the extent of LBP79.9billion (LBP78.6billion as of December 31, 2017).

The remuneration of executive management amounted to LBP1.39billion during 2018 (LBP1.39billion during 2017) in addition to incentives linked to performance representing 6% of profit before tax.

General and administrative expenses for the year ended December 31, 2018 include rent expenses to related parties for USD165,750 (USD165,750 for the year ended December 31, 2017) and management expenses to related parties for USD900,000 (USD900,000 for the year ended December 31, 2017).

48. NOTE TO THE CASH FLOW STATEMENT

A. Cash and cash equivalents

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

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Cash (Note 5)	63,610,268	57,354,047
Current accounts with central banks	1,178,912,916	1,327,438,478
Time deposits with central banks	399,487,500	408,985,390
Checks for collection	60,256,537	77,256,891
Current accounts with banks and financial institutions	435,963,573	385,667,359
Overnight placements	342,697,420	282,916,303
Term placements with banks and financial institutions	583,621,034	559,779,242
Current accounts from banks and financial institutions	(506,081,382)	(574,419,595)
Short term deposits from banks and financial institutions	(933,276,874)	(576,198,006)
	<u>1,625,190,992</u>	<u>1,948,780,109</u>

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

B. Non-cash transactions

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

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Operating Activities:		
Other Liabilities	238,777,401	-
Provisions	701,582	-
Loans to banks	(1,492,072)	-
Customers' liability under acceptance	(723,820)	-
Cash and deposits at central banks	(32,982,792)	-
Deposits with banks and financial institutions	(491,304)	-
Loans and advances to customers	(151,167,331)	(168,593)
Loans and advances related parties	(2,844,236)	-
Other assets	(11,390,237)	10,914,053
Retained earnings	14,077,958	-
Investment in associate	(19,528,780)	-
Cumulative change in fair value of fixed positions designated as hedging instruments	12,855,298	(10,733,153)
Investment securities	(46,351,497)	-
	<u>559,830</u>	<u>12,307</u>
Investing Activities:		
Assets acquired in satisfaction of loans	2,264,891	168,593
Property and equipment	(1,705,061)	(180,900)
	<u>559,830</u>	<u>(12,307)</u>

51. 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, and retain an economic capital enough to meet the Group's medium term expansion plan.

Furthermore, the Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad in addition to the minimum regulatory capital required by the host country.

Pursuant to Central Bank of Lebanon decisions adopted with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

<u>Ratio</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2018</u>
	%	%	%	%
Common Equity Tier 1 ratio	8.00	8.50	9.00	10.00
Tier 1 ratio	10.00	11.00	12.00	13.00
Total Capital ratio	12.00	14.00	14.50	15.00

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, share premium, reserves from appropriation of profits and retained earnings (inclusive of current year's net profit after deduction of proposed dividends). Goodwill, intangible assets, cumulative unfavorable change in fair value of securities at fair value through other comprehensive income, certain other reserves and items of other comprehensive income are deducted from Tier I Capital.

Tier II capital: Comprises qualifying subordinated liabilities, 50% of cumulative favorable change in fair value of securities at fair value through other comprehensive income and revaluation surplus of owned properties.

The Group has complied with the regulatory capital requirement throughout the period.

The Group's capital adequacy ratio according to Basle III as of December 31, 2018 and 2017, is as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Common equity (net)	1,602,929,251	1,380,365,773
Additional Tier I capital (net)	<u>844,124,625</u>	<u>844,124,625</u>
	2,447,053,876	2,224,490,398
Net Tier II capital	<u>104,325,076</u>	<u>13,156,812</u>
Total regulatory capital (including remaining net profit after distribution of dividends)	<u>2,551,378,952</u>	<u>2,237,647,210</u>
Credit risk	13,878,265,052	13,548,257,197
Market risk	69,854,594	105,951,546
Operational risk	<u>1,143,598,125</u>	<u>1,056,678,737</u>
Risk weighted assets and risk weighted off-balance sheet items	<u>15,091,717,771</u>	<u>14,710,887,480</u>
Common equity Tier I ratio	10.62%	9.38%
Tier I ratio	16.21%	15.12%
Risk based capital ratio – Tier I and Tier II capital	16.91%	15.21%

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 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 strategy is to maintain a satisfactory economic capital beyond the regulatory threshold.

52. SEGMENT INFORMATION

The Group classifies its operating segments by geographical location and by activity.

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

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

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

The Group's operating segment information by geographical location is as follows:

	December 31, 2018				
	Lebanon & Middle East	Europe	Australia	Inter-segment	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Total Assets	26,482,658,178	1,313,405,548	2,449,037,370	(1,788,095,973)	28,457,005,123
Total Liabilities	22,743,114,256	1,119,910,960	2,146,738,590	(1,094,563,586)	24,915,200,220
Total Equity	3,739,543,922	193,494,588	302,298,780	(693,532,387)	3,541,804,903
Profit for the year	308,716,736	11,580,641	12,605,268	(73,006,399)	259,896,246
ASSETS					
Financial assets at fair value through profit or loss	1,311,347,937	77,533,343	-	(72,958,430)	1,315,922,850
Loans and advances to customers	6,493,097,549	210,099,471	1,852,306,363	-	8,555,503,383
Loans and advances to related parties	397,318,877	62,168	14,393,766	(286,497,365)	125,277,446
Investment securities	7,262,639,668	3,022,236	412,054,407	-	7,677,716,311
LIABILITIES					
Customers' deposits at amortized cost	17,447,784,957	254,092,885	2,059,420,987	-	19,761,298,829
Related parties' deposits at amortized cost	554,912,759	21,178,269	18,254,387	(136,998,143)	457,347,272
December 31, 2017					
	Lebanon & Middle East	Europe	Australia	Inter-segment	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Total Assets	25,541,487,968	1,214,608,553	2,479,506,723	(1,549,249,423)	27,686,353,821
Total Liabilities	21,794,489,245	1,015,968,224	2,163,486,278	(834,131,281)	24,139,812,466
Total Equity	3,746,998,723	198,640,329	316,020,445	(715,118,142)	3,546,541,355
Profit for the year	306,913,925	16,997,031	12,346,276	(100,732,191)	235,525,041
ASSETS					
Financial assets at fair value through profit or loss	1,521,607,448	52,742,949	-	(66,916,988)	1,507,433,409
Loans and advances to customers	6,525,184,198	207,392,611	1,712,524,138	-	8,445,100,947
Loans and advances to related parties	349,868,841	40,548	24,311,916	(246,060,648)	128,160,657
Investment securities	7,621,677,340	6,136,247	545,083,321	-	8,172,896,908
LIABILITIES					
Customers' deposits at amortized cost	17,339,964,102	241,231,853	2,001,807,906	-	19,583,003,861
Related parties' deposits at amortized cost	567,539,237	20,951,605	39,213,938	(103,127,337)	524,577,443

December 31, 2018

	<u>Lebanon & Middle East</u> LBP'000	<u>Europe</u> LBP'000	<u>Australia</u> LBP'000	<u>Inter-segment</u> LBP'000	<u>Total</u> LBP'000
Interest income	1,359,446,403	32,882,027	93,317,831	(31,267,067)	1,454,379,194
Less: tax on interest	(52,195,105)	-	-	877,867	(51,317,238)
Interest income, net of tax	1,307,251,298	32,882,027	93,317,831	(30,389,200)	1,403,061,956
Interest expense	(921,747,749)	(15,501,252)	(46,647,507)	31,280,448	(952,616,060)
Net interest income	<u>385,503,549</u>	<u>17,380,775</u>	<u>46,670,324</u>	<u>891,248</u>	<u>450,445,896</u>
Fee and commission income	157,553,718	19,446,813	6,680,967	(16,387,079)	167,294,419
Fee and commission expense	(28,017,071)	(661,015)	(222,505)	2,243,851	(26,656,740)
Net fee and commission income	<u>129,536,647</u>	<u>18,785,798</u>	<u>6,458,462</u>	<u>(14,143,228)</u>	<u>140,637,679</u>
Net interest and other gains on financial assets at fair value through profit or loss	82,367,129	1,076,558	-	(3,795,516)	79,648,171
Gain from derecognition of financial assets measured at amortized cost	300,131	-	341,252	-	641,383
Other operating income (net)	<u>46,545,817</u>	<u>958,868</u>	<u>2,156,466</u>	<u>(14,907,250)</u>	<u>34,753,901</u>
Net financial revenues	<u>644,253,273</u>	<u>38,201,999</u>	<u>55,626,504</u>	<u>(31,954,746)</u>	<u>706,127,030</u>
Provision for credit losses (net)	797,546	(3,499,745)	4,268,926	-	1,566,727
Other provisions (net)	(7,169,570)	-	-	-	(7,169,570)
Net financial revenues after impairment	<u>637,881,249</u>	<u>34,702,254</u>	<u>59,895,430</u>	<u>(31,954,746)</u>	<u>700,524,187</u>
Staff costs	(149,195,545)	(11,091,202)	(22,515,795)	-	(182,802,542)
General and administrative expenses	(111,220,976)	(7,862,991)	(17,080,068)	13,251,980	(122,912,055)
Depreciation and amortization	(22,201,664)	(1,309,027)	(2,231,128)	-	(25,741,819)
Profit before income tax	355,263,064	14,439,034	18,068,439	(18,702,766)	369,067,771
Income tax expense	(45,645,641)	(2,858,393)	(5,463,171)	-	(53,967,205)
Profit for the year before withholding tax on profits from subsidiaries	309,617,423	11,580,641	12,605,268	(18,702,766)	315,100,566
Deferred tax on undistributed profit	(3,453,187)	-	-	-	(3,453,187)
Profit for the year	<u>306,164,236</u>	<u>11,580,641</u>	<u>12,605,268</u>	<u>(18,702,766)</u>	<u>311,647,379</u>

December 31, 2017

	<u>Lebanon & Middle East</u> LBP'000	<u>Europe</u> LBP'000	<u>Australia</u> LBP'000	<u>Inter-segment</u> LBP'000	<u>Total</u> LBP'000
Interest income	1,159,342,676	28,623,791	87,257,905	(23,951,791)	1,251,272,581
Less: tax on interest	(6,553,371)	-	-	-	(6,553,371)
Interest income, net of tax	1,152,789,305	28,623,791	87,257,905	(23,951,791)	1,244,719,210
Interest expense	(777,779,466)	(11,534,593)	(42,835,223)	23,951,791	(808,197,491)
Net interest income	<u>375,009,839</u>	<u>17,089,198</u>	<u>44,422,682</u>	<u>-</u>	<u>436,521,719</u>
Fee and commission income	151,554,348	21,274,371	8,253,863	(17,651,353)	163,431,229
Fee and commission expense	(27,356,407)	(616,859)	(222,391)	2,086,877	(26,108,780)
Net fee and commission income	<u>124,197,941</u>	<u>20,657,512</u>	<u>8,031,472</u>	<u>(15,564,476)</u>	<u>137,322,449</u>
Net interest and other gains on financial assets at fair value through profit or loss	102,501,407	211,017	-	(2,678,951)	100,033,473
Gain from derecognition of financial assets measured at amortized cost	(136,041)	-	563,829	-	427,788
Other operating income (net)	41,980,614	1,065,415	1,733,207	(26,070,250)	18,708,986
Net financial revenues	<u>643,553,760</u>	<u>39,023,142</u>	<u>54,751,190</u>	<u>(44,313,677)</u>	<u>693,014,415</u>
Provision for credit losses (net)	(27,401,072)	4,426,238	(36,200)	-	(23,011,034)
Write-back/(provision) for loans to banks	-	1,002,038	-	-	1,002,038
Other provisions (net)	(9,553,264)	-	-	-	(9,553,264)
Net financial revenues after impairment	<u>606,599,424</u>	<u>44,451,418</u>	<u>54,714,990</u>	<u>(44,313,677)</u>	<u>661,452,155</u>
Staff costs	(142,706,035)	(10,460,178)	(21,414,085)	-	(174,580,298)
General and administrative expenses	(104,785,532)	(5,603,577)	(13,505,902)	15,564,476	(108,330,535)
Depreciation and amortization	(20,292,100)	(694,275)	(1,915,986)	-	(22,902,361)
Profit before income tax	338,815,757	27,693,388	17,879,017	(28,749,201)	355,638,961
Income tax expense	(34,282,633)	(4,289,965)	(5,532,741)	-	(44,105,339)
Profit for the year before withholding tax on profits from subsidiaries	304,533,124	23,403,423	12,346,276	(28,749,201)	311,533,622
Deferred tax on undistributed profit	(3,377,969)	-	-	-	(3,377,969)
Profit for the year	<u>301,155,155</u>	<u>23,403,423</u>	<u>12,346,276</u>	<u>(28,749,201)</u>	<u>308,155,653</u>

The Group's operating segment information by activity during 2018 and 2017 was as follows:

	December 31, 2018				
	Banking & Financial Institutions	Insurance and Brokerage	Managed Funds	Intersegment	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Total Assets	28,888,549,678	92,225,483	1,264,325,935	(1,788,095,973)	28,457,005,123
Total Liabilities	25,634,504,541	36,133,649	339,125,616	(1,094,563,586)	24,915,200,220
Total Equity	3,254,045,137	56,091,834	925,200,319	(693,532,387)	3,541,804,903
Profit for the year	260,812,152	17,425,150	54,665,343	(73,006,399)	259,896,246
Non - controlling interests	-	818,402	50,932,731	-	51,751,133

	December 31, 2017				
	Banking & Financial Institutions	Insurance and Brokerage	Managed Funds	Intersegment	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Total Assets	27,696,031,243	74,394,912	1,465,177,089	(1,549,249,423)	27,686,353,821
Total liabilities	24,635,833,381	28,521,124	309,589,242	(834,131,281)	24,139,812,466
Total Equity	3,060,197,862	45,873,788	1,155,587,847	(715,118,142)	3,546,541,355
Profit for the year	246,589,234	14,832,052	74,835,946	(100,732,191)	235,525,041
Non-controlling interests	-	647,619	71,982,993	-	72,630,612

53. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The main risks arising from the Group's financial instruments are:

- Credit risk
- Liquidity risk
- Interest rate risk; and
- Foreign currency risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various Committees at Group and each entity's level to develop and monitor the Group's risk management policies in their specified areas.

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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. 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 (whether payment of principal or interest), resulting in financial loss to the Group. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives 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.

Credit Risk Management

The Group's Credit Committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorization structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categories exposures according to the degree of risk of default. Risk grades are subject to regular reviews.

Expected Credit Losses

Governance and Oversight Of Expected Credit Losses

The Group's IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the ECL measurement framework by:

- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the methods used to measure ECL, while also approving staging classifications for material exposures.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Regularly reviewing Impairment policy requirements to maintain adherence to accounting standards and evolving business models. Key judgments inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, and collateral information, among others. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs. To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models were validated by a qualified independent risk consultant to the model development party, before first use and will be subject to annual review to perform required enhancements going forward in order to enhance the models accuracy and/or account for situations where known or expected risk factors and information have not been considered in the modelling process. Each model used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data, reconciliation with Finance data, and documentation of the calculation steps. ECL estimation takes into account a range of future economic scenarios, which are set using independent and qualified econometric models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum annually, to align with the Group's medium-term planning exercise, but also in the event of significant change in the prevailing economic conditions. The scenario probability weights are also updated when the scenarios are updated.

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

Default Definition and Credit Curing

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. As a part of a qualitative assessment of whether a customer is in default, the Group carefully considers whether the events listed above should result in classifying the exposures in Stage 3 for ECL calculations or whether Stage 2 is appropriate. It is the Group's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of significant increase in credit risk's criteria compared to initial recognition and is examined on a case by case basis.

Internal Ratings and PD Mapping Process

i) Treasury (Including Sovereign) and Interbank Exposures

For non-loan exposures, external credit ratings are used and mapped to the corresponding PDs reported by credit rating agencies. These are continuously monitored and updated, and the lowest credit rating (of all rating agencies) for the counterparty and/or debt issuer is adopted.

ii) Commercial Loans

Group Risk Management function, which is independent from business lines, is responsible for the development and maintenance of internal rating models, and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Group uses an internal rating scale comprised of 19 performing grades and 3 non performing grades. The grades generated by internal rating models are mapped to PDs using historical default observations that are specific to each country and loan portfolio. The mapping of rating to PD, which is done initially on a through-the-cycle basis is then adjusted to a point-in-time basis in line with IFRS 9 requirements. These internal rating models for the Group's key lending portfolios including Corporate and SME obligors incorporate both qualitative and quantitative criteria such as:

- Historical and projected financial information including debt service coverage, operations, liquidity and capital structure.
- Account behavior, repayment history and other non-financial information such as management quality, company standing and industry risk.
- Any publicly available information related to the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports and other market disclosures.

- Any other objectively supportable information on the obligor's willingness and capacity of repayment. Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Analysis Division function, which is independent from commercial lending business lines. The Credit Analysis function is responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

iii) Retail Loans

Retail lending comprises mainly of personal loans, car loans, credit cards and housing loans. The Group utilizes application scorecards to score retail applicants and for either, the automation of decisions according to a certain cut-off score or as a tool to support the approval or reject decision by specialized retail credit officers. To estimate the probability of default for each Retail product, the Group performs a historical behavioral analysis on the repayment history of its retail borrowers (secured and unsecured) and uses a pooling methodology to estimate the probability of default and the resulting expected losses for retail products based on past-due brackets. This estimation is then adjusted by a forward looking component in line with the IFRS9 standard.

Significant Increase In Credit Risk

As explained in note 3, 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, using reasonable and supportable information that is relevant and available without undue cost or effort. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL. The Group assessment of significant increase in credit risk is being performed at least quarterly based on the following:

i) Commercial Borrowers

Migration of obligor risk rating by a certain number of notches from origination to reporting date (i.e. distance-to-default) as a key indicator of the change in the risk of default at origination with the risk of default at reporting date. The Group also considers in its assessment of significant increase in credit risk, various qualitative factors including significant adverse changes in the business condition, restructuring due to credit quality weakness during the past 12-months, classification of an exposure under the "Follow-up and Regularization" supervisory-BDL classification.

ii) Retail Borrowers

Thresholds are based on the analysis of past-due data by bracket to determine significant increase in credit risk. In addition, the Group considers specific events that might be indicative of a significant increase in credit risk, such as the event of restructuring of Retail exposures.

To note that irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

- (i) External ratings from approved credit rating agencies for financial institutions and financial assets.
- (ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing. These internal rating models include a “Corporate” model, “SME” model, “Project & Real Estate Financing” model and “High Net worth Individual” model.
- (iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.
- (iv) Supervisory ratings, comprising six main categories:
 1. “*Regular*” includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required.
 2. “*Follow-up*” represents a lack of documentation related to a borrower’s activity, an inconsistency between facilities’ type and related conditions.
 3. “*Follow-up and Regularization*” includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilization above limit.
 4. “*Substandard loans*” include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties.
 5. “*Doubtful loans*” where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally,
 6. “*Bad loans*” with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The table below provides a mapping of the Group’s internal credit risk grades to external ratings as applied to Commercial Loans:

Commercial Loans’ Grading:

<u>Group’s Credit Risk Grades</u>	<u>Equivalent Moody’s Rating</u>	<u>Credit Quality Description</u>
Performing:		
1	Aaa	Low Risk
2	Aa1 to Aa3	Low Risk
3	A1 to A3	Fair Risk
4	Baa1 to Baa3	Fair Risk
5	Ba1 to Ba3	Monitoring
6	B1 to B3	Monitoring
7	Caa1	High Risk
Non-Performing		
8	Caa2 to Caa3	Substandard
9	Ca	Doubtful
10	C	Impaired

The above Credit Quality descriptions can be summarized as follows:

- **Low Risk:** there is a very high likelihood of the asset being recovered in full. The counterparty exhibits very high ability and willingness to meet its full obligation on due time.
- **Fair Risk:** there is a high likelihood that the asset will be recovered in full. The counterparty exhibits high to medium ability and willingness to meet its full obligation on due time.
- **Monitoring:** there is an acceptable likelihood that the asset will be recovered in full. At the lower end of this scale, there are customers that are being more closely monitored, with some evidence of reduced financial strength.
- **High Risk:** there is concern over the obligor’s ability to make payments when due. However, this has not materialized in an event of default. Under such a classification, the borrower is continuing to make payments on due time, albeit some and/or recurring delays. The counterparty is still expected to settle all outstanding amounts of principal and interest, however with a higher probability of default.

Measurement of ECL

The Group measures ECLs based on a three probability-weighted scenario to measure the expected cash shortfalls, discounted at an approximation to the effective Interest Rate (EIR).

The key inputs into the measurements of ECL are:

- **PD:** the Probability of Default is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.
- **LGD:** the Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims.
- **EAD:** the Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

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

The Group measures ECLs using a Three-Stage Approach based on the extent of credit deterioration since origination:

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

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments, the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management, the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated, taking into account the credit risk management actions that the Group expects to take to mitigate ECL, i.e. reduction in limits or cancellation of the loan commitment.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as: instrument type; credit risk grade; collateral type; date of initial recognition; remaining term to maturity; industry; geographic location of the borrower; income bracket of the borrower. The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Write off

The Group writes off a loan / security balance (and any related allowances for impairment losses) when it determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such as the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Incorporation Of Forward-Looking Information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios (i.e. upside & downside scenarios). The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material. The changes were applied in isolation and to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

Risk Mitigation Policies

Collateral

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

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

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

Other specific risk mitigation policies include:

Netting Arrangements

The Group 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.

Credit Quality

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

	<u>Notes</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>Gross</u>	<u>Gross</u>
		<u>Maximum</u>	<u>Maximum</u>
		<u>Exposure</u>	<u>Exposure</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Deposits at central banks (excluding cash on hand)	5	7,107,345,666	6,519,559,543
Deposits with banks and financial institutions	7	1,642,171,609	1,547,299,126
Financial assets at fair value through profit or loss	8	1,315,922,850	1,507,433,409
Loans to banks	9	256,664,163	292,410,807
Loans and advances to customers	10	8,858,981,276	8,445,100,947
Loans and advances to related parties	11	128,121,682	128,160,657
Financial assets measured at amortized cost	12	7,708,506,144	8,162,185,826
Financial assets measured at fair value through other comprehensive income	12	15,681,430	10,711,082
Customers' liability under acceptances	13	400,305,358	357,494,071
Other financial assets		58,763,413	42,630,156
Total		<u>27,492,463,591</u>	<u>27,012,985,624</u>
Financial instruments with off-balance sheet risk		3,045,198,441	3,173,012,312
Fiduciary accounts	46	165,422,536	169,787,000
Total		<u>3,210,620,977</u>	<u>3,342,799,312</u>
Total credit risk exposure		<u>30,703,084,568</u>	<u>30,355,784,936</u>

An analysis of the Group's credit risk concentrations is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Concentration of loans by industry or sector:

	December 31, 2018						
	Agriculture	Manufacturing and Industry	Financial Services	Real Estate and Construction	Trade and Services	Others	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<u>BALANCE SHEET EXPOSURE</u>							
Loans to banks	-	-	256,664,163	-	-	-	256,664,163
Loans and advances to customers	29,432,709	746,343,264	518,330,322	2,562,246,989	2,359,112,715	2,643,515,277	8,858,981,276
Loans and advances to related parties	-	6,892,438	5,178,025	4,534,683	93,928,981	17,587,555	128,121,682
	<u>29,432,709</u>	<u>753,235,702</u>	<u>780,172,510</u>	<u>2,566,781,672</u>	<u>2,453,041,696</u>	<u>2,661,102,832</u>	<u>9,243,767,121</u>

	December 31, 2017						
	Agriculture	Manufacturing and Industry	Financial Services	Real Estate and Construction	Trade and Services	Others	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<u>BALANCE SHEET EXPOSURE</u>							
Loans to banks	-	-	292,410,807	-	-	-	292,410,807
Loans and advances to customers	35,583,203	693,070,981	411,478,759	2,712,596,913	1,933,802,112	2,658,568,979	8,445,100,947
Loans and advances to related parties	-	1,697,380	5,194,024	6,376,770	83,347,301	31,545,182	128,160,657
	<u>35,583,203</u>	<u>694,768,361</u>	<u>709,083,590</u>	<u>2,718,973,683</u>	<u>2,017,149,413</u>	<u>2,690,114,161</u>	<u>8,865,672,411</u>

Concentration of financial assets and liabilities by geographical location:

	December 31, 2018						Total LBP'000
	Lebanon LBP'000	Middle East and Africa LBP'000	Europe LBP'000	North America LBP'000	Australia LBP'000	Others LBP'000	
FINANCIAL ASSETS							
Cash and deposits at central banks	6,073,779,202	769,417,321	266,575,984	-	61,183,427	-	7,170,955,934
Deposits with banks and financial institutions	35,785,167	101,058,337	676,889,331	681,937,705	52,791,171	93,709,898	1,642,171,609
Financial assets at fair value through profit or loss	1,233,331,844	535,163	19,522,437	62,533,406	-	-	1,315,922,850
Loans to banks	42,424,170	210,846,795	1,541,222	-	-	1,851,976	256,664,163
Loans and advances to customers	5,897,174,419	864,282,652	212,655,343	36,475,685	1,847,913,320	479,857	8,858,981,276
Loans and advances to related parties	113,727,799	-	87	30	14,393,766	-	128,121,682
Investment securities	7,197,420,496	90,673,395	19,807	-	436,073,876	-	7,724,187,574
Customers' liability under acceptances	305,859,302	95,391,236	(3,205,214)	2,260,034	-	-	400,305,358
Other financial assets	51,133,550	808,513	16,467	-	6,804,883	-	58,763,413
	<u>20,950,635,949</u>	<u>2,133,013,412</u>	<u>1,174,015,464</u>	<u>783,206,860</u>	<u>2,419,160,443</u>	<u>96,041,731</u>	<u>27,556,073,859</u>
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	1,142,323,236	1,009,568,084	301,832,723	-	22,016,174	113,997	2,475,854,214
Customers' and related parties' deposits							
at amortized cost	14,563,180,632	2,121,983,155	1,310,191,511	157,962,962	2,034,518,174	30,809,667	20,218,646,101
Liabilities under acceptance	7,616,695	147,892,526	223,423,221	391,234	-	20,981,682	400,305,358
Other borrowings	628,229,797	-	(60,279,955)	-	-	-	567,949,842
Certificates of deposit	-	-	607,045	-	-	-	607,045
Other financial liabilities	113,225,627	1,190,690	109,784,167	-	10,964,333	-	235,164,817
	<u>16,454,575,987</u>	<u>3,280,634,455</u>	<u>1,885,558,712</u>	<u>158,354,196</u>	<u>2,067,498,681</u>	<u>51,905,346</u>	<u>23,898,527,377</u>
Net position	<u>4,496,059,962</u>	<u>(1,147,621,043)</u>	<u>(711,543,248)</u>	<u>624,852,664</u>	<u>351,661,762</u>	<u>44,136,385</u>	<u>3,657,546,482</u>

December 31, 2017

	Lebanon LBP'000	Middle East and Africa LBP'000	Europe LBP'000	North America LBP'000	Australia LBP'000	Others LBP'000	Total LBP'000
FINANCIAL ASSETS							
Cash and deposits at central banks	5,313,578,156	958,900,381	160,668,569	-	143,766,484	-	6,576,913,590
Deposits with banks and financial institutions	265,627,906	87,586,729	621,075,096	562,513,441	7,074,347	3,421,607	1,547,299,126
Financial assets at fair value through profit or loss	1,449,632,797	535,163	16,629,101	40,636,348	-	-	1,507,433,409
Loans to banks	40,728,142	245,995,963	3,996,151	-	-	1,690,551	292,410,807
Loans and advances to customers	5,656,560,899	928,545,743	114,973,296	36,785,859	1,708,165,902	69,248	8,445,100,947
Loans and advances to related parties	102,106,996	1,741,745	-	-	24,311,916	-	128,160,657
Investment securities	7,482,325,841	93,657,506	-	-	596,913,561	-	8,172,896,908
Customers' liability under acceptances	234,943,481	105,048,154	15,720,525	1,648,633	-	133,278	357,494,071
Other financial assets	33,219,800	458,399	21,368	-	8,930,589	-	42,630,156
	<u>20,578,724,018</u>	<u>2,422,469,783</u>	<u>933,084,106</u>	<u>641,584,281</u>	<u>2,489,162,799</u>	<u>5,314,684</u>	<u>27,070,339,671</u>
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	744,878,548	1,114,225,364	222,124,053	9,689	13,759,079	14,475	2,095,011,208
Customers' and related parties' deposits at amortized cost	14,287,425,060	2,047,549,545	1,587,349,203	150,990,619	1,996,725,446	37,541,431	20,107,581,304
Liabilities under acceptance	20,695,857	121,128,921	204,941,409	232,862	-	10,495,022	357,494,071
Other borrowings	770,965,539	-	(30,563,252)	-	100,330,387	-	840,732,674
Certificates of deposit	-	-	634,044	-	-	-	634,044
Other financial liabilities	130,910,686	2,057,379	59,903,616	-	7,860,527	-	200,732,208
	<u>15,954,875,690</u>	<u>3,284,961,209</u>	<u>2,044,389,073</u>	<u>151,233,170</u>	<u>2,118,675,439</u>	<u>48,050,928</u>	<u>23,602,185,509</u>
Net position	<u>4,623,848,328</u>	<u>(862,491,426)</u>	<u>(1,111,304,967)</u>	<u>490,351,111</u>	<u>370,487,360</u>	<u>(42,736,244)</u>	<u>3,468,154,162</u>

An analysis of the Group's credit risk exposure per class of financial asset, and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Credit risk exposure per class of financial asset and stage

	December 31, 2018								Net Exposure LBP'000
	Gross Exposure				Impairment Allowance				
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000	
Cash and deposits at central banks	7,170,955,934	-	-	7,170,955,934	(32,976,484)	-	-	(32,976,484)	7,137,979,450
Deposits with banks and financial institutions	1,641,375,564	796,045	-	1,642,171,609	(200,933)	(2,062)	-	(202,995)	1,641,968,614
Loans to banks	255,667,859	996,304	-	256,664,163	(1,345,996)	(1,943)	-	(1,347,939)	255,316,224
Loans and advances to customers	6,749,321,374	1,719,820,199	389,839,703	8,858,981,276	(9,957,923)	(144,453,330)	(149,066,640)	(303,477,893)	8,555,503,383
Loans and advances to related parties	52,398,546	75,723,136	-	128,121,682	(2,384,499)	(459,737)	-	(2,844,236)	125,277,446
Investment securities at amortized cost	7,708,506,144	-	-	7,708,506,144	(46,471,263)	-	-	(46,471,263)	7,662,034,881
Customers' liability under acceptances	330,996,552	69,308,806	-	400,305,358	(557,726)	(143,487)	-	(701,213)	399,604,145
Other assets	57,748,947	-	1,014,466	58,763,413	(90,900)	-	(1,014,466)	(1,105,366)	57,658,047
Off-balance sheet commitments	2,364,070,064	244,755,514	1,844,042	2,610,669,620	(4,634,270)	(221,178)	(79,111)	(4,934,559)	2,605,735,061
	<u>26,331,040,984</u>	<u>2,111,400,004</u>	<u>392,698,211</u>	<u>28,835,139,199</u>	<u>(98,619,994)</u>	<u>(145,281,737)</u>	<u>(150,160,217)</u>	<u>(394,061,948)</u>	<u>28,441,077,251</u>

	January 1, 2018								Net Exposure LBP'000
	Gross Exposure				Impairment Allowance				
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000	
Cash and deposits at central banks	6,576,913,590	-	-	6,576,913,590	(27,423,852)	-	-	(27,423,852)	6,549,489,738
Deposits with banks and financial institutions	1,547,299,126	-	-	1,547,299,126	(815,375)	-	-	(815,375)	1,546,483,751
Loans to banks	285,278,421	7,132,386	-	292,410,807	(1,991,812)	(14,484)	-	(2,006,296)	290,404,511
Loans and advances to customers	7,365,335,136	867,411,052	368,825,272	8,601,571,460	(18,321,191)	(156,803,417)	(130,434,862)	(305,559,470)	8,296,011,990
Loans and advances to related parties	127,434,311	726,346	-	128,160,657	(1,127,434)	(284,537)	-	(1,411,971)	126,748,686
Investment securities at amortized cost	8,162,185,826	-	-	8,162,185,826	(52,767,196)	-	-	(52,767,196)	8,109,418,630
Customers' liability under acceptances	332,030,285	25,463,786	-	357,494,071	(518,390)	(83,042)	-	(601,432)	356,892,639
Other assets	41,615,690	-	1,014,466	42,630,156	(22,006)	-	(1,014,466)	(1,036,472)	41,593,684
Off-balance sheet commitments	2,560,418,235	2,142,796	667,343	2,563,228,374	(6,269,096)	(839,860)	(87,981)	(7,196,937)	2,556,031,437
	<u>26,998,510,620</u>	<u>902,876,366</u>	<u>370,507,081</u>	<u>28,271,894,067</u>	<u>(109,256,352)</u>	<u>(158,025,340)</u>	<u>(131,537,309)</u>	<u>(398,819,001)</u>	<u>27,873,075,066</u>

Credit risk exposure for loans and advance to customers per internal rating and stage

	December 31, 2018				January 1, 2018
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL		
LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Grades 1-3: low to fair risk	6,749,321,374	858,491,839	-	7,607,813,213	7,843,474,380
Grades 4-6: Monitoring	-	861,328,360	-	861,328,360	389,271,808
Grades 7-8: Substandard	-	-	98,810,999	98,810,999	109,537,778
Grade 9: Doubtful	-	-	38,397,354	38,397,354	60,972,822
Grade 10: Impaired	-	-	252,631,350	252,631,350	198,314,672
Total gross carrying amount	6,749,321,374	1,719,820,199	389,839,703	8,858,981,276	8,601,571,460
Loss allowance	(9,957,923)	(144,453,330)	(149,066,640)	(303,477,893)	(305,559,470)
Carrying amount	<u>6,739,363,451</u>	<u>1,575,366,869</u>	<u>240,773,063</u>	<u>8,555,503,383</u>	<u>8,296,011,990</u>

Movement of the allowance for expected credit losses

The movement of the allowance for expected credit losses for all class for financial assets during 2018 is summarized as follows:

	Stage 1	Stage 2	Stage 3	Total
	12-Month	Lifetime	Lifetime	
	ECL	ECL	ECL	
	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1, 2018	109,256,352	158,025,340	131,537,309	398,819,001
Net change in the loss allowance	(9,958,968)	(12,575,948)	20,199,481	(2,335,435)
Write-offs	-	-	(717,526)	(717,526)
Effect of exchange rate changes and other movements	(677,390)	(167,655)	(859,047)	(1,704,092)
Balance at December 31, 2018	<u>98,619,994</u>	<u>145,281,737</u>	<u>150,160,217</u>	<u>394,061,948</u>

The movement of the allowance for expected credit losses for loans and advances to customers during 2018 is summarized as follows:

	Stage 1	Stage 2	Stage 3	Total
	12-Month	Lifetime	Lifetime	
	ECL	ECL	ECL	
	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1, 2018	18,321,191	156,803,417	130,434,862	305,559,470
Net change in the loss allowance	(8,082,549)	(12,301,447)	19,725,678	(658,318)
Write offs	-	-	(717,526)	(717,526)
Effect of exchange rate changes and other movements	(280,719)	(48,640)	(376,374)	(705,733)
Balance at December 31, 2018	<u>9,957,923</u>	<u>144,453,330</u>	<u>149,066,640</u>	<u>303,477,893</u>

Net change in the loss allowance includes re-measurements as a result of changes in the size of portfolios, reclassifications between stages and reallocations of provisions.

Collateral held as security and other credit enhancements

The Group holds the following collaterals received against loans and advances to customers:

December 31, 2018										
	<u>Gross Exposure</u> LBP'000	<u>Expected Credit Loss</u> LBP'000	<u>Net Exposure</u> LBP'000	<u>Fair Value of Collateral Received</u>						<u>Total</u> LBP'000
				<u>Pledged Funds</u> LBP'000	<u>First Degree Mortgage on Property</u> LBP'000	<u>Debt Securities</u> LBP'000	<u>Bank Guarantees</u> LBP'000	<u>Vehicles</u> LBP'000	<u>Other</u> LBP'000	
Performing loans	8,469,141,572	(154,410,334)	8,314,731,238	1,775,042,197	7,832,262,843	31,287,830	110,616,323	229,800,083	3,211,624,215	13,190,633,491
Non-performing loans	389,839,704	(149,067,559)	240,772,145	17,377,237	273,635,238	8,616,875	-	7,721,719	40,013,120	347,364,189
	<u>8,858,981,276</u>	<u>(303,477,893)</u>	<u>8,555,503,383</u>	<u>1,792,419,434</u>	<u>8,105,898,081</u>	<u>39,904,705</u>	<u>110,616,323</u>	<u>237,521,802</u>	<u>3,251,637,335</u>	<u>13,537,997,680</u>
December 31, 2017										
	<u>Gross Exposure</u> LBP'000	<u>Allowance for Impairment</u> LBP'000	<u>Net Exposure</u> LBP'000	<u>Fair Value of Collateral Received</u>						<u>Total</u> LBP'000
				<u>Pledged Funds</u> LBP'000	<u>First Degree Mortgage on Property</u> LBP'000	<u>Debt Securities</u> LBP'000	<u>Bank Guarantees</u> LBP'000	<u>Vehicles</u> LBP'000	<u>Other</u> LBP'000	
Performing loans	8,232,746,188	(26,035,651)	8,206,710,537	1,548,909,537	4,274,513,173	21,587,999	103,165,405	269,947,635	2,641,348,190	8,859,471,939
Non-performing loans	368,825,272	(130,434,862)	238,390,410	1,605,576	3,374,449,218	-	-	8,324,392	6,931,077	3,391,310,263
	<u>8,601,571,460</u>	<u>(156,470,514)</u>	<u>8,445,100,947</u>	<u>1,550,515,113</u>	<u>7,648,962,391</u>	<u>21,587,999</u>	<u>103,165,405</u>	<u>278,272,027</u>	<u>2,648,279,267</u>	<u>12,250,782,202</u>

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.

Management of liquidity risk

Liquidity is the "Group's ability to ensure the availability of funds to meet commitments (including off-balance sheet commitments) at a reasonable price at all times." In 'business as usual' circumstances the day-to-day cash management of a bank should not lead to any threats to its solvency.

Liquidity risk is defined as the risk of the Group's ability to meet its current and future payment obligations in full or on time.

Liquidity risk arises when, in the case of a liquidity crisis, refinancing may only be raised at higher market rates (funding risk) or assets may only be liquidated at a discount to the market rates (market liquidity risk). It also results from the mismatches in the maturity pattern of assets and liabilities.

a) Liquidity Measurement

Liquidity is measured on a "business as usual basis" using:

- Balance Sheet Liquidity Ratios (purchased and stored liquidity ratios): such as immediate liquidity, loans / deposits, liquid assets ratio, interbank ratio, medium-term funding ratio, wholesale borrowing capacity, etc.
- The liquidity relationship between the sub-components of the balance sheet at a particular point in time: Cash Flow Gap Scheduling which is the Gap between cash inflows and outflows determined within a series of time buckets.
- Stress testing: by stress testing "the business as usual" assumptions via standardized scenarios, the potential shortage of liquidity can be measured. This shortage needs to be covered by the Liquidity Buffer, which consists of unencumbered assets that can be reported or used as collateral at a Central Bank to generate cash.

The Bank's objectives are to comply with the Central Bank instructions for liquidity risk monitoring and set other internal prudential limits as described hereafter. Some of the internal limits are:

- Liquidity gap ratios for Lebanese Pounds and foreign currencies (special focus on the foreign currencies): One month GAP/Tier One Capital
- Liquid assets in foreign currencies (including Placement with the Central Bank) / Total Deposits in foreign currencies.
- Placements with Non Resident Banks in foreign currencies/Total Deposits in foreign currencies
- Long-term foreign currency Funds (including equity)/Long-term Loans (above one year)

b) The Contingency Funding Plan

Liquidity problems will usually arise only when the Group encounters a crisis. In this case, there is a need to put in place a Contingency Funding Plan that both quantifies the adequacy of the Bank's resources (Liquidity Buffer) to withstand a set of potential liquidity crises and sets out an Action Plan to be activated in the event of a liquidity crisis.

A mechanism to identify stress situations ahead of time, and to plan dealing with such unusual situations in a timely and effective manner should be in existence. The Contingency Plan is reviewed regularly and tested.

The responsibilities and authorities of overseeing efficient implementation of liquidity risk mitigation is distributed in the best way to achieve proficient handling of the problems facing the Group and thus ensuring a smooth continuation of the activity without jeopardizing the business. Accordingly, officials and committees of the Group (namely ALCO, Treasury Department, Finance Department) assess the situation, decide on the activation of the contingency plan and act as follows:

- ALCO Committee is informed immediately, and quickly makes its assessment as to whether the plan should be activated.
- ALCO Committee takes all major decisions on loans or deposits, investment purchases, borrowing, whether to stop making additional loans, etc.
- ALCO Committee provides general, ongoing guidance on communicating with major depositors and other sources of funding, internal staff, and the press.
- The Treasury Department is responsible for maintaining sufficient liquidity to meet the Bank's obligations and to meet the specific liquidity requirements of the supervisory authorities. The key measure used by the Bank for managing liquidity risk is the ratio of behaviorally adjusted net liquid assets (maturing in less than one month) to total deposits.
- In the unlikely event of a liquidity crisis, the Treasury Department would immediately endeavour to sell the Group's liquid assets, or if more expedient, seek additional funds from the shareholders or borrow in the market to alleviate the shortfall.

Residual contractual maturities of financial assets and liabilities:

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

	December 31, 2018							
	With No Maturity LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	5 to 10 Years LBP'000	Over 10 Years LBP'000	Total LBP'000
FINANCIAL ASSETS								
Cash and deposits at central banks	685,072,540	1,858,495,744	354,262,500	661,034,750	718,740,450	1,681,707,950	1,211,642,000	7,170,955,934
Deposits with banks and financial institutions	348,583	1,641,823,026	-	-	-	-	-	1,642,171,609
Financial assets at fair value through profit or loss	13,358,350	73,855,554	57,725,662	89,469,377	284,429,395	555,379,754	241,704,758	1,315,922,850
Loans to banks	10,510,914	217,857,488	19,914,161	8,381,600	-	-	-	256,664,163
Loans and advances to customers	299,473,588	2,530,040,420	2,911,290,360	883,249,553	379,646,784	355,889,111	1,499,391,460	8,858,981,276
Loans and advances to related parties	62,911	84,576,926	26,037,906	7,674,240	325,407	3,141,341	6,302,951	128,121,682
Investment securities	15,714,763	165,241,505	520,835,132	1,330,791,411	1,227,633,507	2,220,674,236	2,243,297,020	7,724,187,574
Customers' liability under acceptances	-	400,305,358	-	-	-	-	-	400,305,358
Other financial assets	58,699,791	-	30,136	33,486	-	-	-	58,763,413
	<u>1,083,241,440</u>	<u>6,972,196,021</u>	<u>3,890,095,857</u>	<u>2,980,634,417</u>	<u>2,610,775,543</u>	<u>4,816,792,392</u>	<u>5,202,338,189</u>	<u>27,556,073,859</u>
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	-	1,750,748,416	187,311,680	232,789,179	305,004,939	-	-	2,475,854,214
Customers' and related parties' deposits	-	14,963,109,378	3,972,991,503	947,542,246	98,591,503	44,454,526	191,956,945	20,218,646,101
Liabilities under acceptance	-	400,305,358	-	-	-	-	-	400,305,358
Other borrowings	-	75,420,542	492,529,300	-	-	-	-	567,949,842
Certificates of deposit	-	-	607,045	-	-	-	-	607,045
Other financial liabilities	152,822,137	61,767,909	8,743,812	10,753,426	874,078	-	203,455	235,164,817
	<u>152,822,137</u>	<u>17,251,351,603</u>	<u>4,662,183,340</u>	<u>1,191,084,851</u>	<u>404,470,520</u>	<u>44,454,526</u>	<u>192,160,400</u>	<u>23,898,527,377</u>
Net Maturity Gap	<u>930,419,303</u>	<u>(10,279,155,582)</u>	<u>(772,087,483)</u>	<u>1,789,549,566</u>	<u>2,206,305,023</u>	<u>4,772,337,866</u>	<u>5,010,177,789</u>	<u>3,657,546,482</u>

	December 31, 2017							Total LBP'000
	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	
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
FINANCIAL ASSETS								
Cash and deposits at central banks	605,836,412	1,705,439,378	-	939,136,350	1,333,814,100	1,174,310,350	818,377,000	6,576,913,590
Deposits with banks and financial institutions	-	1,509,865,192	37,433,934	-	-	-	-	1,547,299,126
Financial assets at fair value through profit or loss	32,298,178	68,709,547	101,726,223	143,876,385	191,501,299	743,970,009	225,351,768	1,507,433,409
Loans to banks	9,069,473	252,189,452	17,848,682	4,794,400	8,508,800	-	-	292,410,807
Loans and advances to customers	142,491,186	1,573,704,170	3,457,798,981	1,145,761,134	421,062,233	431,861,341	1,272,421,902	8,445,100,947
Loans and advances to related parties	40,548	75,114,885	19,560,521	11,228,230	3,409,334	4,029,150	14,777,989	128,160,657
Investment securities	10,711,083	205,016,927	491,595,941	1,828,909,856	1,435,604,493	3,201,380,089	999,678,519	8,172,896,908
Customers' liability under acceptances	-	353,604,597	3,889,474	-	-	-	-	357,494,071
Other financial assets	33,687,649	11,919	963,727	7,966,861	-	-	-	42,630,156
	<u>834,134,529</u>	<u>5,743,656,067</u>	<u>4,130,817,483</u>	<u>4,081,673,216</u>	<u>3,393,900,259</u>	<u>5,555,550,939</u>	<u>3,330,607,178</u>	<u>27,070,339,671</u>
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	-	1,879,152,425	115,759,339	100,099,444	-	-	-	2,095,011,208
Customers' and related parties' deposits	-	15,350,291,402	3,470,727,936	900,148,793	181,286,700	36,728,397	168,398,076	20,107,581,304
Liabilities under acceptance	-	353,604,597	3,889,474	-	-	-	-	357,494,071
Other borrowings	-	828,465,507	2,457,475	6,201,694	4,070,250	-	(462,252)	840,732,674
Certificates of deposit	-	-	634,044	-	-	-	-	634,044
Other financial liabilities	91,681,839	99,337,591	7,681,582	2,031,196	-	-	-	200,732,208
	<u>91,681,839</u>	<u>18,510,851,522</u>	<u>3,601,149,850</u>	<u>1,008,481,127</u>	<u>185,356,950</u>	<u>36,728,397</u>	<u>167,935,824</u>	<u>23,602,185,509</u>
Net Maturity Gap	<u>742,452,690</u>	<u>(12,767,195,455)</u>	<u>525,640,583</u>	<u>3,073,192,089</u>	<u>3,208,543,309</u>	<u>5,518,822,542</u>	<u>3,162,671,354</u>	<u>3,468,154,162</u>

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.

Management of market risks

a) 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 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.

b) Interest Rate Risk Measurement

Major concern is to be given to interest rates movements both in the local and international markets whenever hedging against rates rise should be undertaken as part of the Group's strategy.

Interest rate risk is the risk that changes in interest rates will affect the Group's income or the value of its holdings group 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.

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The policy of the Group is to price all placements / exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

Interest rate sensitivity analyses for financial assets and financial liabilities as at December 31, 2018:

	Interest Rate Sensitivity Balance Sheet													
	Non-Interest Generating LBP'000	Floating					Total LBP'000	Fixed					Grand Total LBP'000	
		Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000		Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000		
FINANCIAL ASSETS														
Cash and deposits at central banks	591,119,883	322,040,406	-	-	-	-	322,040,406	1,993,359,695	354,262,500	403,608,050	613,215,450	2,893,349,950	6,257,795,645	7,170,955,934
Deposits with banks and financial institutions	108,727,163	377,152,740	-	-	-	-	377,152,740	1,161,183,000	(4,891,294)	-	-	-	1,156,291,706	1,642,171,609
Financial assets at fair value through profit or loss	13,836,608	-	-	-	-	-	-	56,826,125	59,584,135	89,520,877	295,565,515	800,589,590	1,302,086,242	1,315,922,850
Loans to Banks	1,435,877	1,112,722	8,381,600	-	-	-	9,494,322	226,763,653	18,970,311	-	-	-	245,733,964	256,664,163
Loans and advances to customers	437,882,143	2,577,255,073	177,665,932	16,365,913	4,751,340	1,369,888,219	4,145,926,477	1,684,542,338	1,432,891,678	482,107,719	282,186,847	393,444,074	4,275,172,656	8,858,981,276
Loans and advances to related parties	279,884	14,068,164	102,114	-	-	8,470,657	22,640,935	80,773,293	17,659,245	6,343,955	424,370	-	105,200,863	128,121,682
Investment in securities	232,402,635	27,093,364	51,729,857	188,250,637	58,812,939	-	325,886,797	42,712,090	466,868,593	1,098,505,625	1,155,591,813	4,401,820,021	7,165,898,142	7,724,187,574
Customers' liability under acceptance	400,305,358	-	-	-	-	-	-	-	-	-	-	-	-	400,305,358
Other financial assets	58,699,791	-	30,136	33,486	-	-	63,622	-	-	-	-	-	-	58,763,413
	<u>1,844,689,342</u>	<u>3,318,722,469</u>	<u>237,909,639</u>	<u>204,650,036</u>	<u>63,564,279</u>	<u>1,378,358,876</u>	<u>5,203,205,299</u>	<u>5,246,160,194</u>	<u>2,345,345,168</u>	<u>2,080,486,226</u>	<u>2,346,983,995</u>	<u>8,489,203,635</u>	<u>20,508,179,218</u>	<u>27,556,073,859</u>
FINANCIAL LIABILITIES														
Deposits from banks and financial institutions	297,685,146	106,743,742	1,932,732	-	-	-	108,676,474	1,409,763,798	141,220,816	216,668,791	301,839,189	-	2,069,492,594	2,475,854,214
Customers and related parties' deposits at amortized cost	182,374,770	541,779,451	-	-	-	-	541,779,451	14,230,779,468	3,981,167,193	947,542,246	98,591,503	236,411,470	19,494,491,880	20,218,646,101
Liabilities under acceptance	400,305,358	-	-	-	-	-	-	-	-	-	-	-	-	400,305,358
Other borrowings	8,690,899	-	-	-	-	-	-	66,719,958	492,538,985	-	-	-	559,258,943	567,949,842
Certificates of deposit	-	-	-	-	-	-	-	-	607,045	-	-	-	607,045	607,045
Other financial liabilities	90,341,802	42,837,910	-	75,457	874,078	203,454	43,990,899	94,876,554	5,955,362	-	-	-	100,832,116	235,164,817
	<u>979,397,975</u>	<u>691,361,103</u>	<u>1,932,732</u>	<u>75,457</u>	<u>874,078</u>	<u>203,454</u>	<u>694,446,824</u>	<u>15,802,139,778</u>	<u>4,621,489,601</u>	<u>1,164,211,037</u>	<u>400,430,692</u>	<u>236,411,470</u>	<u>22,224,682,578</u>	<u>23,898,527,377</u>
Interest Rate Swap	-	104,064,240	-	-	-	-	104,064,240	-	-	(12,742,560)	(84,950,400)	(6,371,280)	(104,064,240)	-
Interest rate Gap	<u>865,291,367</u>	<u>2,731,425,606</u>	<u>235,976,907</u>	<u>204,574,579</u>	<u>62,690,201</u>	<u>1,378,155,422</u>	<u>4,612,822,715</u>	<u>(10,555,979,584)</u>	<u>(2,276,144,433)</u>	<u>903,532,629</u>	<u>1,861,602,903</u>	<u>8,246,420,885</u>	<u>(1,820,567,600)</u>	<u>3,657,546,482</u>

Interest rate sensitivity analyses for financial assets and financial liabilities as at December 31, 2017:

	Interest Rate Sensitivity Balance Sheet													
	Non-Interest Generating LBP'000	Floating						Fixed						Grand Total LBP'000
		Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	
FINANCIAL ASSETS														
Cash and deposits at central banks	767,233,232	-	-	-	-	-	1,929,830,008	-	723,600,000	1,163,563,000	1,992,687,350	5,809,680,358	6,576,913,590	
Deposits with banks and financial institutions	81,642,045	18,395,444	-	-	-	18,395,444	1,419,518,425	27,743,181	31	-	-	1,447,261,637	1,547,299,126	
Financial assets at fair value through profit or loss	171,896,378	-	-	-	-	-	2,137,845	85,555,062	118,362,690	176,988,993	952,492,441	1,335,537,031	1,507,433,409	
Loans to banks	(48,040)	1,928,448	11,508,800	-	-	13,437,248	261,172,917	17,848,682	-	-	-	279,021,599	292,410,807	
Loans and advances to customers	145,706,805	2,142,745,914	227,029,528	73,237,323	3,821,649	1,138,555,972	3,585,390,386	2,180,705,215	1,274,606,521	503,875,140	303,280,123	4,515,367,575	8,445,100,947	
Loans and advances to related parties	277,214	20,116,687	-	296,015	-	18,807,139	39,219,841	71,427,499	4,902,825	8,923,946	3,409,332	88,663,602	128,160,657	
Investment securities	254,600,041	63,119,182	104,933,727	125,387,534	175,050,399	-	468,490,842	79,369,673	363,739,504	1,636,901,183	1,246,056,306	4,123,739,359	8,172,896,908	
Customers' liability under acceptance	357,494,071	-	-	-	-	-	-	-	-	-	-	-	357,494,071	
Other financial assets	38,591,774	3,376,657	46,425	71,001	544,299	-	4,038,382	-	-	-	-	-	42,630,156	
	<u>1,817,393,520</u>	<u>2,249,682,332</u>	<u>343,518,480</u>	<u>198,991,873</u>	<u>179,416,347</u>	<u>1,157,363,111</u>	<u>4,128,972,143</u>	<u>3,944,161,582</u>	<u>1,774,395,775</u>	<u>2,991,662,990</u>	<u>2,893,297,754</u>	<u>7,520,455,907</u>	<u>27,070,339,671</u>	
FINANCIAL LIABILITIES														
Deposits from banks and financial institutions	203,523,249	9,096,912	2,908,546	-	-	12,005,458	1,478,879,668	275,880,008	124,722,825	-	-	1,879,482,501	2,095,011,208	
Customers' and related parties' deposits at amortized cost	139,017,721	1,141,203,789	-	-	-	1,141,203,789	14,236,309,992	3,459,645,264	756,074,038	170,204,027	205,126,473	18,827,359,794	20,107,581,304	
Liabilities under acceptance	357,494,071	-	-	-	-	-	-	-	-	-	-	357,494,071	357,494,071	
Other borrowings	8,578,565	100,330,387	-	-	-	100,330,387	719,717,811	1,868,637	6,167,024	4,070,250	-	731,823,722	840,732,674	
Certificates of deposit	-	-	-	-	-	-	-	634,044	-	-	-	634,044	634,044	
Other financial liabilities	99,177,360	-	-	-	-	-	96,960,789	4,594,059	-	-	-	101,554,848	200,732,208	
	<u>807,790,966</u>	<u>1,250,631,088</u>	<u>2,908,546</u>	<u>-</u>	<u>-</u>	<u>1,253,539,634</u>	<u>16,531,868,260</u>	<u>3,742,622,012</u>	<u>886,963,887</u>	<u>174,274,277</u>	<u>205,126,473</u>	<u>21,540,854,909</u>	<u>23,692,185,509</u>	
Interest rate swap	-	10,837,232	-	-	-	10,837,232	(1,413,552)	(3,533,880)	(5,889,800)	-	-	(10,837,232)	-	
Interest rate gap	<u>1,009,602,554</u>	<u>1,009,888,476</u>	<u>340,609,924</u>	<u>198,991,873</u>	<u>179,416,347</u>	<u>1,157,363,111</u>	<u>2,886,269,741</u>	<u>(10,589,120,230)</u>	<u>(1,971,760,117)</u>	<u>2,098,809,303</u>	<u>2,719,023,477</u>	<u>7,315,329,434</u>	<u>(3,468,154,162)</u>	

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 Group does not currently deal, and has no plans to deal, in Foreign Exchange Futures, Foreign Exchange Options or Options on Foreign Exchange Futures.

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book).

At the outset the Group's overall currency risk exposures is split into:

- Operational FX positions: The management of these risks is done via Trading books under the responsibility of the Global Markets Division.
- Structural FX positions: ALCO Committee decides on the level of the Structural FX positions to be held against the LBP denominated equity and foreign investment, to ensure proper hedging.

Treasury Department is responsible to monitor the compliance to the regulatory ratios set by the regulatory authorities. ALCO Committee is notified by the Finance department of any breach.

The table shown below gives details of the Group's exposure to currency risk:

	December 31, 2018						
	LBP LBP'000	USD LBP'000	EUR LBP'000	GBP LBP'000	AUD LBP'000	Other LBP'000	Total LBP'000
ASSETS							
Cash and deposits at central banks	2,264,206,649	3,246,458,184	1,100,771,583	55,790,235	60,042,998	410,709,801	7,137,979,450
Assets under leverage arrangement with the Central Bank of Lebanon	823,039,258	-	-	-	-	-	823,039,258
Deposits with banks and financial institutions	14,235,944	1,189,421,170	110,700,268	210,464,479	13,276,424	103,870,329	1,641,968,614
Financial assets at fair value through profit or loss	686,701,133	613,991,238	-	15,230,479	-	-	1,315,922,850
Loans to banks	9,078,864	218,106,927	7,114,899	17,331,790	-	3,683,744	255,316,224
Loans and advances to customers	1,704,974,295	4,013,459,665	577,129,375	27,499,279	1,634,372,787	598,067,982	8,555,503,383
Loans and advances to related parties	2,282,831	94,929,799	1,014,600	62,293	14,393,766	12,594,157	125,277,446
Investment securities	2,927,962,886	4,222,901,303	253,723	-	436,052,213	90,546,186	7,677,716,311
Customers' liability under acceptances	79,176	345,251,189	19,025,262	2,491,986	-	32,756,532	399,604,145
Investments in an associate	-	23,009,057	-	-	-	-	23,009,057
Assets acquired in satisfaction of loans	995,683	23,571,035	-	-	-	-	24,566,718
Property and equipment	235,075,761	216,245	56,524	38,127,005	3,977,869	17,719,232	295,172,636
Goodwill	452,265	-	-	1,432,270	86,582,169	-	88,466,704
Other Assets	31,114,181	17,941,753	589,468	3,723,784	19,271,462	1,454,225	74,094,873
	<u>8,700,198,926</u>	<u>14,009,257,565</u>	<u>1,816,655,702</u>	<u>372,153,600</u>	<u>2,267,969,688</u>	<u>1,271,402,188</u>	<u>28,437,637,669</u>
LIABILITIES							
Deposits from banks and financial institutions	186,096,947	1,736,159,039	448,193,174	67,359,849	8,070,538	29,974,667	2,475,854,214
Customers' and related parties' deposits at amortized cost	5,222,289,333	10,892,407,296	910,630,940	233,122,344	2,104,555,449	855,640,739	20,218,646,101
Liabilities under acceptance	79,176	345,952,402	19,025,262	2,491,986	-	32,756,532	400,305,358
Other borrowings	564,930,674	3,019,168	-	-	-	-	567,949,842
Leverage arrangement with the Central Bank of Lebanon	823,039,258	-	-	-	-	-	823,039,258
Certificates of deposit	-	-	-	607,045	-	-	607,045
Other liabilities	117,364,621	181,967,153	19,428,239	6,449,558	8,018,499	8,093,993	341,322,063
Provisions	46,991,889	12,951,280	622,152	282,520	2,625,183	362,187	63,835,212
	<u>6,960,791,898</u>	<u>13,172,456,338</u>	<u>1,397,899,767</u>	<u>310,313,302</u>	<u>2,123,269,669</u>	<u>926,828,118</u>	<u>24,891,559,093</u>
Currencies to be delivered	-	(1,093,646,222)	(223,044,776)	(92,449,533)	(1,407,983)	(33,322,389)	(1,443,870,903)
Currencies to be received	-	908,953,823	221,823,519	90,982,288	201,663,812	32,389,445	1,455,812,887
Discount (net)	-	(16,738,429)	348,013	(77,084)	-	251,843	(16,215,657)
	<u>-</u>	<u>(201,430,828)</u>	<u>(873,244)</u>	<u>(1,544,329)</u>	<u>200,255,829</u>	<u>(681,101)</u>	<u>(4,273,673)</u>
Net Exchange position	<u>1,739,407,028</u>	<u>635,370,399</u>	<u>417,882,691</u>	<u>60,295,969</u>	<u>344,955,848</u>	<u>343,892,969</u>	<u>3,541,804,903</u>

	December 31, 2017						
	LBP LBP'000	USD LBP'000	EUR LBP'000	GBP LBP'000	AUD LBP'000	Other LBP'000	Total LBP'000
ASSETS							
Cash and deposits at central banks	2,176,419,508	2,563,398,087	841,458,476	2,831,883	142,604,353	850,201,283	6,576,913,590
Assets under leverage arrangement with the Central Bank of Lebanon	152,048,750	-	-	-	-	-	152,048,750
Deposits with banks and financial institutions	20,528,493	1,087,139,105	129,298,430	195,687,240	17,271,182	97,374,676	1,547,299,126
Financial assets at fair value through profit or loss	910,893,459	584,341,453	-	12,198,497	-	-	1,507,433,409
Loans to banks	13,476,516	180,408,806	35,054,714	18,267,919	-	45,202,852	292,410,807
Loans and advances to customers	1,811,814,328	3,980,706,438	283,872,002	41,936,648	1,550,565,320	776,206,211	8,445,100,947
Loans and advances to related parties	5,563,063	82,174,873	513,244	307,555	24,312,441	15,289,481	128,160,657
Investment securities	3,048,643,470	4,436,277,864	265,766	-	597,169,025	90,540,783	8,172,896,908
Customers' liability under acceptances	-	258,315,700	35,407,336	1,294,377	-	62,476,658	357,494,071
Investments in an associate	-	41,535,338	-	-	-	-	41,535,338
Assets acquired in satisfaction of loans	901,247	21,841,457	-	-	-	-	22,742,704
Property and equipment	191,053,871	34,126,674	58,128	31,763,177	4,192,360	19,509,375	280,703,585
Goodwill	452,265	-	-	1,529,820	86,582,169	-	88,564,254
Other Assets	26,146,160	20,102,085	344,199	1,892,012	15,014,623	1,204,203	64,703,282
	<u>8,357,941,130</u>	<u>13,290,367,880</u>	<u>1,326,272,295</u>	<u>307,709,128</u>	<u>2,437,711,473</u>	<u>1,958,005,522</u>	<u>27,678,007,428</u>
LIABILITIES							
Deposits from banks and financial institutions	113,753,048	1,243,642,703	355,847,731	37,300,631	6,796,564	337,670,531	2,095,011,208
Customers' and related parties' deposits at amortized cost	5,629,477,093	10,394,433,902	740,258,764	252,506,964	2,060,322,469	1,030,582,112	20,107,581,304
Liabilities under acceptance	-	258,315,700	35,407,336	1,294,377	-	62,476,658	357,494,071
Other borrowings	537,250,094	203,152,193	-	-	100,330,387	-	840,732,674
Leverage arrangement with the Central Bank of Lebanon	152,048,750	-	-	-	-	-	152,048,750
Certificates of deposit	-	-	-	634,044	-	-	634,044
Other liabilities	331,823,505	122,036,664	20,064,998	2,934,271	12,215,291	28,653,059	517,727,788
Provisions	42,398,641	12,362,536	616,067	-	2,603,471	246,650	58,227,365
	<u>6,806,751,131</u>	<u>12,233,943,698</u>	<u>1,152,194,896</u>	<u>294,670,287</u>	<u>2,182,268,182</u>	<u>1,459,629,010</u>	<u>24,129,457,204</u>
Currencies to be delivered	-	(196,110,747)	(484,684,731)	(12,413,585)	(231,349,170)	(471,887,614)	(1,396,445,847)
Currencies to be received	-	742,113,234	306,851,340	150,164,302	146,064,008	48,938,268	1,394,131,152
Premium (net)	-	(284,831)	205,395	(61,576)	-	446,838	305,826
	-	<u>545,717,656</u>	<u>(177,627,996)</u>	<u>137,689,141</u>	<u>(85,285,162)</u>	<u>(422,502,508)</u>	<u>(2,008,869)</u>
Net exchange position	<u>1,551,189,999</u>	<u>1,602,141,838</u>	<u>(3,550,597)</u>	<u>150,727,982</u>	<u>170,158,129</u>	<u>75,874,004</u>	<u>3,546,541,355</u>

54. 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.

The Directors consider that the carrying amounts of customers' acceptance liability, other assets, acceptances payable, certificates of deposit issued, and other liabilities approximate their fair values due to the short-term maturities of these instruments.

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

		December 31, 2018				
Notes	Carrying Amount LBP'000	Fair Value			Total LBP'000	
		Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000		
Financial assets measured at:						
<i>Fair value through profit or loss (excluding accrued interest receivable):</i>						
	8	432,760,030	-	432,760,030	-	432,760,030
	8	235,285,861	-	235,285,861	-	235,285,861
	8	77,533,343	-	77,533,343	-	77,533,343
	8	493,295,651	-	493,295,651	-	493,295,651
	8	10,872,005	10,872,005	-	-	10,872,005
	8	48,540,304	-	9,693,225	38,847,079	48,540,304
		<u>1,298,287,194</u>	<u>10,872,005</u>	<u>1,248,568,111</u>	<u>38,847,079</u>	<u>1,298,287,194</u>
<i>Financial assets Through other comprehensive income:</i>						
	12	15,681,430	-	-	15,681,430	15,681,430
		<u>15,681,430</u>	<u>-</u>	<u>-</u>	<u>15,681,430</u>	<u>15,681,430</u>
<i>Amortized cost:</i>						
	5	7,170,955,934	-	7,255,937,863	-	7,255,937,863
	7	1,642,171,609	-	1,642,171,609	-	1,642,171,609
	9	256,664,163	-	256,531,636	-	256,531,636
	10	8,858,981,276	-	8,840,318,135	-	8,840,318,135
	11	128,121,682	-	126,463,390	-	126,463,390
	12	988,397,255	-	989,552,820	-	989,552,820
	12	3,403,020,692	-	2,883,538,995	-	2,883,538,995
	12	99,323,642	-	99,618,563	-	99,618,563
	12	2,790,327,721	-	2,747,298,304	-	2,747,298,304
	12	19,092,924	-	19,094,638	-	19,094,638
	12	408,343,908	-	409,580,673	-	409,580,673
		400,305,358	-	399,654,459	-	399,654,459
		58,763,413	-	58,763,413	-	58,763,413
		<u>26,224,469,577</u>	<u>-</u>	<u>25,728,524,498</u>	<u>-</u>	<u>25,728,524,498</u>
Financial liabilities measured at:						
<i>Amortized cost:</i>						
	19	2,447,739,028	-	2,529,733,675	-	2,529,733,675
	20	20,218,248,952	-	20,248,136,205	-	20,248,136,205
		400,305,358	-	400,305,358	-	400,305,358
	21	567,949,842	-	514,795,600	-	514,795,600
	22	607,045	-	607,045	-	607,045
		235,164,817	-	235,164,817	-	235,164,817
		<u>23,870,015,042</u>	<u>-</u>	<u>23,928,742,700</u>	<u>-</u>	<u>23,928,742,700</u>

December 31, 2017					
Notes	Carrying Amount LBP'000	Fair Value			Total LBP'000
		Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	
Financial assets measured at:					
<i>Fair value through profit or loss:</i>					
Lebanese treasury bills	8	658,381,693	-	658,381,693	658,381,693
Lebanese Government bonds	8	298,462,316	-	298,462,316	298,462,316
Foreign government treasury bills	8	52,742,949	-	52,742,949	52,742,949
Certificates of deposit issued by the Central Bank of Lebanon					
Bank of Lebanon	8	415,114,472	-	415,114,472	415,114,472
Quoted equity securities	8	14,799,007	14,799,007	-	14,799,007
Unquoted equity securities	8	48,521,521	-	48,521,521	48,521,521
		<u>1,488,021,958</u>	<u>14,799,007</u>	<u>1,424,701,430</u>	<u>1,488,021,958</u>
<i>Financial assets Through other comprehensive income:</i>					
Unquoted equity securities	12	10,711,082	-	10,711,082	10,711,082
		<u>10,711,082</u>	<u>-</u>	<u>10,711,082</u>	<u>10,711,082</u>
<i>Amortized cost:</i>					
Cash and deposits at central banks	5	6,576,913,590	-	6,713,132,697	6,713,132,697
Deposits with banks and financial institutions					
	7	1,547,299,126	-	1,547,579,550	1,547,579,550
Loans to banks	9	292,410,807	-	292,625,185	292,625,185
Loans and advances to customers	10	8,445,100,947	-	8,482,494,275	8,482,494,275
Loans and advances to related parties	11	128,160,657	-	103,150,606	103,150,606
Lebanese treasury bills	12	1,453,485,198	-	1,468,680,568	1,468,680,568
Lebanese Government bonds	12	3,534,612,705	-	3,367,180,428	3,367,180,428
Foreign Government bonds	12	89,622,830	-	89,622,830	89,622,830
Certificates of deposit issued by the Central Bank of Lebanon					
	12	2,375,202,077	-	2,404,706,872	2,404,706,872
Certificates of deposit issued by private sector					
	12	904,500	-	904,500	904,500
Bonds issued by financial private sector	12	593,376,444	-	597,986,515	597,986,515
Customers' liabilities under acceptances		357,494,071	-	357,494,071	357,494,071
Other financial assets		42,660,452	-	42,660,452	42,660,452
		<u>25,437,243,404</u>	<u>-</u>	<u>25,468,218,549</u>	<u>25,468,218,549</u>
Financial liabilities measured at:					
<i>Amortized cost:</i>					
Deposits from banks and financial institutions					
	19	2,095,011,208	-	2,042,558,925	2,042,558,925
Customers' and related parties' deposits	20	20,107,581,304	-	20,133,549,500	20,133,549,500
Liabilities under acceptance		357,494,071	-	357,494,071	357,494,071
Other borrowings	21	840,732,674	-	840,732,674	840,732,674
Certificates of deposit	22	634,044	-	634,044	634,044
Other financial liabilities		200,732,210	-	200,732,210	200,732,210
		<u>23,602,185,511</u>	<u>-</u>	<u>23,575,701,424</u>	<u>23,575,701,424</u>

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:

<u>Financial Assets</u>	<u>Date of Valuation</u>	<u>Valuation Technique and key Inputs</u>
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese Government bonds	December 31, 2018 and 2017	Average market price in inactive market
Foreign government treasury bills	December 31, 2018 and 2017	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2018 and 2017	Average market price in inactive market
Unquoted equity securities	December 31, 2018 and 2017	Management estimate based on unobservable input related to market volatility and liquidity treasury bonds, adjusted for illiquidity.
At fair value through other comprehensive income:		
Unquoted equity securities	December 31, 2018 and 2017	Not valued
At amortized cost:		
Deposits at central banks	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Deposits with banks and financial institutions	December 31, 2017 and 2017	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Loans to banks	December 31, 2018 and 2017	DCF at a discount rate determined based on banks yield curve by currency
Loans and advances to customers	December 31, 2018 and 2017	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates
Loans and advances to related parties	December 31, 2018 and 2017	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates
Lebanese treasury bills	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2018 and 2017	Average market price in inactive market
Certificates of deposit issued by the private sector	December 31, 2018 and 2017	Management estimate based on observable input in inactive market
Bonds issued by financial private sector	December 31, 2018 and 2017	Management estimate based on observable input in inactive market
Lebanese government bonds	December 31, 2018 and 2017	Average market price in inactive market
Foreign government treasury bonds	December 31, 2018 and 2017	Average market price in inactive market
At amortized cost:		
Deposits from banks and financial institutions	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Customers' and related parties' deposits	December 31, 2018 and 2017	DCF based on market rates by currency and maturity bands at amortized cost extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon.
Other borrowings	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Certificates of deposit	December 31, 2018 and 2017	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon

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

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2018 were approved by the Board of Directors in its meeting held on April 12, 2019.

