

BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019



Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

Adverse Opinion

We have audited the consolidated financial statements of Byblos Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the "*Basis for Adverse Opinion*" section of our report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at 31 December 2019 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 Adverse Opinion

1. As disclosed in Note 49.2 to the consolidated financial statements, the Group holds assets with the Central Bank of Lebanon, a portfolio of Lebanese government debt securities, a portfolio of loans to the private sector and other assets concentrated in Lebanon. As disclosed in Note 1, the accompanying consolidated financial statements do not include IFRS 9 adjustments to the carrying amounts of these assets and related disclosures that would result from the resolution of the uncertainties disclosed therein and the future effects of the economic crisis and the restructuring plan. In addition, as disclosed in Note 48, these consolidated financial statements do not include IFRS 13 fair value disclosures for these financial assets and other financial instruments concentrated in Lebanon. Had such adjustments and disclosures been made, many elements and related disclosures in the accompanying consolidated financial statements would have been materially affected. The effects on these consolidated financial statements have not been determined.
2. As disclosed in Note 48 to the consolidated financial statements, the Group holds unquoted equity instruments measured using unobservable data amounting to LL 65,712 million. It is not possible to determine the future effects that the economic crisis described in Note 1 would have on the carrying amounts of these assets. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts.
3. The events and conditions described in Note 1 and the matters described in paragraph 1 above, affect the liquidity, solvency and profitability of the Group and represent events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern and the accompanying consolidated financial statements do not include an adequate disclosure of management's plan to deal with the events and conditions giving rise to the material uncertainty. In addition, as disclosed in Notes 1 and 53 to the consolidated financial statements, the Group did not comply with Central Bank of Lebanon Intermediary Circular 534 towards maintaining the minimum capital adequacy ratio levels as at 31 December 2019.

Basis for Adverse Opinion (continued)

4. As disclosed in Note 34 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried excess provisions of LL 155,494 million (the “excess provisions”) as at 31 December 2018. This caused us to qualify our opinion on the consolidated financial statements relating to previous years affected by these regulatory requirements as these transactions constitute a departure from International Financial Reporting Standards (IFRS). During 2019, the Group wrote-back an amount of LL 16,507 million from the excess provisions which was recorded under “Other operating income” in the consolidated income statement.

Accordingly, “Loss for the year” ended 31 December 2019 is understated by LL 16,507 million (2018: “Profit for the year” is overstated by LL 8,274 million), and “Other liabilities” are overstated and “Total equity” is understated by LL 138,987 million as at 31 December 2019 (2018: LL 155,494 million).

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse 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 for the year ended 31 December 2019. Except for the matters described in the “Basis for Adverse Opinion” section of our report, we have determined that there are no other key audit matters to communicate in our report.

Other Information Included in the Group’s 2019 Annual Report

Other information consists of the information included in the Group’s 2019 Annual Report other than the consolidated financial statements and our auditors’ report thereon. Management is responsible for the other information. The Group’s 2019 Annual Report is expected to be made available to us after the date of this auditors’ report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

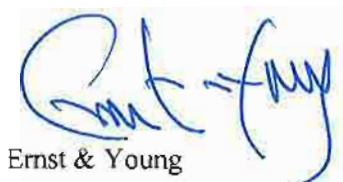
Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

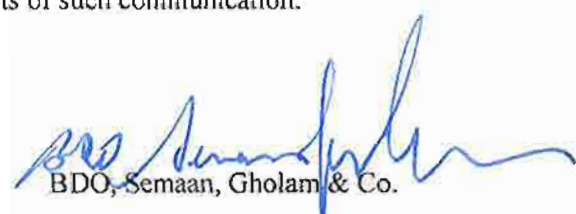
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



Ernst & Young

30 June 2020
Beirut, Lebanon



BDO, Semaan, Gholam & Co.

Byblos Bank SAL

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	<i>Notes</i>	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
CONTINUING OPERATIONS			
Interest and similar income	6	2,394,344	2,038,692
Interest and similar expense	7	(2,032,819)	(1,543,946)
NET INTEREST INCOME		361,525	494,746
Fee and commission income	8	157,205	157,483
Fee and commission expense	8	(13,161)	(12,420)
NET FEE AND COMMISSION INCOME		144,044	145,063
Net gain from financial assets at fair value through profit or loss	9	17,620	16,451
Net gain (loss) from derecognition of financial assets at amortised cost	10	11,631	(3,119)
Non-interest revenues from financial assets at fair value through other comprehensive income	25	2,634	5,569
Other operating income	11	79,700	42,539
TOTAL OPERATING INCOME		617,154	701,249
Net impairment loss on financial assets	12	(422,891)	(14,170)
NET OPERATING INCOME		194,263	687,079
Personnel expenses	13	(186,975)	(211,334)
Other operating expenses	14	(127,760)	(148,435)
Depreciation of property, equipment and right-of-use assets	26	(23,577)	(16,905)
Amortisation of intangible assets	27	(4,302)	(3,164)
TOTAL OPERATING EXPENSES		(342,614)	(379,838)
OPERATING (LOSS) PROFIT		(148,351)	307,241
Net gain from disposal of property, equipment and right-of-use assets		2,234	120
(LOSS) PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		(146,117)	307,361
Income tax expense	15	(37,065)	(57,495)
(LOSS) PROFIT AFTER TAX FROM CONTINUING OPERATIONS		(183,182)	249,866
DISCONTINUED OPERATIONS			
Loss from discontinued operations, net of tax	16	-	(2,472)
(LOSS) PROFIT FOR THE YEAR		(183,182)	247,394
Attributable to:			
Equity holders of the parent		(183,553)	238,940
<i>(Loss) profit for the year from continuing operations</i>		<i>(183,553)</i>	<i>241,099</i>
<i>Loss for the year from discontinued operations</i>		<i>-</i>	<i>(2,159)</i>
Non-controlling interests		371	8,454
<i>Profit for the year from continuing operations</i>		<i>371</i>	<i>8,767</i>
<i>Loss for the year from discontinued operations</i>		<i>-</i>	<i>(313)</i>
		(183,182)	247,394
(Loss) earnings per share			
		<i>LL</i>	<i>LL</i>
Equity holders of the parent:			
Basic (loss) earnings per share	17	(326.42)	338.14
Diluted (loss) earnings per share	17	(230.72)	318.75
(Loss) earnings per share from continuing operations			
Equity holders of the parent:			
Basic (loss) earnings per share from continuing operations		(326.42)	341.98
Diluted (loss) earnings per share from continuing operations		(230.72)	321.92

The attached notes 1 to 55 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
Note	LL million	LL million
(Loss) profit for the year from continuing operations	(183,182)	249,866
Loss for the year from discontinued operations	-	(2,472)
(LOSS) PROFIT FOR THE YEAR	(183,182)	247,394
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items to be reclassified to the income statement in subsequent periods:</i>		
Net unrealized loss from debt instruments at fair value through other comprehensive income	(30,557)	(1,225)
Income tax effect	4,129	269
	(26,428)	(956)
Exchange difference on translation of foreign operations	(2,237)	(7,363)
Net other comprehensive loss to be reclassified to the income statement in subsequent periods	(28,665)	(8,319)
<i>Items not to be reclassified to the income statement in subsequent periods:</i>		
Net unrealized gain (loss) from equity instruments at fair value through other comprehensive income	202	(14,626)
Income tax effect	(29)	1,956
	173	(12,670)
Re-measurement gains on defined benefit plans	35 (a) 1,839	15,975
Net other comprehensive income not to be reclassified to the income statement in subsequent periods	2,012	3,305
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(26,653)	(5,014)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF TAX	(209,835)	242,380
Attributable to:		
Equity holders of the parent	(208,453)	235,104
Non-controlling interests	(1,382)	7,276
	(209,835)	242,380

The attached notes 1 to 55 form part of these consolidated financial statements.

Byblos Bank SAL


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 LL million	2018 LL million
ASSETS			
Cash and balances with central banks	18	14,941,646	16,324,122
Due from banks and financial institutions	19	2,545,288	3,864,751
Loans to banks and financial institutions and reverse repurchase agreements	20	356,710	363,633
Derivative financial instruments	21	703	1,899
Financial assets at fair value through profit or loss	22	83,551	90,490
Net loans and advances to customers at amortised cost	23	6,713,825	8,178,229
Net loans and advances to related parties at amortised cost	44	24,556	24,931
Debtors by acceptances		154,860	362,091
Financial assets at amortised cost	24	7,422,536	7,776,276
Financial assets at fair value through other comprehensive income	25	242,984	228,429
Property, equipment and right-of-use assets	26	337,006	271,963
Intangible assets	27	19,840	17,727
Non-current assets held for sale	28	71,682	51,405
Other assets	29	125,608	141,882
TOTAL ASSETS		33,040,795	37,697,828
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	30	1,528,796	3,870,523
Due to banks and financial institutions	31	1,239,392	1,266,070
Derivative financial instruments	21	908	1,802
Customers' deposits at amortised cost	32	25,968,431	27,418,142
Deposits from related parties at amortised cost	44	225,634	421,172
Debt issued and other borrowed funds	33	441,828	451,301
Engagements by acceptances		155,119	362,091
Other liabilities	34	356,800	354,777
Provisions for risks and charges	35	183,307	230,423
Subordinated debt	36	429,792	426,418
TOTAL LIABILITIES		30,530,007	34,802,719
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	37	684,273	684,273
Share capital – preferred shares	37	4,840	4,840
Share premium – common shares	37	229,014	229,014
Share premium – preferred shares	37	591,083	591,083
Non-distributable reserves	38	1,026,565	982,040
Distributable reserves	39	124,998	116,652
Treasury shares	40	(8,967)	(7,105)
Retained earnings		96,728	77,050
Revaluation reserve of real estate	41	5,689	5,689
Change in fair value of financial assets at fair value through other comprehensive income	42	(39,909)	(15,462)
Net results of the financial period		(183,553)	238,940
Foreign currency translation reserve		(52,918)	(50,603)
TOTAL EQUITY		2,510,788	2,895,109
TOTAL LIABILITIES AND EQUITY		33,040,795	37,697,828

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 30 June 2020 by:


 Seman Bassil
 Chairman and General Manager


 Ziad El Zoghbi
 Head of Finance and Administration

The attached notes 1 to 55 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to equity holders of the parent						Non-controlling interests		Total				
	Common shares I.L. million	Preferred shares I.L. million	Share premium - common shares I.L. million	Share premium - preferred shares I.L. million	Non-distributable reserves I.L. million	Distributable reserves I.L. million	Treasury shares I.L. million	Retained earnings I.L. million		Revaluation reserve of real estate I.L. million	Change in fair value of financial assets at fair value through other comprehensive income I.L. million	Net results of the financial period I.L. million	Foreign currency translation reserve I.L. million
Balance at 1 January 2019	684,273	4,840	229,014	591,083	982,040	116,652	(7,105)	77,050	5,689	(15,402)	238,940	(50,603)	2,856,411
(Loss) profit for the year	-	-	-	-	-	-	-	1,830	-	(24,424)	(183,553)	(2,315)	(183,553)
Other comprehensive income (loss)	-	-	-	-	-	-	-	1,839	-	(24,424)	(238,940)	-	(238,940)
Appropriations of 2018 profits	-	-	-	-	44,525	8,346	-	186,069	-	-	-	-	(4,371)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(167,833)	-	-	-	-	(167,833)
Equity dividends paid (note 54)	-	-	-	-	-	-	-	(397)	-	(23)	-	-	(420)
Translation difference	-	-	-	-	-	-	-	-	-	-	-	-	(1,862)
Treasury shares	-	-	-	-	-	-	(1,862)	-	-	-	-	-	(1,862)
Balance at 31 December 2019	684,273	4,840	229,014	591,083	1,026,565	124,998	(8,967)	96,728	5,689	(39,909)	(183,553)	(52,918)	2,477,843

	Attributable to equity holders of the parent						Non-controlling interests		Total				
	Common shares I.L. million	Preferred shares I.L. million	Share premium - common shares I.L. million	Share premium - preferred shares I.L. million	Non-distributable reserves I.L. million	Distributable reserves I.L. million	Treasury shares I.L. million	Retained earnings I.L. million		Revaluation reserve of real estate I.L. million	Change in fair value of financial assets at fair value through other comprehensive income I.L. million	Net results of the financial period I.L. million	Foreign currency translation reserve I.L. million
Balance at 1 January 2018	684,273	4,840	229,014	591,083	924,812	116,616	(6,002)	52,282	5,689	(4,538)	248,539	(48,847)	2,790,761
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	-	-	(2,497)	-	1,564	-	-	(933)
Restated balance at 1 January 2018	684,273	4,840	229,014	591,083	924,812	116,616	(6,002)	49,785	5,689	(2,974)	248,539	(49,847)	2,789,828
Profit for the year	-	-	-	-	-	-	-	15,975	-	(12,550)	238,940	(7,261)	238,940
Other comprehensive income (loss)	-	-	-	-	-	-	-	15,975	-	(12,550)	(248,539)	-	(248,539)
Transfer to retained earnings	-	-	-	-	51,228	8,533	-	182,778	-	-	-	-	238,940
Appropriations of 2017 profits	-	-	-	-	-	-	-	(167,808)	-	-	-	-	(167,808)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(6,025)	-	-	-	6,505	(4,870)
Equity dividends paid (note 54)	-	-	-	-	-	-	-	(32)	-	62	-	-	10
Disposal of a subsidiary	-	-	-	-	-	-	(1,103)	-	-	-	-	-	(1,103)
Translation difference	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	(7,105)	77,050	5,689	(39,402)	238,940	(50,603)	2,856,411
Balance at 31 December 2018	684,273	4,840	229,014	591,083	982,040	116,652	(7,105)	77,050	5,689	(39,402)	238,940	(50,603)	2,856,411

The attached notes 1 to 55 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 LL million	2018 LL million
OPERATING ACTIVITIES			
(Loss) profit before tax from continuing operations		(146,117)	307,361
Loss before tax from discontinued operations		-	(2,172)
(Loss) profit before tax		(146,117)	304,889
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation	26 & 27	27,879	20,069
Net impairment loss on financial assets	12	422,891	14,170
Gain on disposal of property, equipment and right-of-use assets		(2,234)	(120)
Gain on disposal of non-current assets held for sale	11	(517)	(45)
Provisions for risks and charges, net		(42,575)	(17,787)
Unrealized fair value losses on financial instruments at fair value through profit or loss		397	7,044
Realized gains from financial assets		(27,918)	(17,239)
Loss on disposal of discontinued operations		-	2,472
Foreign currency translation losses on disposal of subsidiary, net		-	(4,390)
Derivative financial instruments		302	(851)
Operating profit before working capital changes		232,108	308,212
Changes in operating assets and liabilities			
Due from central banks		1,375,294	(3,740,210)
Due to central banks		(2,354,373)	2,987,821
Due from banks and financial institutions		(3,023)	(56,493)
Financial assets at fair value through profit or loss		22,829	183,237
Due to banks and financial institutions		79,776	124,456
Net loans and advances to customers and related parties		1,374,882	(22,851)
Non-current assets held for sale	28	(20,563)	(8,205)
Proceeds from sale of non-current assets held for sale		803	1,736
Other assets		16,274	(40,136)
Customers' and related parties' deposits		(1,645,249)	702,480
Other liabilities		(29,204)	(18,581)
Cash (used in) from operations		(950,446)	421,466
Provisions for risks and charges paid	35	(4,393)	(28,095)
Taxation paid	15	(54,335)	(31,828)
Net cash (used in) from operating activities		(1,009,174)	361,543
INVESTING ACTIVITIES			
Financial assets at amortised cost		172,570	396,744
Financial assets at fair value through other comprehensive income		(18,699)	(124,502)
Loans to banks and financial institutions and reverse repurchase agreements		41,824	(85,019)
Purchase of property, equipment and right-of-use assets	26	(57,897)	(30,573)
Purchase of intangible assets	27	(6,419)	(8,011)
Proceeds from sale of property, equipment and right-of-use assets		8,945	3,098
Proceeds from sale of discontinued operations	16	-	12,060
Net cash from investing activities		140,324	163,797
FINANCING ACTIVITIES			
Debt issued and other borrowed funds		(9,473)	(2,255)
Subordinated debt		3,374	3,423
Treasury shares		(1,862)	(1,103)
Dividends paid to equity holders of the parent	54	(167,833)	(167,908)
Dividends paid to non-controlling interests		(4,371)	(4,164)
Lease liability payments		(6,203)	-
Net cash used in financing activities		(186,368)	(172,007)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,055,218)	353,333
Net foreign exchange difference in respect of cash and cash equivalents		(9,802)	(7,269)
Cash and cash equivalents at 1 January		6,485,570	6,139,506
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	43	5,420,550	6,485,570
Operational cash flows from interest and dividends			
Interest paid		(2,042,065)	(1,497,607)
Interest received		2,333,662	1,958,437
Dividend received		2,768	3,323

The attached notes 1 to 55 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Byblos Bank SAL (the “Bank”), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks’ list published by the Central Bank of Lebanon. The Bank’s head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon. The Bank’s shares are listed on the Beirut Stock Exchange and London SEAQ.

The Bank, together with its subsidiaries (collectively the “Group”), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and its presence in Europe, Middle East and Africa.

1.1 Macroeconomic environment

More than 90% of the Group’s operations during 2019 were in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crises as well as deep recession that have reached unprecedented levels.

Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on 7 March 2020, the Lebanese Republic announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US Dollars denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese Government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon and significantly reduced credit lines to companies and withdrawal of cash to private depositors, all of which added to the disruption of the country’s economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses are downsizing, closing or going bankrupt and unemployment and poverty are rising fast and have reached unprecedented levels.

The difficulty in accessing foreign currencies led to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 US\$/LL. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese pound, intensely impacting the purchasing power of the Lebanese citizens, driving high inflation and rise in the consumer price index.

The economy has been contracting at an accelerating pace since the last quarter of 2019 and the coronavirus affecting Lebanon and the whole world is contributing to further deterioration of the economic environment, disruption of businesses, rise of unemployment, and rise in poverty lines.

On 30 April 2020, the council of ministers approved the Lebanese Government’s Financial Recovery Plan (the Plan). The Plan relies on nine central and interrelated pillars, namely reviewing the peg policy; a comprehensive government debt restructuring; a comprehensive restructuring of the financial system addressing accumulated foreign exchange mismatches, embedded losses and resizing the banking sector (see below); a strong phased fiscal adjustment, focused on improving tax compliance, streamlining expenditure and reforming the public sector; growth-enhancing reforms promoting a productive economy and enhancing the competitiveness of the Lebanese economy; a social sector reform; ambitious anti-corruption strategy; environmental reform; and international financial assistance to close the large external financing gap and finance the development of the infrastructures that are necessary to support the growth of the economy.

On 1 May 2020 the Lebanese Prime Minister and the Lebanese Finance Minister signed a request for aid from the International Monetary Fund. The Government believes the Plan conveys good faith for negotiations with the International Monetary Fund. Lebanon began detailed discussions with the IMF on 1 May 2020. Multilateral intervention is expected to catalyze additional external support and unlock US\$ 11 billion in pledges from international donors made in 2018 in the “Conference Economique pour le Developpement par les Reformes et avec les Entreprises” (CEDRE) as well as other external financial support to cover the net external financial needs for a gradual economic recovery and successful restructuring of the Government’s foreign currency debt.

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

Restructuring of the banking sector:

As per the Plan, the preliminary global estimation of losses will result from the restructuring of the Central Bank of Lebanon and impairment of assets held at the Central Bank of Lebanon; the impact of the economic crisis and the impairment of the banks' loans portfolio; and the government debt restructuring and impairment of the government securities portfolio.

An Asset Quality Review will be conducted by an international institution to assess the impairment losses on the private loans portfolio of the banking sector. The impact of losses and the recapitalization needs will be determined on a bank by bank basis when a more granular plan is drawn, and further measures related to bank deposits will be determined. On a bank by bank basis, the Plan stipulates that large depositors could be offered voluntarily (for part of their deposits):

- Conversion into their bank's capital. New legal provisions will be needed
- Conversion into tradable equity stakes in a newly established special Recovery Fund that will receive the proceeds of the ill-gotten assets tracking and recovery program
- Conversion into long dated, subordinated bank obligation with no or limited interest

Banks will be asked to propose to the authorities and relevant supervisory bodies business plans and restructuring / recapitalization plans including mergers with or acquisitions by other domestic and foreign banks to address their structural funding issues and generate synergies. The new capital base will be rebuilt via capital raising in the market and a conversion of some deposits into shares. Fresh liquidity will be provided to the reorganized banking sector.

Conducting a full restructuring of the banking sector will require new legal powers for the government and the relevant supervisory bodies.

1.2 Regulatory environment

Throughout this period and up to the date of the approval of these consolidated financial statements, the Central Bank of Lebanon has issued several circulars to address the situations, mainly:

- Intermediary Circular 532 issued on 4 November 2019 requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and increase the regulatory capital by 20% of the Common Equity Tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020.
- Intermediary Circular 534 issued on 19 November 2019 extending the deadline for reaching the 25% ratio of "net loans granted in LL / net deposits in LL" from 31 December 2019 to 31 December 2020. Banks that expect to be unable to reach said ratio within the set time limit may refer to the Central Bank of Lebanon Central Council before 31 December 2020.
- Intermediary Circular 536 issued on 4 December 2019 stating that the Central Bank of Lebanon will settle the interest on the banks' term deposits and certificates of deposits in US Dollars 50% in US Dollars and 50% in LL. As for the deposits received or renewed after 4 December 2019, banks have to comply with the following interest rates:
 - 5 % for deposits in foreign currencies; and
 - 8.5 % for deposits in LL

As for the deposits received before the mentioned date, which conditions are maintained, banks have to pay interests divided as follows: 50 % in the account's currency and 50 % in LL. This decision is applicable until 4 June 2020 (6 months from the circular's issuing date).

- Intermediary Circular 542 issued on 3 February 2020 requiring that the ratios of expected credit losses for the years 2019 and 2020 on LL and foreign currency-denominated investment portfolio at the Central Bank of Lebanon, including certificates of deposits and investments in Lebanese treasury bills denominated in LL and foreign currency, not to exceed the regulatory expected credit losses ratios calculated as per the Central Bank of Lebanon Basic Circular no. 44 related to the "Capital Adequacy Ratio".

1 CORPORATE INFORMATION (continued)**1.2 Regulatory environment (continued)**

- Intermediary Circular 543 issued on 3 February 2020, increasing the regulatory expected credit losses on foreign currency exposures to Lebanese Sovereign and Central Bank of Lebanon and exposures to resident corporates, retail and SMEs. The circular increased risk weights to be applied on exposures to the Central Bank of Lebanon in foreign currencies and lowered the minimum required capital adequacy ratios. The circular also imposed maximum expected credit losses on exposures to Lebanese Sovereign and Central Bank of Lebanon to be recorded in the banks' financial statements as per the table below:

<i>Type of financial instrument</i>	<i>Maximum loss rate</i>
Exposures to Central Bank of Lebanon in foreign currencies	Up to 1.89 %
Exposures to Central Bank of Lebanon in Lebanese Pounds	0 %
Lebanese government securities in foreign currencies	Up to 9.45 %
Lebanese government securities in Lebanese Pounds	0 %

- Intermediary Circular 544 issued on 13 February 2020 requiring banks to abide with the maximum ceilings of interest rates on new or renewed deposits, as follows:
 - deposits in foreign currencies: 2% for 1-month deposits, 3% for 6 months deposits and 4% on deposits for a year and above
 - deposits in LL: 5.5% on deposits for one month, 6.5 % for 6 months and 7.5% on deposits for one year and above.

Banks are required to calculate the BRR based on the above creditor interest rates. This decision is applicable until 13 August 2020 (6 months from the circular's issuing date).

- Basic Circular 148 issued on 3 April 2020 requesting banks to allow clients with small accounts to withdraw cash paid in LL by first calculating the equivalent of the account balance in US Dollars at the official exchange rate, then paying an amount of cash in LL equal to the counter value of the calculated amount as per the market exchange rate. US Dollars amounts resulting of these operations should be sold to the Central Bank of Lebanon as per the market exchange rate.
- Basic Circular 149 issued on 3 April 2020 announcing the creation of a special unit at the Central Bank of Lebanon to conduct foreign exchange operations as per the market rate. Money dealers (of "type A") may adhere to this unit, upon Central Bank of Lebanon's discretion. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for foreign exchange operations. Abrogating the article 18 which was introduced by Intermediary Circular 546 to basic circular no. 3 related to Money Dealers.
- Basic Circular 151 issued on 21 April 2020 concerning the clients that are not tackled in Basic Circular 148 who wish to withdraw amounts of cash from their foreign currencies accounts, banks should settle, with the client's consent, the equivalent of those amounts in LL as per the market exchange rate. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars. Banks should disclose daily their adopted market exchange rate.
- Intermediary Circular 552 issued on 22 April 2020 requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for the clients who are not able to pay their dues, due to current economic situation as assessed by the Group. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group

As indicated in Note 2.5, assets and liabilities in foreign currency as of 31 December 2019 were valued at the official exchange rate of 1,507.5 US\$ / LL. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official exchange rate: parallel exchange markets with high volatility, recently issued Central Bank of Lebanon circulars, estimation exchange rates detailed in the Plan, in addition to a wide range of exchange rates adopted for commercial transactions currently undertaken in the Lebanese territory. These consolidated financial statements do not include adjustments from any future change in the official exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognized in these consolidated financial statements once the revamping of the peg is implemented by the Lebanese Government. Foreign exchange currency mismatch is detailed in Note 49.4 to these consolidated financial statements.

Loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortized cost are recorded in these consolidated financial statements based on the guidelines issued on 4 February 2020 by the Central Bank of Lebanon in its intermediary circular 543 (refer to above). Accordingly, these consolidated financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit losses model. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the Government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognized loss allowances, as well as their staging are detailed in Note 49.2 to these consolidated financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. Management is undergoing massive deleveraging by reducing these assets' size and has set up a centralized and specialized remedial function to proactively review and manage the quality of these assets. Loss allowances on the portfolio of these private loans have been estimated and recorded based on the best available information at the reporting date, about past events, current conditions and forecasts of economic conditions combined with expert judgements. The exercise being carried out by the management is expected to reveal additional embedded losses in its private loans portfolios. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the results of the exercise undertaken by the management are measurable and determinable. Maximum exposures to the credit risk of Group's portfolio of private loans and the recognized loss allowances, as well as their staging are detailed in Note 49.2 to these consolidated financial statements.

Management has significant concerns about the effects that the above matters will have on the equity of the Group and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.

In line with the comments issued by the Association of Banks in Lebanon on 1 May 2020, management has determined the following uncertainties in relation to the assumptions of the Plan which might have an impact on the figures and estimations provided therein:

- Ability to successfully secure sufficient external financing (from the IMF, from CEDRE and from other international donors unspecified in the Plan)
- Ability to revamp the peg at the detailed estimated rates
- Parameters of the restructuring of the Central Bank of Lebanon and restructuring of the government debt in foreign currencies
- Ability of issuing new laws with the constraints in the legal framework and the Lebanese constitution
- Finalization of the Asset Quality Review and determination of losses and recapitalization needs of the banks
- Ability to claw back sums which have unlawfully escaped the country
- Ability to claw back dividend and /or interest distributed over the last years

Besides, on 20 May 2020, the Association of Banks in Lebanon submitted an alternative approach in response to the present economic crisis that Lebanon, and particularly the banking sector, is experiencing. It rests on addressing the external financing needs, while avoiding an internal debt default; and the launch of long-overdue structural reforms to promote sustainable and inclusive growth as the result of economic diversification.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)

Until the above uncertainties are resolved and a plan is implemented, the Group will continue its operations as performed since 17 October 2019 and in accordance with the applicable laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Group to litigations that are dealt with on a case by case basis when they occur. Meanwhile, the Group is exerting extended efforts to review the quality of its private loans portfolio and deleveraging it as appropriate, to reduce its commitments and contingencies to correspondent banks outside Lebanon and to secure its liquidity needs through mainly borrowing from the Central Bank of Lebanon at the available rates.

Once the above uncertainties are resolved, a pro-forma consolidated statement of financial position of the Group will be prepared which will include the effects of the revaluation of the assets and liabilities in foreign currencies, the effects of the restructuring of the government debt securities, the effects of the restructuring of the Central Bank of Lebanon, and the effects on its private loan portfolio.

As disclosed in Note 53 to these consolidated financial statements, the Group's capital adequacy ratio as at 31 December 2019 was calculated based on the recorded figures and does not take into consideration the adjustments that will result from the resolution of the uncertainties reflected above. The Group did not comply with Central Bank of Lebanon Intermediary Circular 532 towards increasing its regulatory capital by 10% by 31 December 2019. In addition, the Group did not comply with Central Bank of Lebanon Intermediary Circular 534 towards maintaining the minimum capital adequacy ratio levels as at 31 December 2019. The management is currently assessing and developing restructuring and recapitalization plans based on the various available scenarios. However, a reasonable and credible plan can only be achieved once the above uncertainties are resolved and the amount of recapitalization needs is accurately determinable.

The General Assembly of the Association of Noteholders held on 19 June 2020 of Notes due on 2021 and issued by the Group during 2011 resolved, with majority of the votes, to modify the terms and conditions of the Notes as set out in the Trust Deed and in the summary of terms and conditions signed by the initial subscribers for the purposes of providing early redemption of the Notes in June 2020 and to modify the payment terms. Accordingly, the Group settled the outstanding balance of these Notes on 29 June 2020 (Note 33).

On 17 June 2020, in light of the developments in the Lebanese Republic, the Group announced that it will not make the interest payments on the subordinated debt which is due on 30 June 2020 (Note 36).

The Bank's Board of Directors meeting dated 17 June 2020 resolved to apply for the cancellation of the listing of its GDR shares from the official list of the UK Financial Conduct Authority and the cancellation of the admission to trading of its GDR shares from the London Stock Exchange with effect from 30 July 2020 (Note 37).

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

Statement of compliance

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

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Presentation of financial statements

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expenses will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group. The effects of netting arrangements are disclosed in Notes 18 and 30.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Byblos Bank SAL and its subsidiaries as at 31 December 2019. Details of the principal subsidiaries are disclosed in Note 3.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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

Where the Group loses control of a subsidiary but retains an interest in it, then such interest is measured at fair value at the date that control is lost with the change in carrying amount recognised in profit or loss. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. As such, amounts previously recognised in other comprehensive income are transferred to the consolidated income statement.

Non-controlling interests

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interests in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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

2.3 New and Amended Standards and Interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The nature and the impact of each amendment is described below:

IFRS 16 Leases

Effective from 1 January 2019, the Group adopted *IFRS 16 Leases*, which supersedes *IAS 17 Leases*, *IFRIC 4 Determining whether an Arrangement contains a Lease*, *SIC-15 Operating Leases-Incentives* and *SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on the consolidated statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has lease contracts for various branches and other assets. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 2.5 for the accounting policy prior to 1 January 2019.

2 ACCOUNTING POLICIES (continued)**2.3 New and Amended Standards and Interpretations (continued)*****IFRS 16 Leases (continued)***

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Refer to Note 2.5 for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	<i>31 December 2018</i> <i>LL million</i>	<i>Impact of IFRS 16</i> <i>LL million</i>	<i>1 January 2019</i> <i>LL million</i>
Property, equipment and right-of-use assets	-	31,227	31,227
Other assets	-	(6,424)	(6,424)
Other liabilities	-	(24,803)	(24,803)
Effect on net assets and liabilities	-	-	-
Net impact on equity		-	

Based on the above, as at 1 January 2019, the adoption of IFRS 16 resulted in LL 24,803 million increase in total assets and LL 24,803 million increase in total liabilities. There was no impact on the Group's equity from the adoption of IFRS 16.

2 ACCOUNTING POLICIES (continued)**2.3 New and Amended Standards and Interpretations (continued)*****IFRS 16 Leases (continued)***

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<i>LL million</i>
Total undiscounted operating lease commitments as at 31 December 2018	42,510
Less: Commitments relating to short-term leases and leases of low-value assets	(3,969)
	<u>38,541</u>
Effect of discounting using incremental borrowing rates as at 1 January 2019 (5.00%-5.23%)	(8,860)
Lease liabilities as at 1 January 2019	<u>29,681</u>

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments do not have any significant impact on the Group's consolidated financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The IASB issued amendments to the guidance in IAS 19, Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. These amendments do not have any significant impact on the Group's consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. This interpretation does not have any significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Effective 1 January 2019, the Group adopted Annual Improvements to IFRS Standards 2015–2017 Cycle, which resulted in amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes, and IAS 23, Borrowing Costs. These improvements do not have any impact on the Group's consolidated financial statements.

2 ACCOUNTING POLICIES (continued)

2.4 Standards Issued but not Yet Effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements. The most significant of these new standards, amendments and interpretations are as follows:

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to *IAS 1 Presentation of Financial Statements* and *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

On 26 September 2019, the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7' (the "amendments"). This concludes phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an "RFR").

The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. These amendments do not have any significant impact on the Group's consolidated financial statements.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies

Business Combinations and Goodwill

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

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured until it is finally settled within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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

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

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

Foreign currencies

The consolidated financial statements are presented in Lebanese Lira (LL) which is also the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the step-by-step method of consolidation.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Foreign currencies (continued)****(i) Transactions and Balances**

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain on financial assets at fair value through profit or loss" in the consolidated income statement, except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

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

(ii) Group companies

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the monthly average exchange rates for the year. Exchange differences arising on translation are recognised in OCI. On disposal of a foreign entity, the deferred cumulative amount recognised in OCI relating to that particular foreign operation is reclassified to the consolidated income statement.

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

The table below presents the exchange rates of the currencies used to translate assets, liabilities and income statement items of foreign branches and subsidiaries:

	2019		2018	
	Year-end rate LL	Average rate LL	Year-end rate LL	Average rate LL
US Dollar	1,507.5	1507.5	1,507.5	1,507.5
Euro	1,686.89	1,687.43	1,724.73	1,778.82
Armenian Dram	3.20	3.14	3.12	3.12
Iraqi Dinar	1.27	1.27	1.27	1.27
Syrian Pound	3.46	3.46	3.46	3.46

Financial Instruments -- Initial recognition**(i) Date of recognition**

All financial assets and liabilities are initially recognised on the settlement date. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments

Financial instruments are initially measured at their fair value, plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. In the case of a financial instrument measured at fair value, with the change in fair value being recognised in profit or loss, the transaction costs are recognised as revenue or expense when the instrument is initially recognised.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial Instruments – Initial recognition (continued)

(ii) Initial measurement of financial instruments (continued)

When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

(iii) Day 1 Profit or Loss

When the transaction price differs from the fair value at origination and the fair value is based on a valuation technique using only observable inputs in market transactions, the Group immediately recognises the difference between the transaction price and fair value (a “Day 1” profit or loss) in the consolidated income statement. In cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Financial Assets – Classification and Measurement

On initial recognition, financial assets are classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of two criteria:

- (i) The business model within which financial assets are measured; and
- (ii) Their contractual cash flow characteristics (whether the cash flows represent “solely payments of principal and interest” (SPPI)).

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

All other financial assets are classified as measured at fair value through profit or loss.

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

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

Business Model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

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

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

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenarios into account.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial Assets – Classification and Measurement (continued)

Business Model (continued)

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the Group needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the Group's business model for managing those financial assets changes, the Group is required to reclassify financial assets.

The SPPI Test

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

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

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

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

Financial Assets at Amortised Cost

Balances with Central Banks, Due from Banks and Financial Institutions, Loans to Banks and Financial Institutions and Reverse Repurchase Agreements, Loans and Advances to Customers and Related Parties at Amortised Cost, and Financial Assets at Amortised Cost.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortised cost using the EIR, less expected credit losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Net impairment loss on financial assets". Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under "Net gain (loss) on derecognition of financial assets at amortised cost" in the consolidated income statement.

Financial Assets at Fair Value through Other Comprehensive Income

Debt Instruments at Fair Value through Other Comprehensive Income

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Equity Instruments at Fair Value through Other Comprehensive Income

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Financial Assets – Classification and Measurement (continued)

Financial Assets at Fair Value through Other Comprehensive Income (continued)

Equity Instruments at Fair Value through Other Comprehensive Income (continued)

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

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

Financial Assets at Fair Value through Profit or Loss

Included in this category are those debt instruments that do not meet the conditions in “*Financial assets at amortised cost*” and “*Financial assets at fair value through other comprehensive income*” above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Debt Instruments at Fair Value through Profit or Loss

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

Equity Instruments at Fair Value through Profit or Loss

Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income. These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under “Net gain on financial assets at fair value through profit or loss” in the consolidated income statement. Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under “Net gain from financial assets at fair value through profit or loss” in the consolidated income statement.

Financial Liabilities (other than financial guarantees, letters of credit and loan commitments) – Classification and Measurement

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

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

- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Contingent consideration recognised in a business combination in accordance with IFRS 3.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial Liabilities (other than financial guarantees, letters of credit and loan commitments) – Classification and Measurement (continued)

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

- Doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group’s Key Management Personnel; or
- A group of financial liabilities contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivatives is prohibited.

Financial liabilities at fair value through profit and loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at fair value through profit and loss due to changes in the Group’s own credit risk. Such changes in fair value are recognised in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk do not get recycled to the consolidated income statement.

Interest incurred on financial liabilities designated at fair value through profit or loss is accrued in interest expense using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument.

Debt Issued and Other Borrowed Funds

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

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

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

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

After initial measurement, due to central banks, banks and financial institutions, bonds under repurchase agreements, customers’ and related parties’ deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derivatives Recorded at Fair Value through Profit or Loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (aka the “underlying”).
- b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c) It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include currency swaps and forward foreign exchange contracts.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognised in “Net gain on financial assets at fair value through profit or loss” in the consolidated income statement, unless hedge accounting is applied, which is discussed in under “hedge accounting policy” below.

Embedded Derivatives

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

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

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

Financial Guarantees, Letters of Credit and Undrawn Loan Commitments

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and an expected credit losses ECL provision. The premium received is recognised in the income statement in “Net fees and commission income” on a straight line basis over the life of the guarantee.

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Reclassification of Financial Assets

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

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

(i) Derecognition due to substantial modification of terms and conditions

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

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

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

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

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

(ii) Derecognition other than for substantial modification

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of Financial Assets and Financial Liabilities (continued)

Financial Assets (continued)

(ii) Derecognition other than for substantial modification (continued)

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

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

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

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

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group’s continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

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

Financial Liabilities

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Derecognition of Financial Assets and Financial Liabilities (continued)*****Financial Liabilities (continued)***

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

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding consideration received (cash collateral provided) is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group properly discloses this fact in the notes.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid (cash collateral provided), including accrued interest is recorded in the consolidated statement of financial position within "Loans to banks and financial institutions and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "Net gain on financial instruments at fair value through profit or loss" in the consolidated income statement.

Impairment of Financial Assets**(i) Overview of the ECL Principles**

The Group records allowance for expected credit losses for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under IFRS 9.

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

(ii) Measurement of ECLs

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Group expects to recover.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Impairment of Financial Assets (continued)

(ii) Measurement of ECLs (continued)

They key inputs into the measurements of ECL are:

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

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

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

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

(iii) Forborne and modified loans

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

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

- At least a 12-month probation period has passed,
- Three consecutive payments under the new repayment schedule have been made,
- The borrower has no past dues under any obligation to the Group,
- All the terms and conditions agreed to as part of the restructuring have been met.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Impairment of Financial Assets (continued)

(iv) Credit-impaired financial assets

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

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

(v) Write Offs

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "Net impairment loss on financial assets".

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

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

(vii) Collateral repossessed

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

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

Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, namely land and building and building improvements, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in the notes.

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Fair value measurement (continued)

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

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

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

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

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

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

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

Hedge accounting

In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. The Group makes use of derivative instruments to manage exposures to foreign currency risk and interest rate fluctuations. The process starts with identifying the hedging instrument and hedged item and preparing hedge documentation detailing the risk management strategy and objective.

Setting the Risk Management Strategy and Objectives

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

The risk management strategy is established at the level of Executive Management and identifies the risks to which the Group is exposed and whether and how the risk management activities should address those risks. The strategy is typically maintained for a relatively long period of time. However, it may include some flexibility to react to changes in circumstances. The risk management strategy is set out in general documentation and is cascaded down through policies containing more specific guidelines.

The Group sets risk management objectives at the level of individual hedging relationships and defines how a particular hedging instrument is designated to hedge a particular hedged item. As such, a risk management strategy would usually be supported by many risk management objectives.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Hedge accounting (continued)***Qualifying Hedging Relationships*

The Group applies hedge accounting for qualifying hedging relationships. A hedging relationship qualifies for hedge accounting only if: (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items; (b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and (c) the hedging relationship meets all of the hedge effectiveness requirements.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis in order to qualify for hedge accounting. The effectiveness test can be performed qualitatively or quantitatively. 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 semi-annually on an ongoing basis. A hedge is expected to be highly effective if:

- 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 entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Hedge ineffectiveness is recognised in the consolidated income statement in "Net gain on financial assets at fair value through profit or loss".

When the Group separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option, it shall account for the time value of the option as follows:

- (a) An entity shall distinguish the time value of options by the type of hedged item that the option hedges:
 - (i) A transaction related hedged item; or
 - (ii) A time-period related hedged item.
- (b) The change in fair value of the time value shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The cumulative change in fair value shall be accounted for as follows:
 - (i) If the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for a non-financial asset or a non-financial liability for which fair value hedge accounting is applied, the entity shall remove the amount from the separate component of equity and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence does not affect other comprehensive income;
 - (ii) For hedging relationships other than those covered by (i), the amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss;
 - (iii) However, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered shall be immediately reclassified into profit or loss as a reclassification adjustment.
- (c) The change in fair value of the time value of an option that hedges a time-period related hedged item shall be amortised on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss (or other comprehensive income, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income). However, if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount (i.e. including cumulative amortisation) that has been accumulated in the separate component of equity shall be immediately reclassified into profit or loss as a reclassification adjustment (see IAS 1).

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Hedge accounting (continued)**

When the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract, or when an entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial instrument as the hedging instrument, the entity may account for the forward element of the forward contract or for the foreign currency basis spread in the same manner as for the time value of an option.

(i) Fair Value Hedges

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognised in the consolidated income statement under "Net gain on financial assets at fair value through profit or loss". Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised in the consolidated income statement also under "Net gain on financial assets at fair value through profit or loss".

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

For fair value hedge relationships where the hedged item is not measured at amortised cost, such as debt instruments at fair value through other comprehensive income, changes in fair value that were recorded in the consolidated income statement whilst hedge accounting was in place are amortised in a similar way to amortised cost instruments using the EIR method. However, as these instruments are measured at their fair values in the consolidated statement of financial position, the fair value hedge adjustments are transferred from the consolidated income statement to other comprehensive income.

(ii) Cash Flow Hedges

For qualifying cash flow hedge, a separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

- a) The cumulative gain or loss on the hedging instrument from inception of the hedge; and
- b) The cumulative change in fair value (present value) of the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (the portion that is offset by the change in the cash flow hedge reserve described above) shall be recognised in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognised in the consolidated income statement. The amount that has been accumulated in the cash flow hedge reserve and associated with the hedged item is treated as follows:

- a) If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.
- b) For cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

(ii) Cash Flow Hedges (continued)

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(iii) Hedge of Net Investments

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal or partial disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in the foreign currency translation reserve is transferred to the consolidated income statement as a reclassification adjustment.

Leases (Policy applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a Lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within "Property, equipment and right-of-use assets" on the consolidated financial statements and are subject to impairment in line with the Group's policy as described under Impairment of non-financial assets.

Depreciation charge for right-of-use assets presented within "Depreciation of property, equipment and right-of-use assets" on the consolidated financial statements.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Leases (Policy applicable from 1 January 2019) (continued)

(ii) Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are included under "Other liabilities". Moreover, the interest charge on lease liabilities is presented within "Interest and similar expenses" from financial instruments measured at amortized cost in consolidated financial statements.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Other rental expenses (including non-lease components paid to landlords) presented within other operating expenses.

Group as a Lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases (Policy applicable before 1 January 2019)

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

Group as a Lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Contingent rental payables are recognised as an expense in the period in which they are incurred.

Group as a Lessor

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

Revenue Recognition

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Revenue Recognition (continued)

(i) Interest and similar income and expense

The effective interest rate

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

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

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

Interest income and interest expense

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

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

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

Presentation

Interest income calculated using the effective interest method presented in the consolidated income statement includes:

- interest on financial assets at amortised cost; and
- interest on debt instruments measured at fair value through other comprehensive income.

Interest expense presented in the consolidated income statement includes financial liabilities measured at amortised cost.

Interest income and expense on financial instruments measured at fair value through profit or loss are presented under "Net gain on financial assets at fair value through profit or loss" in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Revenue Recognition (continued)

(ii) Fee and commission income

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

Fee Income Earned from Services That Are Provided over a Certain Period of Time

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

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

Fee Income from Providing Transaction Services

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income

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

(iv) Net gain from financial instruments at fair value through profit or loss

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

(v) Insurance revenue

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorate temporise method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

Cash and cash equivalents

"Cash and cash equivalents" as referred to in the cash flow statement comprises balances with original maturities of a period of three months or less including cash and balances with central banks, deposits with banks and financial institutions, deposits due to banks and financial institutions, and repurchase and reverse repurchased agreements.

Property and equipment

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Property and equipment (continued)**

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

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

Buildings	50 years
Office equipment and furniture	6.66 – 12.5 years
Computer equipment and software	3.33 – 5 years
General installations	5 years
Vehicles	4 years

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

The assets’ residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. The Group’s intangible assets include the value of software development and key money.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

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

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

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

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

• Software development	5 years
• Key money	10-15 years

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Non-current assets held for sale and discontinued operations

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

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and: a) represents a separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively with a view to resale.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the loss of control. The resulting profit or loss (after taxes) is reported separately in the income statement.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions for risks and charges

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Group determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

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

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

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents.

Pensions and other post-employment benefits

The Group provides retirement benefits obligation to its employees under defined benefit plans, which requires contributions to be made to separately administered funds. The cost of providing these benefits is determined using the projected unit credit method which involves making actuarial assumptions about discount rates and future salary increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Personnel expenses" in consolidated statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes

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

(i) Current Tax

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

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

(ii) Deferred Tax

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

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

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

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

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

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

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

Current tax and deferred tax relating to items recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the consolidated income statement.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

(ii) Deferred tax (continued)

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised 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 recognised in profit or loss.

Dividends on Common Shares

Dividends on common shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares

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

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

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

Assets under management and assets held in custody and under administration

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

Customers' acceptances

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

Segment reporting

The Group's segmental reporting is based on the following operating segments: corporate and commercial banking, retail and personal banking, treasury and capital markets and group functions and head office.

2.6 Significant accounting judgements and estimates

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

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

Judgements

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

Business model

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

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

Contractual cash flows of financial assets

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

Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Going concern

Notwithstanding the events and conditions disclosed in Note 1, these consolidated financial statements have been prepared based on the going concern assumption. The Board of Directors believes that they are taking all the measures available to maintain the viability of the Group and continue its operations in the current business and economic environment.

Determining the lease term of contracts with renewal and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of head office and branches due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on the Group's operations if a replacement is not readily available. The renewal options for leases of motor vehicles (or other assets) were not included as part of the lease term because the Group has a policy of leasing motor vehicles (or other assets) for not more than five years and, hence, not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

2 ACCOUNTING POLICIES (continued)**2.6 Significant accounting judgements and estimates (continued)****Estimates and assumptions**

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, estimation is required to establish fair values. The judgments and estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty) funding value adjustments, correlation and volatility.

Impairment Losses on Financial Instruments

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating model;
- The Group's criteria for assessing if there has been a significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs and their impact on ECL calculation; and
- Selection of forward-looking macroeconomic scenarios and their probability of occurrence, to derive the ECL models

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

Impairment of Non-financial Assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Pensions Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

3 GROUP INFORMATION

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

<i>Subsidiary</i>	<i>Percentage of ownership</i>		<i>Principal activity</i>	<i>Country of incorporation</i>
	<i>2019</i>	<i>2018</i>		
	<i>%</i>	<i>%</i>		
Byblos Bank Europe SA	99.95	99.95	Commercial Banking	Belgium
Adonis Insurance and Reinsurance Co. (ADIR) SAL	63.95	63.95	Insurance	Lebanon
Adonis Brokerage House SAL	100.00	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	99.99	99.99	Investment banking	Lebanon
Byblos Bank Armenia CJSC	100.00	100.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	76.00	76.00	Insurance	Syria

4 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of the subsidiary that has material non-controlling interests are provided below:

Proportion of equity interests held by non-controlling interests:

<i>Name</i>	<i>2019</i>	<i>2018</i>
	<i>%</i>	<i>%</i>
Adonis Insurance and Reinsurance Co. (ADIR) SAL	36.05	36.05

The summarized financial information of this subsidiary are provided below. This information is based on amounts before inter-company eliminations:

Summarized income statement for the year ended 31 December:

	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i>	
	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Net interest income	16,519	14,133
Net fee and commission income	5,646	5,031
Net loss from financial assets at fair value through profit or loss	(1,087)	(59)
Other operating income	21,322	19,404
Net impairment loss on financial assets	(25,468)	-
Total operating expenses	(14,691)	(12,972)
Income tax expense	(1,486)	(1,540)
Profit for the year	755	23,997
Attributable to non-controlling interests	272	8,651
Dividends paid to non-controlling interests	4,371	4,086

4 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)**Summarized statement of financial position as at 31 December:**

	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i>	
	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Cash and balances with central banks	1,015	39
Due from banks and financial institutions	23,143	29,569
Balances with Parent and Group entities	214,791	206,575
Financial assets at fair value through profit or loss	31,233	26,940
Net loans and advances at amortised cost	7,752	6,921
Financial assets at amortised cost	154,137	183,787
Financial assets at fair value through other comprehensive income	6,485	14,380
Property, equipment and right-of-use assets	22,021	2,067
Other assets	67,452	83,946
Deposits at amortised cost	(306,749)	(297,222)
Other liabilities	(22,476)	(20,845)
Provisions for risks and charges	(114,643)	(135,807)
Total equity	84,161	100,350
Attributable to non-controlling interests	30,340	36,176

Summarized cash flow information for the year ended 31 December:

	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i>	
	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Operating	27,972	29,828
Investing	(3,983)	16,751
Financing	(10,036)	(7,203)
Net increase in cash and cash equivalents	13,953	39,376

5 SEGMENT INFORMATION

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segments are evaluated based on information relating to net operating income and financial position. Income taxes and operating expenses are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since Management monitors net interest income as a performance measure and not the gross income and expense amounts. Net interest income is allocated to the business segment based on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The assets and liabilities that are reported in the segments are net from inter-segments' assets and liabilities since they constitute the basis of management's measures of the segments' assets and liabilities and the basis of the allocation of resources between segments.

5 SEGMENT INFORMATION (continued)**A) Business Segments**

The Group operates in four main business segments which are Corporate and Commercial Banking, Retail and Personal Banking, Treasury and Capital Markets, and Group Functions and Head Office.

Corporate and Commercial Banking	Provides diverse products and services to corporate and commercial customers including loans, deposits, trade finance, exchange of foreign currencies, as well as all regular corporate and commercial banking activities.
Retail and Personal Banking	Provides individual customers' deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular retail and private banking activities.
Treasury and Capital Markets	Provides Treasury services including transactions in money and capital markets for the Group's customers, manages investment and trading transactions (locally and internationally), and manages liquidity and market risks. This segment also offers investment banking and brokerage services, and manages the Group's own portfolio of stocks, bonds, and other financial instruments.
Group Functions and Head Office	Consists of capital and strategic investments, exceptional profits and losses, as well as operating results of subsidiaries which offer non-banking services.

The following tables present net operating income information and financial position information in respect of the Group's reportable segments.

i) Net Operating Income Information

	2019				<i>Total LL million</i>
	<i>Corporate and Commercial Banking LL million</i>	<i>Retail and Personal Banking LL million</i>	<i>Treasury and Capital Markets LL million</i>	<i>Group Functions and Head Office LL million</i>	
Net interest income (expense)	159,005	264,724	(62,204)	-	361,525
Net fee and commission income	61,393	70,018	2,812	9,821	144,044
Net gain from financial assets at fair value through profit or loss	-	-	17,620	-	17,620
Net gain from derecognition of financial assets at amortised cost	-	-	11,631	-	11,631
Non-interest revenues from financial assets at fair value through other comprehensive income	-	-	2,634	-	2,634
Other operating income	-	-	-	79,700	79,700
Net impairment loss on financial assets	(48,879)	(40,803)	(333,209)	-	(422,891)
Net operating income	171,519	293,939	(360,716)	89,521	194,263

31 December 2019

5 SEGMENT INFORMATION (continued)

A) Business Segments (continued)

i) Net Operating Income Information (continued)

	2018				Total LL million
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	
Net interest income	130,279	224,231	138,442	1,794	494,746
Net fee and commission income	63,593	68,987	4,643	7,840	145,063
Net gain from financial assets at fair value through profit or loss	-	-	16,451	-	16,451
Net loss from derecognition of financial assets at amortised cost	-	-	(3,119)	-	(3,119)
Non-interest revenues from financial assets at fair value through other comprehensive income	-	-	5,569	-	5,569
Other operating income	-	-	-	42,539	42,539
Net impairment (loss) gain on financial assets	(27,192)	(6,648)	19,670	-	(14,170)
Net operating income	166,680	286,570	181,656	52,173	687,079

ii) Financial position information

	2019				Total LL million
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	
Total assets	4,292,361	2,600,881	25,593,419	554,134	33,040,795
Total liabilities	1,229,012	24,965,053	3,640,716	695,226	30,530,007

	2018				Total LL million
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	
Total assets	5,567,040	2,998,211	28,649,601	482,976	37,697,828
Total liabilities	1,413,633	26,425,680	6,016,115	947,291	34,802,719

5 SEGMENT INFORMATION (continued)**A) Business Segments (continued)****ii) Financial position information (continued)**

Interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign amounted to L.L. 1,629,387 million (2018: L.L. 1,353,323 million) arising from time deposits with the Central Bank of Lebanon and financial instruments held by the Group. The breakdown of interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign is as follows:

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Interest and similar income		
Central Bank of Lebanon	1,324,454	1,032,873
Lebanese sovereign	304,933	320,450
	<u>1,629,387</u>	<u>1,353,323</u>

B) Geographical Segments

The Group operates in three geographical segments, Lebanon, Europe and other countries and as such, is subject to different risks and returns. The following tables show the distribution of the Groups' net external operating income, assets and liabilities allocated based on the location of the subsidiaries reporting the results or advancing the funds. Transactions between segments are carried at market prices and within pure trading conditions.

	<i>2019</i>			
	<i>Lebanon</i> <i>LL million</i>	<i>Europe</i> <i>LL million</i>	<i>Other</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Total operating income	522,696	63,399	31,059	617,154
Net impairment loss on financial assets	(413,856)	(6,447)	(2,588)	(422,891)
Net operating income¹	<u>108,840</u>	<u>56,952</u>	<u>28,471</u>	<u>194,263</u>
Non-current assets²	<u>358,007</u>	<u>30,747</u>	<u>39,774</u>	<u>428,528</u>
	<i>2018</i>			
	<i>Lebanon</i> <i>LL million</i>	<i>Europe</i> <i>LL million</i>	<i>Other</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Total operating income	612,691	61,267	27,291	701,249
Net impairment loss on financial assets	(6,998)	(2,617)	(4,555)	(14,170)
Net operating income¹	<u>605,693</u>	<u>58,650</u>	<u>22,736</u>	<u>687,079</u>
Non-current assets²	<u>299,355</u>	<u>10,281</u>	<u>31,459</u>	<u>341,095</u>

¹ Net operating income is attributed to the geographical segment on the basis of the location of the branch / subsidiary responsible for reporting the results or advancing the funds.

² Non-current assets consist of property, equipment and right-of-use assets, intangible assets, and certain other assets (other than financial instruments and deferred taxes) expected to be recovered in more than twelve months after the reporting date.

6 INTEREST AND SIMILAR INCOME

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
<i>Interest and similar income</i>		
Balances with central banks	1,227,574	885,533
Due from banks and financial institutions	101,184	73,198
Loans to banks and financial institutions and reverse repurchase agreements	12,250	22,813
Loans and advances to customers at amortised cost	648,544	587,603
Loans and advances to related parties at amortised cost (note 44)	1,596	1,543
Financial assets at amortised cost	520,828	542,882
Debt instruments at fair value through other comprehensive income	14,759	18,411
	<u>2,526,735</u>	<u>2,131,983</u>
<i>Tax on interest</i>		
Balances with central banks	(102,261)	(64,920)
Financial assets at amortized cost	(30,130)	(27,538)
Others	-	(833)
	<u>(132,391)</u>	<u>(93,291)</u>
Interest and similar income, net of tax	<u><u>2,394,344</u></u>	<u><u>2,038,692</u></u>

7 INTEREST AND SIMILAR EXPENSE

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Due to central banks	108,137	57,881
Due to banks and financial institutions	45,922	31,574
Customers' deposits at amortised cost	1,796,430	1,369,487
Deposits from related parties at amortised cost (note 44)	16,947	21,360
Debt issued and other borrowed funds	31,799	31,796
Subordinated debt	32,259	31,848
Lease liabilities (note 34)	1,325	-
	<u>2,032,819</u>	<u>1,543,946</u>

8 NET FEE AND COMMISSION INCOME

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Fee and commission income		
Loans and advances	22,766	26,086
Letters of guarantee	12,565	13,338
Acceptances	8,925	8,360
Letters of credit	20,466	23,235
Credit cards	25,243	22,455
Domiciled bills	2,342	2,411
Checks for collection	3,771	2,906
Maintenance of accounts	16,684	16,654
Transfers	11,592	10,290
Safe rental	1,136	1,138
Portfolio commission	2,659	2,845
Commission on insurance related activities	11,387	11,111
Refund of banking services	12,598	13,085
Other commissions	5,071	3,569
	<u>157,205</u>	<u>157,483</u>
Fee and commission expense	<u>(13,161)</u>	<u>(12,420)</u>
Net fee and commission income	<u><u>144,044</u></u>	<u><u>145,063</u></u>

9 NET GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
<i>Interest and similar income from debt instruments</i>		
- Lebanese treasury bills	1,861	3,710
<i>(Loss) gain from sale of debt instruments</i>		
- Lebanese treasury bills	(888)	(1,568)
- Certificates of deposit issued by the Central Bank of Lebanon	231	-
- Debt securities issued by banks and financial institutions	106	36
	<u>(551)</u>	<u>(1,532)</u>
<i>Unrealized loss from revaluation of debt instruments</i>		
- Lebanese treasury bills	(9,373)	(1,636)
Net (loss) gain from debt instruments	<u>(8,063)</u>	<u>542</u>
<i>Equity instruments</i>		
- Loss from sale	(210)	(14)
- Unrealized gain (loss) from revaluation	8,405	(5,408)
- Dividend income	134	88
Net gain (loss) from equity instruments	<u>8,329</u>	<u>(5,334)</u>
Foreign exchange (*)	17,354	21,243
	<u><u>17,620</u></u>	<u><u>16,451</u></u>

(*) Foreign exchange income includes gains and losses from spot and forward contracts, other currency derivatives and the revaluation of the daily open trading position.

10 NET GAIN (LOSS) FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST

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

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

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

	<i>2019</i>		
	<i>Gains</i> <i>LL million</i>	<i>Losses</i> <i>LL million</i>	<i>Net</i> <i>LL million</i>
Lebanese treasury bills	-	(1,202)	(1,202)
Placements with the Central Bank of Lebanon	12,833	-	12,833
	<u>12,833</u>	<u>(1,202)</u>	<u>11,631</u>
	<i>2018</i>		
	<i>Gains</i> <i>LL million</i>	<i>Losses</i> <i>LL million</i>	<i>Net</i> <i>LL million</i>
Lebanese treasury bills	-	(2,558)	(2,558)
Certificates of deposit issued by the Central Bank of Lebanon	-	(561)	(561)
	<u>-</u>	<u>(3,119)</u>	<u>(3,119)</u>

11 OTHER OPERATING INCOME

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Write back of provisions for risks and charges (note 35 (b))	37,723	8,274
Income from insurance related activities	18,554	16,485
Write-back of deferred revenues (note 34)	16,507	-
Rental income from non-current assets held for sale	654	571
Net gain from sale of non-current assets held for sale	517	45
Claims approved by reinsurers (note 29)	-	10,553
Others	5,745	6,611
	<u>79,700</u>	<u>42,539</u>

12 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
<i>New and increased impairment allowances:</i>		
Financial assets at amortised cost	192,801	1,787
Balances with central banks	139,162	7,390
Loans and advances to customers at amortised cost	123,855	63,244
Financial assets at fair value through other comprehensive income	4,144	284
Due from banks and financial institutions	987	2,897
Loans to banks and financial institutions and reverse repurchase agreements	179	105
Loans and advances to related parties at amortised cost	114	15
Financial guarantees and other commitments	111	889
Bad debts written off	56	-
	<u>461,409</u>	<u>76,611</u>
<i>Recoveries:</i>		
Loans and advances to customers at amortised cost	(34,128)	(30,266)
Balances with central banks	(2,353)	(29,024)
Due from banks and financial institutions	(1,961)	(78)
Loans to banks and financial institutions and reverse repurchase agreements	(76)	(25)
Financial assets at amortised cost	-	(3,006)
Financial guarantees and other commitments	-	(42)
	<u>(38,518)</u>	<u>(62,441)</u>
	<u>422,891</u>	<u>14,170</u>

13 PERSONNEL EXPENSES

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Salaries and other related benefits	160,405	160,137
Social security contributions	21,250	20,412
Bonuses	1,391	20,733
Provision for employees' end of service benefits (note 35 (a))	3,929	10,052
	<u>186,975</u>	<u>211,334</u>

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14 OTHER OPERATING EXPENSES

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Taxes on interest	5,601	4,648
Taxes and duties	10,081	8,262
Contribution to deposits guarantee fund	13,965	13,350
Rent and related charges under operating leases	2,822	7,016
Professional fees	11,274	10,013
Telecommunications and postage expenses	7,260	6,978
Board of Directors' attendance fees	1,003	1,340
Maintenance and repairs	17,910	17,459
Electricity and fuel	5,555	5,140
Travel and entertainment	2,347	2,786
Publicity and advertising	10,151	14,401
Subscriptions	4,832	4,459
Legal expenses	2,498	2,499
Insurance	1,066	1,013
Guarding fees	2,639	2,348
Printings and stationery	2,527	2,509
Donations	2,053	2,936
Provisions for risks and charges (note 35 (b))	13,772	27,971
Others	10,404	13,307
	<u>127,760</u>	<u>148,435</u>

15 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2019 and 2018 are as follows:

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Current income tax expense	33,901	57,136
Other taxes	3,164	359
	<u>37,065</u>	<u>57,495</u>

15 INCOME TAX EXPENSE (continued)

The components of operating profit before tax, and the differences between income tax expense reflected in the consolidated financial statements and the amounts calculated at the Lebanese tax rate, are shown in the table below:

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
(Loss) profit before income tax	(146,117)	307,361
Less: Results of the subsidiary insurance company located in Lebanon	(2,241)	(25,537)
Accounting (loss) profit before tax	<u>(148,358)</u>	<u>281,824</u>
Add:		
Non-tax deductible provisions	397,501	6,680
Other non-tax deductible charges	39,169	70,887
	<u>288,312</u>	<u>359,391</u>
Less:		
4% of a subsidiary's capital eligible to be tax deductible	(1,200)	(1,200)
Release of provisions previously subject to income tax	(84,042)	(18,704)
Other non-taxable income	(3,655)	(3,392)
Taxable profit	<u>199,415</u>	<u>336,095</u>
Income tax expense in the consolidated income statement	<u>33,901</u>	<u>57,136</u>

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

The movement of current tax liabilities during the year is as follows:

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Balance at 1 January	57,402	31,735
Add: Charge for the year	37,065	57,495
Less: Paid during the year	(54,335)	(31,828)
Balance at 31 December (note 34 (a))	<u>40,132</u>	<u>57,402</u>

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

	<i>Deferred tax assets</i>		<i>Deferred tax liabilities</i>	
	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Fair value of financial instruments	6,388	882	4,735	3,169

16 LOSS FROM DISCONTINUED OPERATIONS

During 2018, the Group fully disposed of its investment in Byblos Bank RDC SARL to third parties for a total consideration of USD 8 million (equivalent to LL 12,060 million).

The disposal of this subsidiary resulted in a loss from discontinued operations amounting to LL 2,472 million representing the loss on interest disposed of, and which was recorded under "Loss from discontinued operations, net of tax" in the consolidated income statement.

The net (losses) income from discontinued operations are as follows:

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Interest and similar income	-	54
Fee and commission income	-	134
Other operating income	-	544
Total operating income	<u>-</u>	<u>732</u>
Net impairment loss on financial assets	-	(28)
Net operating income	<u>-</u>	<u>704</u>
Total operating expenses	-	(1,642)
Operating loss	<u>-</u>	<u>(938)</u>
Loss on derecognition of discontinued operations	-	(1,534)
Loss for the year from discontinued operations	<u>-</u>	<u>(2,472)</u>
Cash inflow from sale:		
Total consideration received	-	12,060
	<u>-</u>	<u>12,060</u>
	<i>LL</i>	<i>LL</i>
Earnings per share:		
Basic earnings per share	-	(3.84)
Diluted earnings per share	-	(3.17)

The net cash flows from discontinued operations are as follows:

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Operating activities	-	3,439
Investing activities	-	63
Financing activities	-	(94)
Net cash inflows	<u>-</u>	<u>3,408</u>

17 (LOSS) EARNINGS PER SHARE

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

Diluted (loss) earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Group (after adjusting for interest on the convertible instruments net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential shares into ordinary shares.

17 EARNINGS PER SHARE (continued)

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

	<i>2019</i>	<i>2018</i>
Weighted average number of common shares outstanding during the year (*)	562,318,325	563,252,414
	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Net (loss) profit attributable to equity holders of the parent	(183,553)	238,940
(Less): proposed dividends to preferred shares	-	(48,480)
Net (loss) profit attributable to equity holders of the parent	(183,553)	190,460
Basic (loss) earnings per share in LL	(326.42)	338.14

(*) The weighted average number of ordinary shares adopted for the computation of basic (loss) earnings per share takes into account the weighted average number of treasury shares.

Diluted (loss) earnings per share

The following table shows the (loss) income and share data used in the diluted (loss) earnings per share calculation:

	<i>2019</i>	<i>2018</i>
Weighted average number of ordinary shares for basic earnings per share	562,318,325	563,252,414
Effect of dilution:		
Convertible subordinated debt	117,200,000	117,200,000
Weighted average number of ordinary shares adjusted for the effect of dilution	679,518,325	680,452,414
	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Net (loss) profit attributable to equity holders of the parent	(183,553)	190,460
Interest on convertible debt	32,259	31,848
Less: income tax	(5,484)	(5,414)
Net (loss) profit attributable to equity holders of the parent adjusted for the effect of convertible debt	(156,778)	216,894
Diluted (loss) earnings per share in LL	(230.72)	318.75

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of (loss) earnings per share.

18 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Cash on hand	189,004	342,744
Balances with the Central Bank of Lebanon:		
- Current accounts	404,426	367,179
- Time deposits (a)	13,876,025	15,132,903
	14,280,451	15,500,082
Balances with Central Banks in other countries:		
- Current accounts	395,197	327,519
- Time deposits	544	468
	395,741	327,987
Accrued interest receivable	248,208	189,637
	15,113,404	16,360,450
Less: Allowance for expected credit losses (note 49.2)	(171,758)	(36,328)
	14,941,646	16,324,122

The table for the movement in allowances for expected credit losses on balances with central banks under IFRS 9 is presented in the Credit Risk section (Note 49.2).

Obligatory reserves:

- In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts with the Central Bank of Lebanon amounted to LL 2,861,045 million and LL 2,893,172 million respectively as at 31 December 2019 (2018: LL 2,920,277 million and LL 2,972,575 million respectively).
- Subsidiary banks and branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2019, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LL 99,293 million (2018: LL 93,674 million).

Allowance for expected credit losses includes an amount of LL 640 million as at 31 December 2019 (2018: LL 2,562 million) against balances held with the Central Bank of Iraq – Kurdistan.

- (a) During 2019, the Group and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualify for netting under the requirements of IAS 32. Accordingly, as at 31 December 2019, time deposits with the Central Bank of Lebanon amounting to LL 4,570,557 million and term borrowings from the Central Bank of Lebanon (Note 30) are reported on a net basis on the statement of financial position. At 31 December 2018, time deposits with the Central Bank of Lebanon amounting to LL 2,334,095 million and maturing between 2022 and 2033 were blocked against term borrowings granted by the Central Bank of Lebanon with the same value and maturities (Note 30).

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19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Current accounts	1,625,018	991,732
Time deposits	922,501	2,874,064
Accrued interest receivable	1,572	4,428
	<u>2,549,091</u>	<u>3,870,224</u>
Less: Allowance for expected credit losses (note 49.2)	(3,803)	(5,473)
	<u>2,545,288</u>	<u>3,864,751</u>

Doubtful balances with banks and financial institutions and the related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross amount of these balances amounted to LL 2,422 million as of 31 December 2019 (2018: LL 2,409 million).

20 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Loans to banks and financial institutions	122,600	178,490
Accrued interest receivable	563	1,160
	<u>123,163</u>	<u>179,650</u>
Discounted acceptances	214,356	169,260
Interest received in advance	(1,975)	(2,723)
	<u>212,381</u>	<u>166,537</u>
Reverse repurchase agreements	21,377	17,597
Accrued interest receivable	23	17
	<u>21,400</u>	<u>17,614</u>
	<u>356,944</u>	<u>363,801</u>
Less: Allowance for expected credit losses (note 49.2)	(234)	(168)
	<u>356,710</u>	<u>363,633</u>

The Group purchased Armenian Treasury bills under a commitment to resell them (reverse repurchase agreements). The securities are not included in the consolidated statement of financial position as the Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan and amounted to LL 21,400 million at 31 December 2019, including accrued interest (2018: LL 17,614 million).

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21 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivatives for trading and for risk management purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument (being an equity instrument, commodity product, reference rate or index, etc.). The notional amounts indicate the volume of transactions outstanding at year-end and are not indicative of either the market risk or credit risk.

Forwards and Futures

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

Options

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

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate, commodity index or equity index.

Interest rate swaps relate to contracts taken out by the Group with other counterparties (customers and financial institutions) in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

	2019			2018		
	<i>Assets</i> <i>LL million</i>	<i>Liabilities</i> <i>LL million</i>	<i>Notional</i> <i>amount</i> <i>LL million</i>	<i>Assets</i> <i>LL million</i>	<i>Liabilities</i> <i>LL million</i>	<i>Notional</i> <i>amount</i> <i>LL million</i>
<i>Held for trading</i>						
Currency swaps	341	400	143,943	444	391	180,051
Forward foreign exchange contracts	362	508	184,723	1,455	1,411	154,210
	703	908	328,666	1,899	1,802	334,261

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22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
<i>Lebanese sovereign and Central Bank of Lebanon</i>		
Treasury bills	1,908	1,990
Eurobonds	13,135	29,624
	<u>15,043</u>	<u>31,614</u>
<i>Private sector and other securities</i>		
Equity securities and funds	68,508	58,876
	<u>83,551</u>	<u>90,490</u>

23 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Commercial loans	4,414,477	5,400,376
Consumer loans	2,685,038	3,088,798
	<u>7,099,515</u>	<u>8,489,174</u>
Less: Allowance for expected credit losses (note 49.2)	(385,690)	(310,945)
	<u>6,713,825</u>	<u>8,178,229</u>

The table for the movement in allowances for expected credit losses on loans and advances to customers at amortized cost under IFRS 9 is presented in the Credit Risk section (Note 49.2).

Bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 260,812 million as of 31 December 2019 (2018: LL 238,775 million).

24 FINANCIAL ASSETS AT AMORTISED COST

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
<i>Lebanese sovereign and Central Bank of Lebanon</i>		
Certificates of deposits	3,037,376	3,042,170
Treasury bills (a)	2,665,192	2,696,857
Eurobonds	1,882,616	1,973,028
	<u>7,585,184</u>	<u>7,712,055</u>
<i>Other sovereign</i>		
Foreign governmental debt securities	53,178	85,617
<i>Private sector and other securities</i>		
Certificates of deposit issued by banks and financial institutions	3,051	3,051
Debt securities issued by banks and financial institutions	775	776
	<u>3,826</u>	<u>3,827</u>
	<u>7,642,188</u>	<u>7,801,499</u>
Less: Allowance for expected credit losses (note 49.2)	(219,652)	(25,223)
	<u>7,422,536</u>	<u>7,776,276</u>

The table for the movement in allowances for expected credit losses on financial assets at amortized cost under IFRS 9 is presented in the Credit Risk section (Note 49.2).

- (a) As at 31 December 2019, Lebanese treasury bills amounting to LL 1,242,249 million were pledged against subsidized loans and term borrowings granted by the Central Bank of Lebanon with the same value (2018: LL 1,236,320 million) (Note 30).

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
<i>Lebanese sovereign and Central Bank of Lebanon</i>		
Eurobonds	42,948	42,919
<i>Other sovereign</i>		
Foreign governmental debt securities	101,607	90,884
<i>Private sector and other securities</i>		
Debt securities issued by banks and financial institutions	10,011	6,410
Equity securities	88,418	88,216
	<u>98,429</u>	<u>94,626</u>
	<u>242,984</u>	<u>228,429</u>

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
(continued)

Equity instruments at fair value through other comprehensive income:

The Group classified the following instruments in private sector securities at fair value through other comprehensive income as it holds them for strategic reasons. The tables below list those equity instruments, dividends received, and the changes in fair value net of applicable taxes:

	2019			2018		
	<i>Carrying amount</i>	<i>Cumulative fair value changes</i>	<i>Dividend income</i>	<i>Carrying amount</i>	<i>Cumulative fair value changes</i>	<i>Dividend income</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
<u>Unquoted shares:</u>						
Banque de l'Habitat SAL	23,092	17,903	-	20,336	15,147	571
Intra Investment Company SAL	17,591	4,567	-	17,591	4,567	583
Interbank Payment Network (IPN) SAL	1,456	453	51	1,411	408	50
Arab Trade Financing Program	2,118	626	28	2,118	626	-
Others	2,117	302	-	2,096	282	-
<u>Quoted shares:</u>						
Jordan Ahli Bank	42,044	(38,370)	2,555	44,664	(35,750)	2,031
	88,418	(14,519)	2,634	88,216	(14,720)	3,235

Dividend income amounted to LL 2,634 million for the year ended 31 December 2019 (2018: LL 3,235 million) and resulted from equity instruments held at year end (2018: the same).

Gain from disposal of debt instruments held at fair value through other comprehensive income amounted to LL 2,334 million for the year ended 31 December 2018.

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26 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	<i>Buildings</i> <i>LL million</i>	<i>Motor vehicles</i> <i>LL million</i>	<i>Furniture and equipment</i> <i>LL million</i>	<i>Right of use assets</i> <i>LL million</i>	<i>Deposits</i> <i>LL million</i>	<i>Advance payments</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost:							
At 1 January 2019	288,569	2,860	232,187	-	748	8,497	532,861
Impact of adopting IFRS 16 at 1 January 2019	-	-	-	31,227	-	-	31,227
Additions	39,922	42	16,552	-	4	1,377	57,897
Transfers	-	-	1,122	-	-	(1,122)	-
Disposals	(915)	(80)	(2,101)	-	-	-	(3,096)
Write-offs	-	-	(2,475)	-	-	-	(2,475)
Foreign exchange difference	109	3	(42)	-	(3)	-	67
At 31 December 2019	327,685	2,825	245,243	31,227	749	8,752	616,481
Depreciation:							
At 1 January 2019	69,109	2,307	189,482	-	-	-	260,898
Depreciation during the year	4,947	294	14,343	3,993	-	-	23,577
Related to disposals	(437)	(38)	(2,025)	-	-	-	(2,500)
Related to write-offs	-	-	(2,444)	-	-	-	(2,444)
Foreign exchange difference	19	2	(77)	-	-	-	(56)
At 31 December 2019	73,638	2,565	199,279	3,993	-	-	279,475
Net carrying value:							
At 31 December 2019	254,047	260	45,964	27,234	749	8,752	337,006

	<i>Buildings</i> <i>LL million</i>	<i>Motor vehicles</i> <i>LL million</i>	<i>Furniture and equipment</i> <i>LL million</i>	<i>Deposits</i> <i>LL million</i>	<i>Advance payments</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost:						
At 1 January 2018	278,950	3,006	216,900	707	7,680	507,243
Additions	12,358	30	14,775	41	3,369	30,573
Transfers	-	-	2,552	-	(2,552)	-
Disposals	(2,749)	-	(463)	-	-	(3,212)
Foreign exchange difference	10	-	(314)	-	-	(304)
Disposal of a subsidiary	-	(176)	(1,263)	-	-	(1,439)
At 31 December 2018	288,569	2,860	232,187	748	8,497	532,861
Depreciation:						
At 1 January 2018	64,329	2,158	179,947	-	-	246,434
Depreciation during the year	4,778	295	11,832	-	-	16,905
Related to disposals	-	-	(460)	-	-	(460)
Foreign exchange difference	2	-	(574)	-	-	(572)
Disposal of a subsidiary	-	(146)	(1,263)	-	-	(1,409)
At 31 December 2018	69,109	2,307	189,482	-	-	260,898
Net carrying value:						
At 31 December 2018	219,460	553	42,705	748	8,497	271,963

26 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

Set out below is the breakdown of the carrying amounts of the Group's right-of-use assets and the movements during the period:

	<i>Branches</i> <i>LL million</i>	<i>Other</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
As at 1 January 2019	27,375	3,852	31,227
Depreciation expense	(3,455)	(538)	(3,993)
As at 31 December 2019	23,920	3,314	27,234

The cost of buildings at 31 December 2019 and 2018 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993 and approved by the Central Committee of the Central Bank of Lebanon. Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LL 5,689 million as at 31 December 2019 (2018: the same) (Note 41).

27 INTANGIBLE ASSETS

	<i>Key money</i> <i>LL million</i>	<i>Software</i> <i>development</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost			
At 1 January 2019	2,303	48,085	50,388
Additions	-	6,419	6,419
Disposals	-	(7)	(7)
Foreign exchange difference	-	(25)	(25)
At 31 December 2019	2,303	54,472	56,775
Amortization			
At 1 January 2019	2,150	30,511	32,661
Charge for the year	75	4,227	4,302
Related to disposals	-	(7)	(7)
Foreign exchange difference	-	(21)	(21)
At 31 December 2019	2,225	34,710	36,935
Net carrying value			
At 31 December 2019	78	19,762	19,840

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27 INTANGIBLE ASSETS (continued)

	<i>Key money</i> <i>LL million</i>	<i>Software</i> <i>development</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost			
At 1 January 2018	2,303	40,139	42,442
Additions	-	8,011	8,011
Foreign exchange difference	-	(65)	(65)
At 31 December 2018	<u>2,303</u>	<u>48,085</u>	<u>50,388</u>
Amortization			
At 1 January 2018	2,036	27,511	29,547
Charge for the year	114	3,050	3,164
Foreign exchange difference	-	(50)	(50)
At 31 December 2018	<u>2,150</u>	<u>30,511</u>	<u>32,661</u>
Net carrying value			
At 31 December 2018	<u>153</u>	<u>17,574</u>	<u>17,727</u>

28 NON-CURRENT ASSETS HELD FOR SALE

The Group occasionally takes possession of assets in settlement of loans and advances. The Group is in the process of selling these assets which are, as such, included in non-current assets held for sale. Gains or losses on disposal are recognised in the consolidated income statement for the year.

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Cost:		
At 1 January	56,564	50,050
Additions	20,563	8,205
Disposals	(286)	(284)
Transfers	-	(1,407)
At 31 December	<u>76,841</u>	<u>56,564</u>
Impairment:		
At 1 January and 31 December	<u>(5,159)</u>	<u>(5,159)</u>
Net carrying value:		
At 31 December	<u>71,682</u>	<u>51,405</u>

29 OTHER ASSETS

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Obligatory deposits (a)	2,250	2,250
Prepaid expenses	4,117	4,296
Prepaid insurance	6,015	1,739
Prepaid maintenance	2,618	2,339
Printings and stationery	3,852	4,533
Electronic cards and regularization accounts	19,027	18,050
Insurance premiums receivable	2,835	6,547
Deferred tax assets (note 15)	6,388	882
Reinsurers' share of technical reserves of subsidiary insurance companies	53,615	69,149
Hospitalization and medical care under collection	14,951	12,894
Receivable balance related to approved claims by reinsurers (note 11)	-	10,553
Other debit balances	9,940	8,650
	<u>125,608</u>	<u>141,882</u>

- a) Obligatory deposits consist of deposits as a percentage of the share capital of subsidiary banks that were blocked at incorporation as a guarantee with the authorities. These deposits shall be returned to the subsidiary banks without any interest upon liquidation of their activities.

30 DUE TO CENTRAL BANKS

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Central Bank of Lebanon		
Current accounts	-	456
Subsidized loans	483,976	496,756
Term borrowings under leverage arrangements	1,013,862	3,348,028
Accrued interest payable	28,618	16,332
	<u>1,526,456</u>	<u>3,861,572</u>
Other central banks		
Current accounts	117	119
Term loans	2,190	3,204
Time deposits	-	5,567
Accrued interest payable	33	61
	<u>2,340</u>	<u>8,951</u>
	<u>1,528,796</u>	<u>3,870,523</u>

Subsidised Loans from the Central Bank of Lebanon

- The Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision no. 6116 dated 7 March 1996 relating to the facilities which can be granted by the Central Bank of Lebanon to banks. The balance amounted to LL 307,011 million as of 31 December 2019 (2018: LL 332,608 million).

30 DUE TO CENTRAL BANKS (continued)***Subsidised Loans from the Central Bank of Lebanon (continued)***

- During 2010, the Group obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war. These loans were originally granted in the amount of LL 8,810 million, out of which LL 1,895 million matured during 2013 and LL 5,528 million matured during 2015. These loans are secured by the pledge of Lebanese treasury bills amounting to LL 1,387 million included under financial assets at amortised cost as of 31 December 2019 and 2018 (Note 24).
- The Group obtained 3 loans from the Central Bank of Lebanon to finance the merger of the assets and liabilities of Banque Pharaon & Chiha SAL. These loans were originally granted in the amount of LL 227,000 million netted by a discount of LL 51,422 million as at 31 December 2019 (2018: LL 221,000 million netted by a discount of LL 58,239 million) and are secured by the pledge of Lebanese treasury bills amounting to LL 227,000 million included under financial assets at amortised cost as of 31 December 2019 (2018: LL 221,000 million) (Note 24).

Term borrowings under leverage arrangements

Term borrowings under leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in Lebanese Lira, bearing an interest rate of 2% per annum and having maturities ranging between 2022 and 2035, fully invested in pledged Lebanese treasury bills and blocked term placements with the Central Bank of Lebanon in Lebanese Lira earning coupon rates ranging between 6.5% per annum and 10.5%. Simultaneously the Group has further deposited with the Central Bank of Lebanon term placements in foreign currencies at 6.5% per annum and in Lebanese Lira at 10.5% per annum carrying the same maturities. During 2019, the Group and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placements with the Central Bank of Lebanon in Lebanese Lira. This agreement qualifies for netting under the requirements of IAS 32.

The below table summarises the leverage arrangements and related financial assets subject to offsetting, and enforceable similar agreements, and whether offset is achieved in the consolidated statement of financial position. The table identifies the amounts that have been offset in the consolidated statement of financial position and also those amounts that are covered by enforceable netting arrangements (financial collateral) but do not qualify for netting under the requirements of IAS 32 described in the accounting policies:

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Leverage arrangements		
Gross amounts	5,584,419	3,348,028
Amounts offset against ⁽¹⁾		
Placements with the Central Bank of Lebanon (note 18)	(4,570,557)	-
Net amounts reported on the consolidated statement of financial position	<u>1,013,862</u>	<u>3,348,028</u>
<i>Financial collateral</i>		
Lebanese treasury bills (note 24)	1,013,862	1,013,933
Placements with the Central Bank of Lebanon (note 18)	-	2,334,095
	<u>1,013,862</u>	<u>3,348,028</u>

⁽¹⁾ Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon have also been reported in the consolidated statement of financial position net of the amounts above.

31 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Current accounts	114,033	173,235
Term loans	576,425	507,127
Time deposits	486,545	415,886
Cash margins	54,256	163,374
Accrued interest payable	8,133	6,448
	<u>1,239,392</u>	<u>1,266,070</u>

32 CUSTOMERS' DEPOSITS AT AMORTISED COST

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Current accounts	4,465,961	3,564,335
Term deposits	20,272,009	22,387,664
Cash margins	1,021,601	1,285,137
Accrued interest payable	208,860	181,006
	<u>25,968,431</u>	<u>27,418,142</u>

33 DEBT ISSUED AND OTHER BORROWED FUNDS

	<i>Maturity</i>	<i>Interest rate %</i>	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Notes (*)				
Issue 2011	24/06/2021	7.00	431,488	441,125
Accrued interest payable			616	616
			<u>432,104</u>	<u>441,741</u>
Debt issued				
Issue 2017	19/01/2021	7.50	9,517	9,358
Accrued interest payable			207	202
			<u>9,724</u>	<u>9,560</u>
			<u>441,828</u>	<u>451,301</u>

(*) The Group has undertaken not to use any of the proceeds of the issue in Sudan, Syria or Democratic Republic of Congo. The Group shall pay interest on the notes without deduction or withholding for taxes. The notes are redeemable, in whole or in part, at the option of the Group at any time after the first anniversary of the issue date, in the event of changes in the Lebanese tax law that will result in taxes on interest on the notes in excess of the current applicable tax rate.

The General Assembly of the Association of Noteholders held on 19 June 2020 of Notes due on 2021 and issued by the Group during 2011 resolved, with majority of the votes, to modify the terms and conditions of the Notes as set out in the Trust Deed and in the summary of terms and conditions signed by the initial subscribers for the purposes of providing early redemption of the Notes in June 2020 and to modify the payment terms. Accordingly, the Group settled the outstanding balance of these Notes on 29 June 2020.

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34 OTHER LIABILITIES

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Lease liabilities	24,803	-
Accrued expenses	33,822	43,263
Fixed assets suppliers	174	182
Unearned commission and interest	6,486	6,198
Cash margins related to companies under establishment	1,526	1,432
Insurance premiums received in advance	2,504	2,908
Payables to the National Social Security Fund	2,388	2,237
Advance payments linked to non-current assets held for sale	47	375
Current tax liability (a)	65,307	75,780
Deferred tax liability (note 15)	4,735	3,169
Put options on non-controlling interests	4,791	4,791
Deferred provision for Banque Pharaon & Chiha SAL loans portfolio	9,905	10,723
Escrow account upon acquisition of Banque Pharaon & Chiha SAL	-	4,776
Deferred revenues (b)	138,987	155,494
Other creditors	61,325	43,449
	<u>356,800</u>	<u>354,777</u>

Set out below are the carrying amounts of lease liabilities and the movements during the year ended 31 December 2019:

	<i>2019</i>
	<i>LL million</i>
Balance at 1 January	29,681
Interest expense (note 7)	1,325
Paid during the year	(6,203)
Balance at 31 December	<u>24,803</u>

(a) Current tax liability

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Income tax due (note 15)	40,132	57,402
Withholding tax on salaries	2,546	2,343
Withholding tax on interest earned by customers	18,585	12,117
Value added tax	164	503
Other taxes	3,880	3,415
	<u>65,307</u>	<u>75,780</u>

34 OTHER LIABILITIES (continued)*(b) Deferred revenues*

During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, capped to the extent of the losses recorded to comply with recent regulatory provisioning requirements, the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One.

As at 31 December 2018, the Group carried an amount of LL 155,494 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon that it did not recognize in the consolidated income statement in previous years. During 2019, the Group wrote-back an amount of LL 16,507 million from this balance which was recorded under "Other operating income" in the consolidated income statement (Note 11). The amount recorded as "Deferred revenues" qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

35 PROVISIONS FOR RISKS AND CHARGES

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Technical reserves of insurance subsidiaries	112,544	132,260
Employees' end of service benefits (a)	36,323	38,655
Other provisions (b)	34,440	59,508
	<u>183,307</u>	<u>230,423</u>

(a) Employees' end of service benefits

The Group has two defined benefit plans covering substantially all of its employees. The first requires contributions to be made to the National Social Security Fund. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries, contributions paid to the National Social Security Fund and other requirements outlined in the Lebanese Labor Law. Under the second plan, no contributions are required to be made, however a fixed end of service lump sum amount should be paid for long service employees. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

35 PROVISIONS FOR RISKS AND CHARGES (continued)*(a) Employees' end of service benefits (continued)*

Movement in the provision for employees' end of service benefits during the year was as follows:

	2019	2018
	LL million	LL million
Balance at 1 January	38,655	48,864
<i>Costs charged to the income statement (note 13):</i>		
Service costs	1,537	6,877
Net interest	2,392	3,175
	<u>3,929</u>	<u>10,052</u>
<i>Re-measurement gains in other comprehensive income:</i>		
Experience adjustments	(1,839)	(15,975)
	<u>(1,839)</u>	<u>(15,975)</u>
Disposal of a subsidiary	-	(381)
End of service benefits paid during the year	(4,393)	(3,843)
Foreign exchange	(29)	(62)
	<u>(4,422)</u>	<u>(4,286)</u>
Balance at 31 December	<u>36,323</u>	<u>38,655</u>

Defined benefit plans in Lebanon constitute more than 95% of the Group's retirement obligation. The principal assumptions used in determining the end of service benefit obligations of these plans are shown below:

	2019	2018
Economic assumptions		
Discount rate	9.5%	8.0%
Salary increase	3.0%	3.0%
Expected annual rate of return on NSSF contributions	5.0%	5.0%
Treatment of bonus	Last 2-years average as a % of basic	Last 2-years average as a % of basic
Demographic assumptions		
Retirement age	Earliest of 64 or completion of 20 contribution years	Earliest of 64 or completion of 20 contribution years
Pre-termination mortality rate	None	None
Pre-termination turnover rates (age related with average of)	2.0% for NSSF and 4.0% for WCA	2.0% for NSSF and 4.0% for WCA

A quantitative sensitivity analysis for the significant assumptions is shown below:

	<i>Discount rate</i>		<i>Future salary increase</i>	
	<i>increase</i>	<i>decrease</i>	<i>increase</i>	<i>decrease</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Impact on net defined benefit obligations				
2019	(790)	841	1,750	(1,557)
2018	(930)	995	2,274	(2,158)

The sensitivity analysis above was determined based on a method that extrapolates the impact on the defined benefit obligation as a result of 50 basis point changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

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35 PROVISIONS FOR RISKS AND CHARGES (continued)*(b) Other provisions*

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Provisions for contingencies	24,712	50,213
Provisions for ECL on financial guarantees and commitments	5,690	5,289
Other	4,038	4,006
	<u>34,440</u>	<u>59,508</u>

Movement in other provisions during the year was as follows:

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
At 1 January	59,508	194,012
Charge for the year (note 14)	13,772	27,971
Write back during the year (note 11)	(37,723)	(8,274)
Transfer to ECL allowances on financial assets	-	(65,394)
Provisions for ECL on financial guarantees and commitments	111	5,289
Transfer to "Deferred revenues"	-	(68,812)
Paid during the year	-	(24,252)
Foreign exchange	(1,228)	(1,032)
At 31 December	<u>34,440</u>	<u>59,508</u>

36 SUBORDINATED DEBT

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Nominal value	441,514	441,678
Unamortised discount	(12,049)	(15,505)
Accrued interest payable	327	245
	<u>429,792</u>	<u>426,418</u>

On 21 December 2012, the Group signed a US\$ 300 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US\$ 300 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

Number of notes:	30,000
Note's issue price:	US\$ 10,000
Note's nominal value:	US\$ 10,000
Date of issue:	21 December 2012
Maturity:	21 December 2022, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US\$ 2.5 per share or US\$ 125 per GDR
Interest rate:	Contractual interest rate of 6.5% payable semi-annually.
Rights of holders:	The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's at a conversion price of US\$ 2.5 per share or US\$ 125 per GDR.

36 SUBORDINATED DEBT (continued)

The convertible subordinated loan was recorded at issuance as follows:

	<i>2019</i> <i>LL million</i>
Nominal value of convertible bonds	452,250
Equity component	(31,618)
Liability component	<u>420,632</u>

The equity component of the convertible subordinated loan is recorded in equity under "Non-distributable reserves" (Note 38).

On 17 June 2020, in light of the developments in the Lebanese Republic, the Group announced that it will not make the interest payments on the subordinated debt which is due on 30 June 2020.

37 SHARE CAPITAL

	<i>2019</i>			<i>2018</i>		
	<i>No of shares</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>	<i>No of shares</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>
Common shares	565,515,040	684,273	229,014	565,515,040	684,273	229,014
<i>Preferred shares</i>						
- Series 2008	2,000,000	2,420	295,154	2,000,000	2,420	295,154
- Series 2009	2,000,000	2,420	295,929	2,000,000	2,420	295,929
	<u>4,000,000</u>	<u>4,840</u>	<u>591,083</u>	<u>4,000,000</u>	<u>4,840</u>	<u>591,083</u>

The capital of the Bank is divided into 569,515,040 shares of LL 1,210 each fully paid (2018: the same).

Preferred shares*i) Series 2008 Preferred Shares*

On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 preferred shares, according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 100
Share's nominal value:	LL 1,200
Issue premium:	US\$ (000) 195,790 (equivalent to LL 295,154 million) calculated in US\$ as the difference between the total issue of US\$ (000) 200,000 and the total par value of the issue amounting to LL 2,400 million and after deducting issuance commission for the issue amounting to US\$ (000) 2,618.
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of series 2008 preferred shares was increased from LL 1,200 to LL 1,210.

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37 SHARE CAPITAL (continued)***Preferred shares (continued)****ii) Series 2009 Preferred Shares*

On 4 September 2009, and based on the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 preferred shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 96
Share's nominal value:	LL 1,210
Issue premium:	US\$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US\$ as the difference between the total issue of US\$ (000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US\$ (000) 2,082.
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank's option at US\$ 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

Listing of shares

As of 31 December 2019 and 2018, the Bank's shares were listed as follows:

	<i>Stock exchange</i>	<i>2019 No of shares</i>	<i>2018 No of shares</i>
Ordinary shares	Beirut	502,278,190	502,237,540
Global depository receipts (*)	London SEAQ and Beirut	1,264,737	1,265,550
Preferred shares	Beirut	4,000,000	4,000,000

(*) Global Depository Receipts (GDR's) can be issued at a ratio of 50 Common Shares per one GDR.

The Bank's Board of Directors meeting dated 17 June 2020 resolved to apply for the cancellation of the listing of its GDR shares from the official list of the UK Financial Conduct Authority and the cancellation of the admission to trading of its GDR shares from the London Stock Exchange with effect from 30 July 2020.

38 NON-DISTRIBUTABLE RESERVES

	<i>Legal reserve</i>	<i>General reserve</i>	<i>Reserves for capital increase</i>	<i>Equity component of convertible subordinated debt</i>	<i>Reserve for general banking risks</i>	<i>Other reserves</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balance at 1 January 2019	333,324	326,116	124,291	31,618	-	166,691	982,040
Appropriations from retained earnings	21,876	8,274	3,374	-	-	11,011	44,525
Balance at 31 December 2019	355,200	334,390	127,665	31,618	-	177,692	1,026,565
Balance at 1 January 2018	311,098	-	117,984	31,618	298,583	165,529	924,812
Appropriations from retained earnings	22,226	-	6,307	-	19,241	9,454	57,228
Transfers	-	326,116	-	-	(317,824)	(8,292)	-
Balance at 31 December 2018	333,324	326,116	124,291	31,618	-	166,691	982,040

38 NON-DISTRIBUTABLE RESERVES (continued)**Legal reserve**

The Lebanese Commercial Law and the Bank's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve is not available for dividend distribution.

During 2019, the Bank and different subsidiaries transferred to legal reserve an amount of LL 21,876 million (2018: LL 22,226 million) as required by the laws applicable in the countries in which they operate.

Reserves for capital increase

During 2019, the Group transferred LL 3,374 million (2018: LL 6,307 million) to reserves appropriated for capital increase. This amount represents the net gain on the disposal of fixed assets acquired in settlement of debt, in addition to reserves on recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

General reserve

According to the Central Bank of Lebanon Main Circular 143, Banks in Lebanon are required to transfer to General Reserves, the balance of Reserves for General Banking Risks and General Reserves for Loans and Advances previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Group's equity and is not available for distribution.

Other reserves

Other reserves consist of the following:

- During 2013, the Group transferred an amount of LL 31,077 million from retained earnings to other reserves related to the subordinated debt.
- Non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2019, the Group transferred an amount of LL 11,001 million from retained earnings to other reserves in this respect (2018: LL 9,454 million).
- As of 31 December 2019, "Other reserves" include reserves of LL 118,987 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2018: LL 110,406 million).

39 DISTRIBUTABLE RESERVES

	2019	2018
	LL million	LL million
General reserves	123,972	115,626
Other capital reserves	1,026	1,026
	<u>124,998</u>	<u>116,652</u>

31 December 2019

39 DISTRIBUTABLE RESERVES (continued)**General reserves**

The Group appropriates general reserves from its retained earnings to strengthen its equity. The movement in general reserves during the year was as follows:

	2019	2018
	LL million	LL million
At 1 January	115,626	109,590
Appropriation from retained earnings	8,346	8,533
Transfers to retained earnings	-	(2,497)
At 31 December	123,972	115,626

Other capital reserves

	2019	2018
	LL million	LL million
Premium on capital increase of Byblos Bank Armenia CJSC	1,026	1,026

40 TREASURY SHARES

Movement of treasury shares recognised in the statement of financial position for the years 2019 and 2018 was as follows:

Year ended 31 December 2019

	Common shares		Global Depository Receipts	
	<i>No. of shares</i>	<i>Amount US\$(000)</i>	<i>No. of shares</i>	<i>Amount US\$(000)</i>
At 1 January 2019	2,263,019	3,808	11,172	906
Acquisitions of treasury shares	1,041,273	1,229	85	5
At 31 December 2019	3,304,292	5,037	11,257	911
Total treasury shares in L.L million				8,967

Year ended 31 December 2018

	Common shares		Global Depository Receipts	
	<i>No. of shares</i>	<i>Amount US\$(000)</i>	<i>No. of shares</i>	<i>Amount US\$(000)</i>
At 1 January 2018	1,853,105	3,225	9,191	757
Acquisitions of treasury shares	446,014	634	2,021	152
Sales of treasury shares	(36,100)	(51)	(40)	(3)
At 31 December 2018	2,263,019	3,808	11,172	906
Total treasury shares in L.L million				7,105

41 REVALUATION RESERVE OF REAL ESTATE

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Revaluation reserve accepted in Tier II capital	1,978	1,978
Revaluation reserve not accepted in Tier II capital	3,711	3,711
	<u>5,689</u>	<u>5,689</u>

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

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

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
At 1 January	(15,462)	(4,538)
Impact of adopting IFRS 9 at 1 January 2018	-	1,564
Net changes in fair values during the year	(28,524)	(14,775)
Net changes in deferred taxes	4,100	2,225
Difference on exchange	(23)	62
Balance at 31 December	<u>(39,909)</u>	<u>(15,462)</u>

43 CASH AND CASH EQUIVALENTS

	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Cash and balances with central banks	3,400,000	3,270,373
Due from banks and financial institutions	2,471,288	3,794,748
Loans to banks and financial institutions and reverse repurchase agreements	244,156	209,152
	<u>6,115,444</u>	<u>7,274,273</u>
Less: Due to central banks	(36,861)	(24,215)
Less: Due to banks and financial institutions	(658,033)	(764,488)
Cash and cash equivalents at 31 December	<u>5,420,550</u>	<u>6,485,570</u>

44 RELATED PARTY TRANSACTIONS

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

A list of the Group's principal subsidiaries is shown in Note 3. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's consolidated financial statements.

31 December 2019

44 RELATED PARTY TRANSACTIONS (continued)

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

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

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

Related party balances included in the Group's consolidated statement of financial position are as follows as of 31 December:

	31 December 2019			31 December 2018		
	Key management personnel LL million	Other LL million	Total LL million	Key management personnel LL million	Other LL million	Total LL million
Due from banks and financial institutions	-	7,267	7,267	-	155,623	155,623
Loans and advances	7,688	16,868	24,556	8,806	16,125	24,931
Due to banks and financial institutions	-	99,545	99,545	-	100,214	100,214
Deposits	94,669	130,965	225,634	114,999	306,173	421,172
Debt issued and other borrowed funds	606	11,045	11,651	887	10,449	11,336
Subordinated debt	314	4,323	4,637	314	7,781	8,095
Guarantees received	6,963	14,993	21,956	8,245	5,304	13,549
Guarantees given	23	144	167	205	166	371
Commitments (including acceptances)	2,135	1,912	4,047	3,232	1,997	5,229

Related party transactions included in the Group's consolidated income statement are as follows for the year ended 31 December:

	31 December 2019			31 December 2018		
	Key management personnel LL million	Other LL million	Total LL million	Key management personnel LL million	Other LL million	Total LL million
Interest income on due from banks and financial institutions	-	194	194	-	-	-
Interest income on loans and advances	422	1,174	1,596	545	998	1,543
Interest expense on deposits	7,620	9,327	16,947	6,609	14,751	21,360
Interest expense on due to banks and financial institutions	-	3,969	3,969	-	3,410	3,410
Interest expense on debt issued and other borrowed funds	42	887	929	62	856	918
Interest expense on subordinated debt	20	278	298	20	500	520
Rent expense	-	573	573	-	600	600

In addition to the above, the Group entered into an agreement with the International Finance Corporation (IFC), a shareholder, whereby the latter makes available a non-committed trade finance guarantee facility to the Group up to US\$ 50 million. As at 31 December 2019, guarantees issued by IFC amounted to LL 18,428 million (2018: LL 45,085 million).

Compensation of the Key Management Personnel of the Group

	2019 LL million	2018 LL million
Short-term benefits ¹	13,495	21,637

¹ Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other short-term benefits to key management personnel.

45 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit-related commitments and contingent liabilities

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

	2019		
	<i>Banks</i> <i>LL million</i>	<i>Customers</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	147,574	147,574
Other guarantees	125,716	710,835	836,551
	<u>125,716</u>	<u>858,409</u>	<u>984,125</u>
Commitments			
Documentary credits	101,135	238,770	339,905
Loan commitments	-	1,130,645	1,130,645
	<u>101,135</u>	<u>1,369,415</u>	<u>1,470,550</u>
	2018		
	<i>Banks</i> <i>LL million</i>	<i>Customers</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	238,700	238,700
Other guarantees	149,384	822,475	971,859
	<u>149,384</u>	<u>1,061,175</u>	<u>1,210,559</u>
Commitments			
Documentary credits	306,148	422,798	728,946
Loan commitments	-	2,198,843	2,198,843
	<u>306,148</u>	<u>2,621,641</u>	<u>2,927,789</u>

Guarantees (including standby letters of credit)

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

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees provided include mainly performance guarantees, advance payment guarantees and tender guarantees.

Documentary credits

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

45 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Credit-related commitments and contingent liabilities (continued)

Loan commitments

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

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary

Investment commitments

The Group invested in funds pursuant to the provisions of Decision no. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LL 6,966 million as of 31 December 2019 (2018: LL 6,571 million).

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Group had several unresolved legal claims including those relating to the restrictive measures and capital controls in place. Based on advice from legal counsel, and despite the novelty of the certain claims and the uncertainties inherent in their unique situation, Management believes that legal claims will not result in any material financial loss to the Group, except as provided for in Note 35.

Other Commitments and Contingencies

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank's books in Lebanon remain subject to the review of the tax authorities for the period from 1 January 2015 to 31 December 2019 and the review of the National Social Security Fund (NSSF) for the period from 1 November 2014 to 31 December 2019. In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

46 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Assets held in custody and under administration	1,790,341	2,569,033

Assets held in custody and under administration

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. Administration includes the provision of various support functions and activities including the valuation of portfolios of securities and other financial assets on behalf of clients, which complements the custody business.

47 COMPARATIVE INFORMATION

- Software development have been reclassified from "Property, equipment and right-of-use assets" to "Intangible assets". Comparative amounts of LL 17,574 million have been reclassified accordingly.
- Amortization of software development have been reclassified from "Depreciation of property, equipment and right-of-use assets" to "Amortization of intangible assets". Comparative amounts of LL 3,050 million have been reclassified accordingly.

48 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Group as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted Market Prices – Level 1

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

Valuation Technique Using Observable Inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose most significant inputs are observable in an active market. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets, and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads.

Valuation Technique Using Significant Unobservable Inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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

	<i>2019</i>			<i>Total LL million</i>
	<i>Valuation techniques</i>			
	<i>Quoted market price Level 1 LL million</i>	<i>Observable inputs Level 2 LL million</i>	<i>Unobservable inputs Level 3 LL million</i>	
Assets:				
Derivative financial instruments:				
Currency swaps	-	341	-	341
Forward foreign exchange contracts	-	362	-	362
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	13,135	1,908	-	15,043
Equity securities and funds	49,170	-	19,338	68,508
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills	42,948	-	-	42,948
Foreign governmental debt securities	101,607	-	-	101,607
Debt securities issued by banks and financial institutions	10,011	-	-	10,011
Equity securities	42,044	-	46,374	88,418
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	400	-	400
Forward foreign exchange contracts	-	508	-	508

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	2018			Total LL million
	<i>Valuation techniques</i>			
	<i>Quoted market price Level 1 LL million</i>	<i>Observable inputs Level 2 LL million</i>	<i>Unobservable inputs Level 3 LL million</i>	
Assets:				
Derivative financial instruments:				
Currency swaps	-	444	-	444
Forward foreign exchange contracts	-	1,455	-	1,455
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	29,624	1,990	-	31,614
Equity securities and funds	39,637	-	19,239	58,876
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills and funds	42,919	-	-	42,919
Foreign governmental debt securities	90,884	-	-	90,884
Debt securities issued by banks and financial institutions	6,410	-	-	6,410
Equity securities	44,664	-	43,552	88,216
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	391	-	391
Forward foreign exchange contracts	-	1,411	-	1,411

There were no transfers between levels during 2019 (2018: the same).

Assets and liabilities carried at fair value using a valuation technique with significant unobservable inputs (Level 3)***Funds and Equity Shares of Non-listed Entities***

Units held in funds are measured based on their net asset value (NAV), taking into account redemption and/or other restrictions. Classification between Level 2 and Level 3 is dependent on whether the NAV is observable or unobservable (i.e. recent and published by the fund administrator or not).

Equity shares of non-listed entities are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value. Classification between Level 2 and Level 3 is based on whether the financial statements of the investee are recent and published or not. These instruments are fair valued using third-party information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93 (d).

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

Reconciliation of fair value measurement of financial assets in unquoted equity shares:

	2019 <i>LL million</i>	2018 <i>LL million</i>
Balance at 1 January	43,552	54,425
Additions	-	1,003
Re-measurement recognised in other comprehensive income	2,822	(11,876)
	<u>46,374</u>	<u>43,552</u>

Comparison of carrying and fair values for financial assets and liabilities not held at fair value:

Financial assets and liabilities concentrated in Lebanon

These assets and liabilities consist of balances with the Central Bank of Lebanon and Lebanese Banks, Lebanese government securities, loans and advances to customers and related parties, due to the Central Bank of Lebanon and Lebanese Banks, customers and related parties deposits, and debt issued and other borrowed funds. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. Due to the situation described in Note 1 and the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, management is unable to produce faithful estimation of the fair value of these financial assets and liabilities.

Financial assets and liabilities not concentrated in Lebanon

These are not significant to the Group's consolidated financial statements.

49 RISK MANAGEMENT**49.1 INTRODUCTION**

The Group is exposed to various types of risks, some of which are:

- Credit risk: the risk of default or deterioration in the ability of a borrower to repay a loan.
- Market risk: the risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.
- Liquidity risk: the risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- Other risks faced by the Group include concentration risk, reputation risk, legal risk, political risk and business/strategic risk.

Group risk management structure

The Board of Directors is primarily responsible for establishing / approving the Group's strategic direction and approving the nature and levels of risk the Group is willing to take. The Board has established four committees to assist in carrying out its responsibilities:

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Group risk management structure (continued)

Risk Committee: It is primarily responsible to formulate the risk appetite statement for the Group through establishing a comprehensive set of internal risk limits and other qualitative risk statements that clearly define the amount of risks the Board is willing to take and those risks the Board wishes to avoid, and monitors compliance with the risk appetite statement. It provides oversight of Senior Management's activities in managing capital adequacy, credit, market, liquidity, interest rate and operational risks of the Group. It also oversees the process and outcome of the ICAAP (Internal Capital Adequacy Assessment Process), IFRS 9 and Recovery Plan. It discusses and approves risk policies.

Anti-Money Laundering and Compliance Committee: It has been established according to BDL basic circular number 83 dated 18/05/2001. The mission of the committee is to ensure the Group's compliance with anti-money laundering laws (namely Law Number 318 dated 20 April 2001 and BDL circular number 83 dated 18 May 2001) and all amendments thereto. The committee has an oversight responsibility over the Group's compliance program (set of policies, procedures, resources and systems) for detecting and preventing all forms of money laundering as well as preventing any of the Group's entities from being misused by individuals or organizations to circumvent or violate local and international sanctions, laws, and regulations.

Audit Committee: monitors the Group's accounting practices and external reporting, and reviews the audit reports covering the Group's operations and takes appropriate actions / decisions.

Remuneration, Nomination and Corporate Governance Committee: ensures that the Group has coherent remuneration policies and practices, and that proper succession plans for board members and senior managers are in place. It is also responsible to make sure that corporate governance principles and the code of conduct are well established at the Group to warrant the confidence of shareholders, investors and stakeholders.

The above Board Committees are composed of mostly independent / non-executive members satisfying the applicable best practice requirements. In addition, the Board delegates its day-to-day risk management activities to Senior Management, through the following diverse committees that have been established:

Executive Committee: acts under the supervision of the Chairman to ensure execution of all strategic directives stipulated by the Board and to propose new strategic projects and plans to the Board. Membership is assigned to the Chairman/General Manager, the Head of Group Consumer Banking Division, the Head of Group Financial Markets and Financial Institutions Division, the Head of Group Commercial Banking Division, the Head of Group Risk Management Division and the Head of Foreign Banking Unit.

Central Credit Committee (CCC): is the highest credit authority in the Group after the Board. Its mission is to review and approve high-value amount credit proposals. The internal lending limit is set at 10% of capital, which requires the joint approval of the Chairman and the CCC. Credit proposals exceeding the internal lending limit are referred to the Board (or any delegated committee) for approval. The CCC delegates approval authority for lower amount credit proposals to various sub-committees.

Assets and Liabilities Committee (ALCO): whose mission is to manage the statement of financial position in compliance with the main objectives of the Group, in terms of growth, liquidity and interest income. Its role encompasses the review, approval and implementation of the Group's strategies regarding liquidity and interest rate, foreign exchange and trading activities through decisions on size and duration of mismatched positions and on pricing.

Risk Committee (Management): whose task is to formulate and enforce guidelines and standards with regard to capital adequacy and risk measurement and management. It also reviews reports and findings identified by the Group Risk Management and issues related to the implementation of Basel III projects. The committee discusses and approves risk policies, risk measurement tools such as rating and scoring, and risk-based processes including stress testing, economic capital, and risk-based profitability. It oversees the preparation of risk reports and the framework and results relating to processes (such as ICAAP, IFRS 9 Impairment, Recovery Planning) before submission to the Board.

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Group risk management structure (continued)

The Group also established two other committees concerned with risk management and compliance, being: *The Operational Risk Management Committee* and the *Compliance and Anti-Money Laundering Committee*. The Operational Risk Committee's mission is to provide oversight for the Group's operational risk function, the processes and the systems developed to assess, monitor and mitigate operational risks. The mission of the Compliance and Anti-Money Laundering Committee is to ensure that the Group is in compliance with anti-money laundering laws and internationally administered sanction laws; and to oversee implementation of the Group's KYC and sanction policies.

Group Internal Audit Division

The Group Internal Audit Division (GIA) is responsible for providing an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic disciplined and risk based approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Its role within the Group is to ensure that adequate internal controls are maintained and where weaknesses are identified, they are reported to Senior Management and the Audit Committee along with recommendations for improvement. The GIA assesses all new products and procedures and changes in systems and reports its recommendations accordingly.

The GIA also ensures that the Group is in compliance with the rules and regulations in different jurisdictions where the Group is operating, the Central Banks and Banking Control Commission requirements, Board of Directors and management directives and implemented policies and procedures.

Risk Management

The Group's risk management function follows the prudential rules and regulations set forth by the Basel Committee in the Core Principles for Effective Banking Supervision document (September 2012) and Basel Capital Accord texts (Basel III) to measure and assess the risks identified under the pillars I and II, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take more sophisticated steps towards credit risk and make use of internal ratings based methodology - or 'IRB Approach'- to calculate expected credit loss and ultimately capital requirements for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for.

As for addressing the capital management issue in the context of Basel III, the Group annually develops a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) document, disclosing the risk appetite statement and covering all risks to which the Group is or may be exposed to, as well as risk factors emanating from the environment in which it operates in. Mild and severe stress scenarios and sensitivity analysis are undertaken within ICAAP to assess the sufficiency of capital and liquidity in sustaining the Group's operations and business plans on the medium term.

Moreover, risk management is engaged in preparing the Recovery Plan process, basing the analysis on plausible and extreme idiosyncratic and systemic stress scenarios, assessing their impact on key performance/risk indicators, and considering the menu of available recovery options. Risk management has been cooperating with Finance to manage the IFRS 9 Expected Credit Loss (ECL) process and the calculation of the expected credit loss provision. The Group went through an extensive consultancy to get an evaluation of its readiness in meeting the ECL requirements, including a review of the Probability of Default (PD) and Loss Given Default (LGD) to reach point-in-time forward-looking parameters. The Group is also employing internal capabilities to develop predictive PD and LGD models for the Retail and Housing portfolios.

The overall responsibility for the monitoring and the analytical management of the risk is effectively assigned to the Group Risk Management division (GRM). The GRM reports to the Chairman and General Manager through the Head of the GRM division. Risk issues and reports are submitted to the Board regularly through the Board Risk Committee.

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Risk Management (continued)

The GRM has a dedicated team, *Financial and Operational Risk Management Department* that fulfils the analytical part of risk management and is thereby in direct charge of identifying, measuring, monitoring and controlling Pillar 1 and 2 risks faced by the Group. The department is split into three main functions:

Credit Risk Policies and Analytics that is responsible for drafting necessary credit risk policies and implementing risk measurement tools, such as retail scoring and commercial rating systems, and their associated credit risk components in terms of PD (probability of default), LGD (loss given default) and EAD (exposure at default). The team is responsible for the preparation and reporting of Basel III regulatory CAR report, the development of stress testing scenarios, the write-up of risk reports and ICAAP documents. These units are in charge of the Recovery Plan and IFRS 9 ECL processes.

Asset-Liability and Market Risk Management sets the firm-wide framework necessary for the identification, measurement and management of market risk across the Group, including developing policies, procedures, and risk measurement methodologies. Market Risk is also in charge of monitoring the Group's limits regarding liquidity, interest rate risk, foreign exchange and securities investment positions, stress test and to report breaches to senior management and the Board of Directors.

Operational Risk Management is responsible for establishing the necessary framework for identifying, measuring and managing operational risk across the Group. ORM Unit has established the necessary tools enabling to derive the risk profile of the Group, starting with spreading risk awareness through regular training, supporting operational risk events reporting and loss database, conducting operational risk scenarios with the business owners to focus on high risk areas and the exposure to capital in a way to supplement the assessment of the regulatory capital charge, and developing a KRI program to establish KRIs that monitor the Group's exposure to key risks. The ORM Unit facilitates the risk and control assessment (RCA) for the main Group processes and new products/activities.

Risk Management Framework

The Risk Management Framework is based on a set of principles adopted by the Board through the Risk Charter. These principles are being reviewed annually or upon need in order to be aligned with the changes related to the internal and external environment of the Group. The set of basic principles that governs the risk management framework of the Group are developed based on the following:

Business Line Accountability: Business lines are accountable for managing the risks associated with their activities and establish tolerances for risk taking. The accountability exists notwithstanding the presence of any support functions dedicated to risk management activities.

Strategic Level Risk Management, encompasses the risk management functions performed by senior management and the Board. It includes defining the Group's risk appetite, formulating strategy and policies for managing risk and establishing adequate systems and controls to ensure that the Group's aggregate risk profile is within acceptable tolerance levels.

Analytical Level Risk Management, encompasses the risk management, within the authority delegated by the Strategic Level to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

Tactical Level Risk Management, encompasses risk management activities performed by individuals who take risk on the Group's behalf such as the front office and loan origination functions.

The Risk Charter is complemented by risk specific policies and procedures enabling the unification of the risk culture and practice. Risk management is applied through the implementation of these risk policies / limits approved by the Board and that are put in place by the risk management function in cooperation with the business lines. Monitoring of individual risks is handled upon the initiation and renewal of the risk through a clear and documented decision making process.

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK**

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including interbank, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities (including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the entities, which in turn formulate their own limits in line with the Group's risk appetite. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the credit risk department of the Group's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting. The credit quality review process allows the Group early detections of changes in assets quality, estimate the potential loss and take early corrective action.

The Group has established various credit quality review processes to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions of credit files, including ratings and collateral quality. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

The Group has also established authorization structure for the approval and renewal of credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to the limit assigned to them, which depends on the size of the exposure and the obligor's creditworthiness as measured by its internal rating. Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

During 2019, the economic situation in Lebanon exerted significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types. In order to address the challenging operating conditions, the Group has implemented a series of remedial actions that included: i) risk deleveraging by reducing its assets size, ii) increasing collection capacity across various business lines, iii) increasing provisions for expected credit losses on different portfolios, and iv) setting-up an independent, centralised and specialised remedial function to proactively manage borrowers showing weak or deteriorating credit profiles and not yet classified as Stage 3.

49.2.1 Expected Credit Losses**49.2.1.1 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 estimation framework by: i) approving the IFRS 9 impairment policy, ii) reviewing key assumptions and estimations that are part of the ECL calculations; iii) approving the forward-looking economic scenarios; iv) approving staging classifications on a name-by-name basis for material exposures and v) reviewing ECL results.

Impairment policy requirements are set and reviewed regularly, at a minimum annually, to maintain adherence to accounting standards and evolving business models. Key judgements 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.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.1 Expected Credit Losses (continued)

49.2.1.1 Governance and oversight of expected credit losses (continued)

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, macroeconomy, and collateral information among other. 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 are statistically validated by a qualified independent party to the model development unit, before first use and at a minimum annually thereafter. Each model is designated an owner who is responsible for:

- Monitoring the performance of the model, which includes comparing estimated ECL versus actual ECL; and
- Proposing post-model development adjustments to enhance model's accuracy or to 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 by economists within the Group's Research Department using independent 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

49.2.1.2 Definition of default and cure

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 realising 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 and after obtaining the approval of the Credit Committee. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case by case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed, ii) three consecutive payments under the new repayment schedule have been made, iii) the borrower has no past dues under any obligation to the Group, and iv) all the terms and conditions agreed to as part of the restructuring have been met.

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****49.2.1 Expected Credit Losses (continued)****49.2.1.3 The Group's internal rating and PD estimation process**

The Group's independent Credit Risk Department operates its internal rating models. The Group runs separate models for its key portfolios in which its customers are rated in 1 to 7 performing bands using internal grades with "+" and "-" modifiers. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. The Corporate rating model was reviewed in a validation and calibration consultancy that led to the creation in early 2018 of a new rating and PD scale. The analysis was based on the Group's historical default history, whereby the central default tendency was adjusted with conservatism to account for a low default and data portfolio. The final through-the-cycle (TTC) PD scale was mapped to Moody's Corporate default scale. TTC PDs are then adjusted for IFRS 9 ECL calculations to incorporate point-in-time (PIT) and forward-looking information, and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Treasury, trading and interbank relationships

The Group's treasury, trading and interbank relationships and counterparties comprise Lebanese and other sovereign institutions, financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group's credit risk department analyses publicly available information such as financial information and other external data, e.g., available external ratings published by international rating agencies such as Moody's, Standard and Poor's and Fitch, and assigns the external rating. During 2019, sovereign exposures including central bank balances follow guidelines set out in the Central Bank of Lebanon Intermediary Circular 543. These are continuously monitored and updated.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment is based on a credit rating model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, leverage ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

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

Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Review and Credit Risk function, which are independent from business lines. Credit Review and Credit Risk functions are responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****49.2.1 Expected Credit Losses (continued)****49.2.1.3 The Group's internal rating and PD estimation process (continued)***Consumer lending and retail mortgages*

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

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

The Group also relies on account behavior to predict the probability of default within a specific timeframe. This is primarily based on the repayment history of consumer borrowers.

For the estimation of expected losses for retail products, the Group uses currently the loss approach by product based on the net flow of exposures from one days-past-due bucket to another. This estimation incorporates a forward-looking component in line with IFRS 9.

49.2.1.4 Exposure at Default

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

49.2.1.5 Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties. It is estimated using information on the counterparty, the collateral type and coverage, recovery costs of any collateral that is integral to the financial asset and other criteria. For portfolios in respect of which the Group has limited historical data, credit external opinion benchmark against related regulators is used to supplement the internally available data.

49.2.1.6 Significant increase in credit risk

The Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition using reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information. The Group considers an exposure to have significantly increased in credit risk by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

For determining whether there has been a significant increase in credit risk, the Group uses a quantitative test based on movement in ORR of the counterparty (which reflects the movement of the PD).

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

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.1 Expected Credit Losses (continued)

49.2.1.6 Significant increase in credit risk (continued)

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

49.2.1.7 Expected Life

With the exception of credit cards and other revolving facilities the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group’s expectations of the customer behaviour, its likelihood of default and the Group’s future risk mitigation procedures, which could include reducing or cancelling the facilities.

49.2.1.8 Forward Looking Information

The Group incorporates forward-looking information at the level of Probability of Default.

On the PD level, the Group formulates three economic scenarios: a base case, which is the median scenario assigned with a certain probability of occurring, and two other scenarios, one upside and one downside, each assigned a specific chance of occurring, then, a weighted average PD is generated and used for the calculation of the ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, organizations such as World Bank and the International Monetary Fund, IIF and selected private-sector and academic forecasters. A team of specialists within the Group’s Credit Risk Department verifies the accuracy of inputs to the Group’s ECL models including determining the weights attributable to the multiple scenarios of the PD.

The Group has identified the real GDP growth among other, as the key driver of expected credit losses for several countries where it operates. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The expected credit losses’ 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. With respect to countries other than Lebanon, the impact on expected credit losses is not material. With respect to Lebanon, the environment is subject to rapid change due to the effects of the economic crisis and uncertainties disclosed in Note 1. Forecasts and scenarios are based on the best available information at the reporting date, combined with expert judgment. It is not practical at this time to determine and provide sensitivity analysis that is reasonably possible.

49.2.2 Overview of modified and forborne loans

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

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****49.2.2 Overview of modified and forbore loans (continued)**

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

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

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

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

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

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Amortised costs of financial assets modified during the year	92,738	60,770

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31 December 2019

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.3 Financial Assets and ECLs by stage

The tables below present an analysis of financial assets at amortised cost by gross exposure and impairment allowance by stage allocation as at 31 December 2019 and 2018. The Group does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross exposure			Impairment allowance			Net exposure LL million	
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million	Stage 1 LL million	Stage 2 LL million		Stage 3 LL million
31 December 2019								
Balances with central banks	15,112,764	-	640	15,113,404	(171,118)	-	(640)	(171,758)
Due from banks and financial institutions	2,535,224	12,062	1,805	2,549,091	(1,419)	(579)	(1,805)	(3,803)
Loans to banks and financial institutions and reverse repurchase agreements	356,944	-	-	356,944	(234)	-	-	(234)
Net loans and advances to customers at amortised cost	5,739,000	913,744	446,771	7,099,515	(94,566)	(49,257)	(241,867)	(385,690)
Net loans and advances to related parties at amortised cost	21,368	3,361	-	24,729	(78)	(95)	-	(173)
Financial assets at amortised cost	7,642,188	-	-	7,642,188	(219,652)	-	-	(219,652)
Financial guarantees and other commitments	2,429,867	24,808	-	2,454,675	(4,801)	(889)	-	(5,690)
Total	33,837,355	953,975	449,216	35,240,546	(491,868)	(50,820)	(244,312)	(787,000)

	Gross exposure			Impairment allowance			Net exposure LL million	
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million	Stage 1 LL million	Stage 2 LL million		Stage 3 LL million
31 December 2018								
Balances with central banks	16,350,093	7,795	2,562	16,360,450	(33,561)	(205)	(2,562)	(36,328)
Due from banks and financial institutions	3,866,614	1,769	1,841	3,870,224	(3,368)	(264)	(1,841)	(5,473)
Loans to banks and financial institutions and reverse repurchase agreements	351,599	12,202	-	363,801	(159)	(9)	-	(168)
Net loans and advances to customers at amortised cost	7,397,025	691,898	400,251	8,489,174	(62,125)	(18,442)	(230,378)	(310,945)
Net loans and advances to related parties at amortised cost	22,186	2,804	-	24,990	(35)	(24)	-	(59)
Financial assets at amortised cost	7,801,499	-	-	7,801,499	(25,223)	-	-	(25,223)
Financial guarantees and other commitments	3,968,614	169,734	-	4,138,348	(4,732)	(557)	-	(5,289)
Total	39,757,630	886,202	404,654	41,048,486	(129,203)	(19,501)	(234,781)	(383,485)

31 December 2019

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.3 Financial Assets and ECLs by stage (continued)

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of loans and advances to customers at amortized cost:

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2019	62,125	18,442	230,378	310,945
Charge for the year (note 12)	59,627	30,687	33,541	123,855
Write-offs	(2,308)	-	(15,838)	(18,146)
Other movements	-	-	24,101	24,101
Recoveries (note 12)	(24,102)	-	(10,026)	(34,128)
Transfer to off-financial position	(312)	-	(20,682)	(20,994)
Foreign exchange difference	(464)	128	393	57
Balance at 31 December 2019	94,566	49,257	241,867	385,690

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2018	75,006	-	217,547	292,553
Effect of IFRS 9 adoption	(7,528)	18,354	-	10,826
Amended balance as of 1 January 2018	67,478	18,354	217,547	303,379
Charge for the year (note 12)	3,799	4,126	55,319	63,244
Write-offs	-	-	(25,854)	(25,854)
Other movements	-	-	26,960	26,960
Recoveries (note 12)	(8,400)	(3,978)	(17,888)	(30,266)
Transfer to off-financial position	-	-	(24,707)	(24,707)
Foreign exchange difference	(752)	(60)	(999)	(1,811)
Balance at 31 December 2018	62,125	18,442	230,378	310,945

Net re-measurements and reallocations include re-measurements as a result of changes in the size of portfolios, reclassifications between stages and risk parameter changes.

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of balances with central banks:

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2019	33,561	205	2,562	36,328
Charge for the year (note 12)	139,162	-	-	139,162
Recoveries (note 12)	(226)	(205)	(1,922)	(2,353)
Foreign exchange difference	(1,379)	-	-	(1,379)
Balance at 31 December 2019	171,118	-	640	171,758

31 December 2019

49 RISK MANAGEMENT (continued)**49.2 CREDIT RISK (continued)****49.2.3 Financial Assets and ECLs by stage (continued)**

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2018	-	-	31,533	31,533
Effect of IFRS 9 adoption as at 1 January 2018	26,402	5	-	26,407
	<u>26,402</u>	<u>5</u>	<u>31,533</u>	<u>57,940</u>
Charge for the year (note 12)	7,190	200	-	7,390
Recoveries (note 12)	-	-	(29,024)	(29,024)
Foreign exchange difference	(31)	-	53	22
	<u>33,561</u>	<u>205</u>	<u>2,562</u>	<u>36,328</u>

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of financial assets at amortized cost:

	<i>Stage 1</i>	
	<i>2019</i> <i>LL million</i>	<i>2018</i> <i>LL million</i>
Balance as of 1 January	25,223	-
Effect of IFRS 9 adoption as at 1 January 2018	-	26,560
	<u>25,223</u>	<u>26,560</u>
Charge for the year (note 12)	192,801	1,787
Recoveries (note 12)	-	(3,006)
Foreign exchange difference	1,628	(118)
At 31 December	<u><u>219,652</u></u>	<u><u>25,223</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.4 Analysis of risk concentrations

Geographical location analysis

The Group controls credit risk by maintaining close monitoring credit of its assets' exposures by geographic location. The distribution of financial assets by geographic region as of 31 December is as follows:

	2019						2018		
	Lebanon LL million	Europe LL million	Others LL million	Total LL million	Lebanon LL million	Europe LL million	Others LL million	Total LL million	
Balances with central banks	14,357,398	256,085	139,159	14,752,642	15,657,267	137,410	186,701	15,981,378	
Due from banks and financial institutions	170,048	879,285	1,495,955	2,545,288	230,314	2,282,663	1,351,774	3,864,751	
Loans to banks and financial institutions and reverse repurchase agreements	11,625	124,082	221,003	356,710	18,771	137,522	207,340	363,633	
Derivative financial instruments	456	247	-	703	232	1,532	135	1,899	
Financial assets at fair value through profit or loss:									
<i>Lebanese treasury bills</i>	15,043	-	-	15,043	31,614	-	-	31,614	
Net loans and advances to customers at amortised cost									
<i>Commercial</i>	3,507,839	143,360	494,229	4,145,428	4,366,370	233,983	588,694	5,189,047	
<i>Consumer</i>	2,438,971	51,815	77,611	2,568,397	2,802,181	49,051	137,950	2,989,182	
Net loans and advances to related parties at amortised cost	23,841	715	-	24,556	24,266	653	12	24,931	
Debtors by acceptances	98,153	264	56,443	154,860	280,785	7,354	73,952	362,091	
Financial assets at amortised cost									
<i>Lebanese treasury bills</i>	4,353,978	-	-	4,353,978	4,651,184	-	-	4,651,184	
<i>Certificates of deposit issued by the Central Bank of Lebanon</i>	3,011,554	-	-	3,011,554	3,035,723	-	-	3,035,723	
<i>Foreign governmental debt securities</i>	-	53,178	-	53,178	-	72,104	13,473	85,577	
<i>Certificates of deposit issued by banks and financial institutions</i>	3,051	-	-	3,051	3,016	-	-	3,016	
<i>Debt securities issued by banks and financial institutions</i>	-	775	-	775	-	776	-	776	
Financial assets at fair value through other comprehensive income									
<i>Lebanese treasury bills</i>	42,948	-	-	42,948	42,919	-	-	42,919	
<i>Foreign governmental debt securities</i>	-	101,607	-	101,607	-	90,884	-	90,884	
<i>Debt securities issued by banks and financial institutions</i>	-	10,011	-	10,011	-	6,410	-	6,410	
	28,034,905	1,621,424	2,484,400	32,140,729	31,144,642	3,020,342	2,560,031	36,725,015	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.4 Analysis of risk concentrations (continued)

Industrial analysis

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by industry sector. The distribution of financial assets by industry sector as of 31 December is as follows:

	2019									
	<i>Financial services and brokerage</i> <i>LL million</i>	<i>Government</i> <i>LL million</i>	<i>Consumers</i> <i>LL million</i>	<i>Retail and wholesale</i> <i>LL million</i>	<i>Construction and materials</i> <i>LL million</i>	<i>Manufacturing</i> <i>LL million</i>	<i>Services and utilities</i> <i>LL million</i>	<i>Agriculture</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>	
Balances with central banks	-	14,356,758	-	-	-	-	-	-	-	14,356,758
<i>Central Bank of Lebanon</i>	-	395,884	-	-	-	-	-	-	-	395,884
<i>Other Central Banks</i>	2,545,288	-	-	-	-	-	-	-	-	2,545,288
Due from banks and financial institutions	-	-	-	-	-	-	-	-	-	-
Loans to banks and financial institutions and reverse repurchase agreements	356,710	-	-	-	-	-	-	-	-	356,710
Derivative financial instruments	703	-	-	-	-	-	-	-	-	703
Financial assets at fair value through profit or loss	-	15,043	-	-	-	-	-	-	-	15,043
Net loans and advances to customers at amortised cost	-	-	-	1,443,155	863,475	934,159	774,120	130,519	-	4,145,428
<i>Commercial</i>	-	-	2,568,397	-	-	-	-	-	-	2,568,397
<i>Consumer</i>	-	-	-	-	-	-	-	-	-	-
Net loans and advances to related parties at amortised cost	-	-	-	4,814	12,012	-	-	-	-	16,826
<i>Commercial</i>	-	-	-	-	-	-	-	-	-	-
<i>Consumer</i>	13,217	-	7,730	78,709	5,960	43,059	7,144	6,771	-	154,860
Debtors by acceptances	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost	-	-	-	-	-	-	-	-	-	-
<i>Lebanese treasury bills</i>	-	4,353,978	-	-	-	-	-	-	-	4,353,978
<i>Certificates of deposit issued by the Central Bank of Lebanon</i>	-	3,011,554	-	-	-	-	-	-	-	3,011,554
<i>Foreign governmental debt securities</i>	-	53,178	-	-	-	-	-	-	-	53,178
<i>Certificates of deposits issued by banks and financial institutions</i>	3,051	-	-	-	-	-	-	-	-	3,051
<i>Debt securities issued by banks and financial institutions</i>	775	-	-	-	-	-	-	-	-	775
Financial assets at fair value through other comprehensive income	-	42,948	-	-	-	-	-	-	-	42,948
<i>Lebanese treasury bills</i>	-	101,607	-	-	-	-	-	-	-	101,607
<i>Foreign governmental debt securities</i>	-	-	-	-	-	-	-	-	-	-
<i>Debt securities issued by banks and financial institutions</i>	10,011	-	-	-	-	-	-	-	-	10,011
	<u>2,929,755</u>	<u>22,330,950</u>	<u>2,576,127</u>	<u>1,526,678</u>	<u>881,447</u>	<u>977,218</u>	<u>781,264</u>	<u>137,290</u>		<u>32,140,729</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.4 Analysis of risk concentrations (continued)

Industrial analysis (continued)

	2018									
	Financial services and brokerage LL million	Government LL million	Consumers LL million	Retail and wholesale LL million	Construction and materials LL million	Manufacturing LL million	Energy and petroleum LL million	Services and utilities LL million	Agriculture LL million	Total LL million
Balances with central banks	-	-	-	-	-	-	-	-	-	-
Central Bank of Lebanon	-	15,653,704	-	-	-	-	-	-	-	15,653,704
Other Central Banks	-	327,674	-	-	-	-	-	-	-	327,674
Due from banks and financial institutions	3,864,751	-	-	-	-	-	-	-	-	3,864,751
Loans to banks and financial institutions and reverse repurchase agreements	363,633	-	-	-	-	-	-	-	-	363,633
Derivative financial instruments	1,899	-	-	-	-	-	-	-	-	1,899
Financial assets at fair value through profit or loss	-	31,614	-	-	-	-	-	-	-	31,614
Net loans and advances to customers at amortised cost	-	-	2,989,182	1,768,078	1,121,444	1,177,648	-	994,862	127,015	5,189,047
Commercial Consumer	-	-	-	-	-	-	-	-	-	2,989,182
Net loans and advances to related parties at amortised cost	-	-	-	4,012	12,082	-	-	-	-	16,094
Commercial Consumer	-	-	8,837	-	-	-	-	-	-	8,837
Debtors by acceptances	61,159	-	-	179,623	7,566	77,284	848	25,646	9,965	362,091
Financial assets at amortised cost	-	-	-	-	-	-	-	-	-	-
Lebanese treasury bills	-	4,651,184	-	-	-	-	-	-	-	4,651,184
Certificates of deposit issued by the Central Bank of Lebanon	-	3,035,723	-	-	-	-	-	-	-	3,035,723
Foreign governmental debt securities	-	85,577	-	-	-	-	-	-	-	85,577
Certificates of deposit issued by banks and financial institutions	3,016	-	-	-	-	-	-	-	-	3,016
Debt securities issued by banks and financial institutions	776	-	-	-	-	-	-	-	-	776
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-
Lebanese treasury bills	-	42,919	-	-	-	-	-	-	-	42,919
Foreign governmental debt securities	-	90,884	-	-	-	-	-	-	-	90,884
Debt securities issued by banks and financial institutions	6,410	-	-	-	-	-	-	-	-	6,410
	4,301,644	23,919,279	2,998,019	1,951,713	1,141,092	1,254,932	848	1,020,508	136,980	36,725,015

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.5 Credit quality

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.
- (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: (a) *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. (b) *Follow-up* represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *Follow-up and arrange* 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. (d) *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. (e) *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, (f) *Bad* loans with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

Sovereign

The Group applies two different PDs based on rating agencies' external studies. A forward-looking adjustment is performed on both PDs via beta regression by considering the relevant macro-economic factors as published by International data sources. The resulting PiT and forward-looking PDs are then used in the ECL calculation under the base case. The Group then projects these factors under a lower and upper scenario. This year and in compliance with the Central Bank of Lebanon Intermediary Circular 543, the Group applied the regulatory ECL's ceiling for sovereign exposures (i.e. ECL of 1.89% and 9.45% for Central Bank of Lebanon exposures in foreign currencies and Eurobonds respectively and ECL of 0% for Central Bank of Lebanon exposures in local currency and Lebanese treasury bills).

Banks and Financial Institutions

The Group considers that the credit spread above a given LIBOR rate is a reflective rate for expected credit loss. The cost of risk is considered as a proxy for PD and LGD.

Debt securities

The Group assigns the second lowest rating amongst the three rating agencies (Moody's, Standard & Poor's and Fitch) for each instrument. The Group also segregates the country of issuance of these debt securities between Emerging and Advanced Economies based on the International data sources studies. The Group then conducts a correlation analysis per rating grade for each of the considered group of Advanced Economies and Emerging Economies. The resulting PDs are PiT and forward looking. The Group then generated scenarios at the PD level.

Commercial Loans

In accordance to the Group's policy, default is defined when the borrower is 90 days' past due, along with other qualitative indicators on a case-by-case basis. The default definition is reflected in the collection of the default rates on a yearly basis, to be used in the calibration stage of the PD calculation.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.5 Credit quality (continued)

Consumer Loans

For the purpose of the loss rate calculation, the Group segregates its Consumer loans portfolio by product and displays the portfolio breakdown by DPD bucket. The Group adopts this approach for its Consumer facilities that fall within Stage 1. The Group then analyzes monthly net flow rates whereby the loss rate for each delinquency bucket is computed by considering the flow into the designated loss bucket at which write-off is assumed to occur. Forward looking loss rate is then projected through analysis of correlation with macro-economic factors and regressed under lower, base and upper scenarios.

The table below shows the credit quality of the Group's financial assets and Contingent liabilities based on internal credit ratings and stage classification. The amounts presented are gross of impairment allowances.

	2019			
	Stage 1 <i>LL million</i>	Stage 2 <i>LL million</i>	Stage 3 <i>LL million</i>	Total <i>LL million</i>
Financial assets				
Balances with central banks	15,112,764	-	640	15,113,404
Due from banks and financial institutions	2,535,224	12,062	1,805	2,549,091
Loans to banks and financial institutions and reverse repurchase	356,944	-	-	356,944
Net loans and advances to customers at amortized cost	5,739,000	913,744	446,771	7,099,515
Net loans and advances to related parties at amortized cost	21,368	3,361	-	24,729
Financial assets at amortized cost	7,642,188	-	-	7,642,188
Financial guarantees and other commitments	2,429,867	24,808	-	2,454,675
	<u>33,837,355</u>	<u>953,975</u>	<u>449,216</u>	<u>35,240,546</u>
	2018			
	Stage 1 <i>LL million</i>	Stage 2 <i>LL million</i>	Stage 3 <i>LL million</i>	Total <i>LL million</i>
Financial assets				
Balances with central banks	16,350,093	7,795	2,562	16,360,450
Due from banks and financial institutions	3,866,614	1,769	1,841	3,870,224
Loans to banks and financial institutions and reverse repurchase	351,599	12,202	-	363,801
Net loans and advances to customers at amortized cost	7,397,025	691,898	400,251	8,489,174
Net loans and advances to related parties at amortized cost	22,186	2,804	-	24,990
Financial assets at amortized cost	7,801,499	-	-	7,801,499
Financial guarantees and other commitments	3,968,614	169,734	-	4,138,348
	<u>39,757,630</u>	<u>886,202</u>	<u>404,654</u>	<u>41,048,486</u>

Byblos Bank SAL

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31 December 2019

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

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

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

	2019					
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Net credit exposure LL million
Balances with central banks	14,752,642	-	-	-	-	14,752,642
Due from banks and financial institutions	2,545,288	-	-	-	-	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	356,710	(10,987)	(21,400)	-	-	324,323
Derivative financial instruments	703	-	-	-	-	703
Financial assets at fair value through profit or loss	15,043	-	-	-	-	15,043
Net loans and advances to customers at amortised cost						
Commercial loans	4,145,428	(317,398)	(105,080)	(53)	(1,409,963)	2,312,934
Consumer loans	2,568,397	(305,478)	(170)	-	(1,568,760)	693,989
Net loans and advances to related parties at amortised cost	24,556	(5,839)	-	-	(2,994)	15,723
Financial assets at amortised cost	7,422,536	-	-	-	-	7,422,536
Financial assets at fair value through other comprehensive income	154,566	-	-	-	-	154,566
	<u>31,985,869</u>	<u>(639,702)</u>	<u>(126,650)</u>	<u>(53)</u>	<u>(2,981,717)</u>	<u>28,237,747</u>
Financial guarantees	147,574	(8,627)	-	-	-	138,947
Documentary credits (including acceptances)	494,765	(20,426)	-	-	-	474,339
	<u>32,628,208</u>	<u>(668,755)</u>	<u>(126,650)</u>	<u>(53)</u>	<u>(2,981,717)</u>	<u>28,851,033</u>
Utilized collateral						
Surplus of collateral before undrawn credit lines		(668,755)	(126,650)	(53)	(2,981,717)	
		(408,033)	(158,135)	(71,333)	(2,734,096)	
Guarantees received from banks, financial institutions and customers		(1,076,788)	(284,785)	(71,386)	(5,715,813)	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 1,130,645 million as at 31 December 2019.

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31 December 2019

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.6 Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)

	2018					
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Net credit exposure LL million
Balances with central banks	15,981,378	-	-	-	-	15,981,378
Due from banks and financial institutions	3,864,751	-	-	-	-	3,864,751
Loans to banks and financial institutions and reverse repurchase agreements	363,633	(11,234)	(17,614)	-	-	334,785
Derivative financial instruments	1,899	-	-	-	-	1,899
Financial assets at fair value through profit or loss	31,614	-	-	-	-	31,614
Net loans and advances to customers at amortised cost:						
Commercial loans	5,189,047	(624,503)	(101,744)	(31,591)	(1,246,304)	3,184,905
Consumer loans	2,989,182	(433,392)	(414)	(45)	(1,665,234)	890,097
Net loans and advances to related parties at amortised cost	24,931	(6,452)	-	-	(3,445)	15,034
Financial assets at amortised cost	7,776,276	-	-	-	-	7,776,276
Financial assets at fair value through other comprehensive income	140,213	-	-	-	-	140,213
	<u>36,362,924</u>	<u>(1,075,581)</u>	<u>(119,772)</u>	<u>(31,636)</u>	<u>(2,914,983)</u>	<u>32,220,952</u>
Financial guarantees	238,700	(13,050)	-	-	-	225,650
Documentary credits (including acceptances)	1,091,037	(20,795)	-	-	-	1,070,242
	<u>37,692,661</u>	<u>(1,109,426)</u>	<u>(119,772)</u>	<u>(31,636)</u>	<u>(2,914,983)</u>	<u>33,516,844</u>
Utilized collateral						
Surplus of collateral before undrawn credit lines		(1,109,426)	(119,772)	(31,636)	(2,914,983)	
		(343,846)	(280,886)	(53,854)	(3,110,275)	
Guarantees received from banks, financial institutions and customers		(1,453,272)	(400,658)	(85,490)	(6,025,258)	

The surplus of collateral mentioned above presented before offsetting additional credit commitments given to customers amounting to LL 2,198,843 million as at 31 December 2018.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.7 Collateral and other credit enhancements

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

Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

The main types of collateral obtained are as follows:

- *Securities*: the balances shown represent the fair value of the securities.
- *Letters of credit/guarantees*: the Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.
- *Real estate (commercial and residential)*: the Group holds, in some cases, a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.

In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals, second degree mortgages, and assignments of insurance or bills proceeds and revenues, which are not reflected in the below table.

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at an excessive cost. The Group's policy with regards to the liquidity risk management is centered on a conservative approach, whereby the liquidity is managed strongly in normal times and adequate liquidity buffers are maintained, in a way that enables the Group to withstand a prolonged period of liquidity stress.

Net immediate cash and near cash in foreign currencies are held at sight in prime international banks to keep the Net Immediate Liquidity above the defined tolerance level by the Board of Directors at all times.

The Group has updated its Liquidity Risk Policy to include Liquidity Standards such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), based on Basel III and its own conservative assumptions. The LCR is kept well above the established internal minimum, ensuring that the Group maintains High Quality Liquid Assets (HQLAs), both in local and foreign currencies, which allow the Group to cover more than 100% of a potentially stressed net outflow in a liquidity crisis based on severe internal estimates and haircuts. The NSFR is designed to ensure that long term assets are funded with at least a minimum amount of stable resources in relation to their liquidity characteristics.

Moreover, the policy defined a set of Early Warning Indicators (EWIs) along with other liquidity ratios and monitoring tools that are continuously screened by Senior Management and the Board of Directors.

49 RISK MANAGEMENT (continued)

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Monitoring process

Daily

Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets rather than the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Group's activities. On a daily basis, a report of highly liquid assets showing the change in the position compared to the previous day, and submits it to the members of the ALCO. Also, Group Treasury monitors daily the inflows and outflows in the main currencies used by the Group.

Weekly

A weekly report of expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods. This report is submitted to the Central Bank of Lebanon.

Monthly

Tables are prepared indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO.

Quarterly

The Board of Directors is informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis.

Periodic

The liquidity position is assessed under various scenarios, including simulation of Group-specific crisis and market-wide crisis. The stress scenarios are applied to both on-balance sheet and off-balance sheet commitments, to provide a complete picture of potential cash outflows.

As part of the Group's procedures for monitoring and managing liquidity risk, the Group sets out a response in the event of liquidity difficulties.

As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

Liquidity ratios

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The ratio of foreign currency liquid assets to foreign currency total deposits and other liabilities falling due in the next month is prepared monthly by the Group Risk Management and monitored by ALCO. Foreign currency liquid assets are defined as foreign currency bonds and placements with banks, foreign branches and subsidiaries maturing within thirty days.

The Group is not in breach with the regulatory Liquidity Coverage Ratio (LCR) which is calculated in accordance with Basel III liquidity standards as implemented by the Central Bank of each jurisdiction where the Group operates. It aims at ensuring that each entity has sufficient unencumbered high-quality-liquid assets (HQLA) to meet its liquidity needs in a 30 calendar day liquidity stress scenario during which the entity is assumed to experience outflows at a severe stress level. However, due to the economic crises facing Lebanon, as discussed above, management believes it is more important to monitor daily the inflows and outflows in the main currencies used by the Group rather than the supervisory liquidity ratios.

49 RISK MANAGEMENT (continued)

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Sources of funding

Customer deposits were the main funding source of the Group as at 31 December 2019 and 2018. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a large number of depositors. The Group monitors the percentage of time deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels.

The Group stresses the importance of customer deposits as source of funds to finance its lending activities. This is monitored by using the loans to deposits ratio, which compare loans and advances to customers as a percentage of deposits from customers.

Loans to deposits ratio	2019	2018
Year-end	25.72%	29.47%
Maximum	28.70%	30.60%
Minimum	25.72%	29.47%
Average	27.31%	30.06%

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations. The contractual maturities were determined based on the period remaining to each maturity as per the consolidated statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

	2019					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with central banks	3,330,267	142,472	1,097,066	10,433,352	9,339,486	24,342,643
Due from banks and financial institutions	2,354,300	117,131	72,447	3,580	-	2,547,458
Loans to banks and financial institutions and reverse repurchase agreements	136,660	107,374	91,046	22,859	-	357,939
Derivative financial instruments	703	-	-	-	-	703
Financial assets at fair value through profit or loss	19	117	2,481	15,487	83,932	102,036
Net loans and advances to customers at amortised cost	2,677,641	466,007	792,624	2,179,193	1,600,499	7,715,964
Net loans and advances to related parties at amortised cost	14,325	209	1,336	2,338	8,318	26,526
Debtors by acceptances	56,998	66,116	20,608	11,138	-	154,860
Financial assets at amortised cost	24,902	230,000	1,014,066	5,020,342	3,739,281	10,028,591
Financial assets at fair value through other comprehensive income	98	278	22,470	70,335	223,371	316,552
Total undiscounted financial assets	8,595,913	1,129,704	3,114,144	17,758,624	14,994,887	45,593,272
Financial liabilities						
Due to central banks	18,611	23,808	124,387	1,329,597	846,881	2,343,284
Due to banks and financial institutions	463,173	198,778	134,628	365,637	162,282	1,324,498
Derivative financial instruments	908	-	-	-	-	908
Customers' deposits at amortised cost	12,261,361	3,846,706	6,567,450	4,147,633	223,680	27,046,830
Deposits from related parties at amortised cost	143,550	20,712	36,019	113,301	12,276	325,858
Debt issued and other borrowed funds	-	207	31,658	456,834	-	488,699
Engagements by acceptances	57,257	66,116	20,608	11,138	-	155,119
Subordinated debt	-	7,594	22,047	498,259	-	527,900
Total undiscounted financial liabilities	12,944,860	4,163,921	6,936,797	6,922,399	1,245,119	32,213,096
Net undiscounted financial assets / (liabilities)	(4,348,947)	(3,034,217)	(3,822,653)	10,836,225	13,749,768	13,380,176

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49 RISK MANAGEMENT (continued)

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

	2018					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with central banks	1,908,522	1,410,690	1,170,533	6,719,985	13,607,940	24,817,670
Due from banks and financial institutions	3,521,505	277,611	56,642	13,375	1,419	3,870,552
Loans to banks and financial institutions and reverse repurchase agreements	125,689	83,938	129,824	26,600	-	366,051
Derivative financial instruments	1,899	-	-	-	-	1,899
Financial assets at fair value through profit or loss	23	167	2,430	14,938	96,816	114,374
Net loans and advances to customers at amortised cost	3,599,878	460,598	1,164,767	2,454,112	1,564,488	9,243,843
Net loans and advances to related parties at amortised cost	9,219	752	3,091	3,812	9,994	26,868
Debtors by acceptances	143,992	141,506	62,714	13,879	-	362,091
Financial assets at amortised cost	30,261	83,087	686,396	5,889,298	3,928,802	10,617,844
Financial assets at fair value through other comprehensive income	45	219	10,166	59,322	183,104	252,856
Total undiscounted financial assets	9,341,033	2,458,568	3,286,563	15,195,321	19,392,563	49,674,048
Financial liabilities						
Due to central banks	13,712	12,697	90,673	1,327,034	3,011,070	4,455,186
Due to banks and financial institutions	611,828	134,992	156,810	273,858	148,538	1,326,026
Derivative financial instruments	1,802	-	-	-	-	1,802
Customers' deposits at amortised cost	13,124,581	4,127,166	7,451,013	3,129,282	323,665	28,155,707
Deposits from related parties at amortised cost	359,841	11,835	16,861	60,339	8,855	457,731
Debt issued and other borrowed funds	-	-	31,658	488,611	-	520,269
Engagements by acceptances	143,992	141,506	62,714	13,879	-	362,091
Subordinated debt	-	7,349	22,210	524,199	-	553,758
Total undiscounted financial liabilities	14,255,756	4,435,545	7,831,939	5,817,202	3,492,128	35,832,570
Net undiscounted financial assets / (liabilities)	(4,914,723)	(1,976,977)	(4,545,376)	9,378,119	15,900,435	13,841,478

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

	2019					Total LL million
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financial guarantees	-	-	31,494	115,496	584	147,574
Documentary credits	63,683	155,026	116,009	5,187	-	339,905
Commitments to lend	1,130,645	-	-	-	-	1,130,645
	1,194,328	155,026	147,503	120,683	584	1,618,124
	2018					Total LL million
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financial guarantees	-	-	19,760	218,395	545	238,700
Documentary credits	66,108	339,681	284,020	39,137	-	728,946
Commitments to lend	2,198,843	-	-	-	-	2,198,843
	2,264,951	339,681	303,780	257,532	545	3,166,489

49 RISK MANAGEMENT (continued)**49.4 MARKET RISK**

Market risk is defined as the potential loss in both on balance sheet and off-balance sheet positions resulting from movements in market variables such as interest rates, foreign exchange rates and equity prices.

The market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the ALCO committee, the business lines and risk functions.

It is the responsibility of the ALCO to manage the Group's investment portfolio under the terms of the Security Investment Policy. While striving to maximize portfolio performance, the ALCO shall keep the management of the portfolio within the bounds of good banking practices, satisfy the Group's liquidity needs, and ensure compliance with both regulatory and internally set limits and requirements.

The Group Risk Management division sets the framework necessary for identification, measurement and management of market risk.

Interest rate risk

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

Interest rate sensitivity

The following table shows the sensitivity to a reasonably possible to 100 basis points parallel changes in interest rates, with all other variables held constant, of the Group's income statement.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. Given the novel and prolonged nature of current economic crisis and the high levels of uncertainties, the Group expects lower interest rates during 2020. However, the Group is unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through issuance of Intermediary Circulars 536 and 544 (refer to Note 1).

The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 35 to these consolidated financial statements.

The effect of any future associated hedges made by the Group is not accounted for.

<i>Currency</i>	<i>Decrease in basis points</i>	<i>2019</i>	<i>2018</i>
		<i>Effect on net interest income LL million</i>	<i>Effect on net interest income LL million</i>
LL	100 basis point	18,890	35,552
US Dollar	100 basis point	12,136	5,268
Euro	100 basis point	1,603	2,268

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49 RISK MANAGEMENT (continued)**49.4 MARKET RISK (continued)****Interest rate risk (continued)***Interest rate sensitivity (continued)*

The Group's interest sensitivity position based on the contractual re-pricing date at 31 December is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of customer demand deposits.

	2019						Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Non interest bearing items LL million	
ASSETS							
Cash and balances with central banks	2,299,482	-	-	5,697,741	5,879,347	1,065,076	14,941,646
Due from banks and financial institutions	730,732	116,591	71,599	3,580	-	1,622,786	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	135,070	107,853	90,687	23,100	-	-	356,710
Derivative financial instruments	-	-	-	-	-	703	703
Financial assets at fair value through profit or loss	-	-	517	7,877	6,608	68,549	83,551
Net loans and advances to customers at amortised cost	3,487,114	593,416	1,752,668	373,357	140,146	367,124	6,713,825
Net loans and advances to related parties at amortised cost	14,298	119	2,579	15	-	7,545	24,556
Debtors by acceptances	-	-	-	-	-	154,860	154,860
Financial assets at amortised cost	-	154,113	664,808	3,300,402	3,239,008	64,205	7,422,536
Financial assets at fair value through other comprehensive income	98	278	15,904	44,518	97,377	84,809	242,984
Total	6,666,794	972,370	2,598,762	9,450,590	9,362,486	3,435,657	32,486,659
LIABILITIES							
Due to central banks	21,056	7,056	28,233	891,152	552,532	28,767	1,528,796
Due to banks and financial institutions	351,817	190,135	115,294	287,799	151,233	143,114	1,239,392
Derivative financial instruments	-	-	-	-	-	908	908
Customers' deposits at amortised cost	8,866,677	3,686,902	5,803,125	3,919,552	200,837	3,491,338	25,968,431
Deposits from related parties at amortised cost	11,780	-	33,546	64,944	30,763	84,601	225,634
Debt issued and other borrowed funds	-	-	-	441,006	-	822	441,828
Engagements by acceptances	-	-	-	-	-	155,119	155,119
Subordinated debt	-	-	-	429,465	-	327	429,792
Total	9,251,330	3,884,093	5,980,198	6,033,918	935,365	3,904,996	29,989,900
Total interest sensitivity gap	(2,584,536)	(2,911,723)	(3,381,436)	3,416,672	8,427,121	(469,339)	2,496,759

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49 RISK MANAGEMENT (continued)**49.4 MARKET RISK (continued)****Interest rate risk (continued)***Interest rate sensitivity (continued)*

	2018						
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Non interest bearing items</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
ASSETS							
Cash and balances with central banks	818,243	1,334,138	292,455	2,909,361	9,677,346	1,292,579	16,324,122
Due from banks and financial institutions	2,526,294	276,139	57,183	13,374	644	991,117	3,864,751
Loans to banks and financial institutions and reverse repurchase agreements	125,439	82,912	129,896	25,370	-	16	363,633
Derivative financial instruments	-	-	-	-	-	1,899	1,899
Financial assets at fair value through profit or loss	-	-	-	5,066	26,096	59,328	90,490
Net loans and advances to customers at amortised cost	3,644,722	601,137	2,117,900	1,274,457	261,839	278,174	8,178,229
Net loans and advances to related parties at amortised cost	14,240	942	838	1,905	94	6,912	24,931
Debtors by acceptances	-	-	-	-	-	362,091	362,091
Financial assets at amortised cost	2,972	23,626	355,959	4,181,196	3,128,812	83,711	7,776,276
Financial assets at fair value through other comprehensive income	45	219	7,100	48,059	84,566	88,440	228,429
Total	7,131,955	2,319,113	2,961,331	8,458,788	13,179,397	3,164,267	37,214,851
LIABILITIES							
Due to central banks	13,518	6,651	21,651	1,050,562	2,774,792	3,349	3,870,523
Due to banks and financial institutions	337,650	130,050	233,639	205,672	135,974	223,085	1,266,070
Derivative financial instruments	-	-	-	-	-	1,802	1,802
Customers' deposits at amortised cost	10,911,101	3,979,827	6,463,779	2,937,015	278,434	2,847,986	27,418,142
Deposits from related parties at amortised cost	352,742	11,341	3,282	34,968	-	18,839	421,172
Debt issued and other borrowed funds	-	-	-	450,482	-	819	451,301
Engagements by acceptances	-	-	-	-	-	362,091	362,091
Subordinated debt	-	-	-	426,173	-	245	426,418
Total	11,615,011	4,127,869	6,722,351	5,104,872	3,189,200	3,458,216	34,217,519
Total interest sensitivity gap	(4,483,056)	(1,808,756)	(3,761,020)	3,353,916	9,990,197	(293,949)	2,997,332

Currency risk

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

In addition to regulatory limits, the positions by currency are monitored constantly to ensure they are maintained within established limits.

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49 RISK MANAGEMENT (continued)**49.4 MARKET RISK (continued)****Currency risk (continued)**

Following is the consolidated statement of financial position as of 31 December 2019 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	<i>2019</i>		<i>Total LL million</i>
	<i>LL million</i>	<i>Foreign currencies in LL million</i>	
ASSETS			
Cash and balances with central banks	2,887,532	12,054,114	14,941,646
Due from banks and financial institutions	149,761	2,395,527	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	60	356,650	356,710
Derivative financial instruments	456	247	703
Financial assets at fair value through profit or loss	1,588	81,963	83,551
Net loans and advances to customers at amortised cost	1,927,554	4,786,271	6,713,825
Net loans and advances to related parties at amortised cost	3,506	21,050	24,556
Debtors by acceptances	-	154,860	154,860
Financial assets at amortised cost	4,154,898	3,267,638	7,422,536
Financial assets at fair value through other comprehensive income	21,544	221,440	242,984
Property, equipment and right-of-use assets	269,767	67,239	337,006
Intangible assets	19,222	618	19,840
Non-current assets held for sale	(7,098)	78,780	71,682
Other assets	103,586	22,022	125,608
TOTAL ASSETS	9,532,376	23,508,419	33,040,795
LIABILITIES AND EQUITY			
Due to central banks	1,507,102	21,694	1,528,796
Due to banks and financial institutions	11,450	1,227,942	1,239,392
Derivative financial instruments	701	207	908
Customers' deposits at amortised cost	6,441,049	19,527,382	25,968,431
Deposits from related parties at amortised cost	10,791	214,843	225,634
Debt issued and other borrowed funds	-	441,828	441,828
Engagement by acceptances	-	155,119	155,119
Other liabilities	287,218	69,582	356,800
Provisions for risks and charges	154,379	28,928	183,307
Subordinated debt	-	429,792	429,792
TOTAL LIABILITIES	8,412,690	22,117,317	30,530,007
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	591,083	591,083
Non-distributable reserves	636,534	390,031	1,026,565
Distributable reserves	106,623	18,375	124,998
Treasury shares	-	(8,967)	(8,967)
Retained earnings	84,956	11,772	96,728
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	15,527	(55,436)	(39,909)
Net results of the financial period – profit	(216,765)	33,212	(183,553)
Foreign currency translation reserves	(52,918)	-	(52,918)
NON-CONTROLLING INTERESTS	30,349	2,596	32,945
TOTAL EQUITY	1,299,108	1,211,680	2,510,788
TOTAL LIABILITIES AND EQUITY	9,711,798	23,328,997	33,040,795

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49 RISK MANAGEMENT (continued)**49.4 MARKET RISK (continued)****Currency risk (continued)**

Following is the consolidated statement of financial position as of 31 December 2018 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	<i>2018</i>		<i>Total LL million</i>
	<i>LL million</i>	<i>Foreign currencies in LL million</i>	
ASSETS			
Cash and balances with central banks	7,153,327	9,170,795	16,324,122
Due from banks and financial institutions	185,687	3,679,064	3,864,751
Loans to banks and financial institutions and reverse repurchase agreements	-	363,633	363,633
Derivative financial instruments	742	1,157	1,899
Financial assets at fair value through profit or loss	1,990	88,500	90,490
Net loans and advances to customers at amortised cost	2,280,252	5,897,977	8,178,229
Net loans and advances to related parties at amortised cost	4,545	20,386	24,931
Debtors by acceptances	-	362,091	362,091
Financial assets at amortised cost	4,371,188	3,405,088	7,776,276
Financial assets at fair value through other comprehensive income	22,612	205,817	228,429
Property, equipment and right-of-use assets	233,076	38,887	271,963
Intangible assets	17,727	-	17,727
Non-current assets held for sale	(7,977)	59,382	51,405
Other assets	120,757	21,125	141,882
TOTAL ASSETS	14,383,926	23,313,902	37,697,828
LIABILITIES AND EQUITY			
Due to central banks	3,841,004	29,519	3,870,523
Due to banks and financial institutions	13,892	1,252,178	1,266,070
Derivative financial instruments	685	1,117	1,802
Customers' deposits at amortised cost	8,500,620	18,917,522	27,418,142
Deposits from related parties at amortised cost	16,897	404,275	421,172
Debt issued and other borrowed funds	-	451,301	451,301
Engagement by acceptances	-	362,091	362,091
Other liabilities	293,130	61,647	354,777
Provisions for risks and charges	128,077	102,346	230,423
Subordinated debt	-	426,418	426,418
TOTAL LIABILITIES	12,794,305	22,008,414	34,802,719
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	591,083	591,083
Non-distributable reserves	619,264	362,776	982,040
Distributable reserves	98,622	18,030	116,652
Treasury shares	-	(7,105)	(7,105)
Retained earnings	77,064	(14)	77,050
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	13,181	(28,643)	(15,462)
Net results of the financial period – profit	198,289	40,651	238,940
Foreign currency translation reserves	(50,603)	-	(50,603)
NON-CONTROLLING INTERESTS	36,184	2,514	38,698
TOTAL EQUITY	1,686,803	1,208,306	2,895,109
TOTAL LIABILITIES AND EQUITY	14,481,108	23,216,720	37,697,828

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Currency risk (continued)

The Group's Exposure to Currency Risk

The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars and Euros. As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are valued at the official exchange rate, and due to the high volatility and the significant variance in exchange rates between the multiple markets, management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognized in the consolidated financial statements once the change in the official exchange rate is implemented by the Lebanese Government.

Equity price risk

Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies/maturities) in which the Group holds equity-related positions.

The Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock/index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 per cent increase in the value of the Group's equities at 31 December 2019 would have increased other comprehensive income by LL 2,102 million and net income by LL 2,459 million (2018: LL 2,233 million and LL 1,982 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

49.5 OPERATIONAL RISK

Operational risk is the risk of loss or damage arising from inadequate or failed internal processes, people, systems, or from external events (including legal risks). When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses.

To reduce operational risk, the Group has developed an Operational Risk Management framework with the objective of ensuring that operational risks within the component of the framework is a set of core operational risk policies designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines were placed on the Group's intranet site for quick access and referrals. The critical operational risk issues were handled by a separate Operational Risk Committee which meetings are attended by business lines Senior Managers including the Chief Risk Officer and the General Manager.

49 RISK MANAGEMENT (continued)**49.5 OPERATIONAL RISK (continued)**

The framework for managing and controlling operational risks encompasses various tools including Risk and Control Assessment (RCA), operational risk event reporting and loss database management and key risk indicators (KRIs). The RCA is performed by each business and support unit to identify key operational risks and assess the degree of effectiveness of internal controls. Inadequate controls are subject to action plans that will help track and timely resolve deficiencies. This tool is subject to a proactive approach to minimize operational risk loss. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Group's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are being established to facilitate the operational risk monitoring in a forward looking manner with pre-defined escalation triggers. The Group gives particular attention to preventive measures when it comes to operational risk management and has established continuing training and awareness programs to fulfill them.

The Group's operational risk mitigation program involves both business continuity management and insurance management program, whereby the former is set to oversee the business continuity of essential business service during unforeseen events mainly business disruption and system failures events - with enterprise wide impact - along with natural disasters and terrorism/ vandalism events. As to the latter the Group purchases group wide insurance policies to mitigate significant losses. These policies cover fraud, property damage and general liability, and Director's and officers' liability.

50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. The maturity profile of the Group's assets and liabilities at 31 December is as follows:

	2019		Total LL million
	Less than one year LL million	More than one year LL million	
ASSETS			
Cash and balances with central banks	3,496,620	11,445,026	14,941,646
Due from banks and financial institutions	2,541,708	3,580	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	334,295	22,415	356,710
Derivative financial instruments	703	-	703
Financial assets at fair value through profit or loss	558	82,993	83,551
Net loans and advances to customers at amortised cost	3,621,497	3,092,328	6,713,825
Net loans and advances to related parties at amortised cost	15,428	9,128	24,556
Debtors by acceptances	143,722	11,138	154,860
Financial assets at amortised cost	872,441	6,550,095	7,422,536
Financial assets at fair value through other comprehensive income	16,488	226,496	242,984
Property, equipment and right-of-use assets	-	337,006	337,006
Intangible assets	-	19,840	19,840
Non-current assets held for sale	-	71,682	71,682
Other assets	123,358	2,250	125,608
TOTAL ASSETS	11,166,818	21,873,977	33,040,795
LIABILITIES			
Due to central banks	75,556	1,453,240	1,528,796
Due to banks and financial institutions	779,362	460,030	1,239,392
Derivative financial instruments	908	-	908
Customers' deposits at amortised cost	22,153,577	3,814,854	25,968,431
Deposits from related parties at amortised cost	169,833	55,801	225,634
Debt issued and other borrowed funds	823	441,005	441,828
Engagements by acceptances	143,981	11,138	155,119
Other liabilities	217,813	138,987	356,800
Provisions for risks and charges	-	183,307	183,307
Subordinated debt	327	429,465	429,792
TOTAL LIABILITIES	23,542,180	6,987,827	30,530,007
NET	(12,375,362)	14,886,150	2,510,788

50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	2018		Total L.L. million
	Less than one year L.L. million	More than one year L.L. million	
ASSETS			
Cash and balances with central banks	3,641,373	12,682,749	16,324,122
Due from banks and financial institutions	3,850,765	13,986	3,864,751
Loans to banks and financial institutions and reverse repurchase agreements	338,263	25,370	363,633
Derivative financial instruments	1,899	-	1,899
Financial assets at fair value through profit or loss	450	90,040	90,490
Net loans and advances to customers at amortised cost	4,953,444	3,224,785	8,178,229
Net loans and advances to related parties at amortised cost	12,664	12,267	24,931
Debtors by acceptances	348,212	13,879	362,091
Financial assets at amortised cost	419,582	7,356,694	7,776,276
Financial assets at fair value through other comprehensive income	7,792	220,637	228,429
Property, equipment and right-of-use assets	-	271,963	271,963
Intangible assets	-	17,727	17,727
Non-current assets held for sale	-	51,405	51,405
Other assets	139,632	2,250	141,882
TOTAL ASSETS	13,714,076	23,983,752	37,697,828
LIABILITIES			
Due to central banks	58,139	3,812,384	3,870,523
Due to banks and financial institutions	907,730	358,340	1,266,070
Derivative financial instruments	1,802	-	1,802
Customers' deposits at amortised cost	24,455,808	2,962,334	27,418,142
Deposits from related parties at amortised cost	385,792	35,380	421,172
Debt issued and other borrowed funds	819	450,482	451,301
Engagements by acceptances	348,212	13,879	362,091
Other liabilities	198,049	156,728	354,777
Provisions for risks and charges	-	230,423	230,423
Subordinated debt	245	426,173	426,418
TOTAL LIABILITIES	26,356,596	8,446,123	34,802,719
NET	(12,642,520)	15,537,629	2,895,109

51 LITIGATION RISK

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 45) and in the event that legal issues are not properly dealt with by the Group. Since 17 October 2019, the Group has been subject to an increased litigation risk level as a result of the restrictive measures adopted by Lebanese banks. Management has carefully considered the impact of existing litigation and claims against the Group in relation to these restrictive measures. While there are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices, Management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

52 POLITICAL RISK

External factors which are beyond the control of the Group, such as political developments and government actions in Lebanon (Note 1) and other countries may adversely affect the operations of the Group, its strategy and prospects. Other important political risk factors include government intervention on the Group's activities and social developments in the countries in which the Group operates, political developments in Lebanon, and the political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas. Given the above, the Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on Group's activities, operating results and position.

31 December 2019

53 CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent resulting from potential stressed situations, retain sufficient financial strength and flexibility to meet changes in capital requirements and comply with national and international minimum regulatory capital adequacy ratios levels at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Lebanon, which is the lead supervisor of the Group.

The Group recognizes that the adequacy of its capital levels may come under increasing pressure should the deteriorated operating environment be prolonged and depending also on any measures taken by the government and the regulating authorities.

On 3 February 2020, the Central Bank of Lebanon issued Intermediary Circular 543 in which it decreased the minimum regulatory capital adequacy ratios levels as reflected in the table below. Under the same circular, the regulator has increased the risk weight on foreign currency exposures to the Central Bank of Lebanon from 50% to 150%, excluding deposits with original maturities less than one year, which are still subject to a 50% risk weight. The Central Bank of Lebanon also requires minimum levels of 7%, 10% and 12% for CET1, Tier 1 and Total CAR respectively for dividends' distributions eligibility.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Year ended 31 December 2019	7.00%	8.50%	10.50%
Year ended 31 December 2018	10.00%	13.00%	15.00%
		<i>2019</i>	<i>2018</i>
		<i>LL million</i>	<i>LL million</i>
Risk-weighted assets:			
Credit risk		28,112,794	16,249,878
Market risk		462,819	468,638
Operational risk		1,220,024	1,154,494
Total risk-weighted assets		<u>29,795,637</u>	<u>17,873,010</u>

The regulatory capital as of 31 December is as follows:

	<i>2019</i>	<i>2018</i>
	<i>LL million</i>	<i>LL million</i>
Tier 1 capital	2,115,101	2,607,124
<i>Of which: common Tier 1</i>	<i>1,519,170</i>	<i>2,011,186</i>
Tier 2 capital	783,948	643,258
Total capital	<u>2,899,049</u>	<u>3,250,382</u>

31 December 2019

53 CAPITAL MANAGEMENT (continued)

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

	2019	2018
Capital adequacy – Common Tier 1	5.10%	11.25%
Capital adequacy – Tier 1	7.10%	14.59%
Capital adequacy – Total capital	9.73%	18.19%

On 4 November 2019 the Central Bank of Lebanon issued Intermediary Circular 532 requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and to increase the regulatory capital by 20% of the common equity tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020. The Group did not comply with Central Bank of Lebanon Intermediary Circular 532 towards increasing its regulatory capital by 10% by 31 December 2019; however, the process of increasing regulatory capital was initiated subsequently and put on hold during COVID-19 crisis.

The capital adequacy ratios as at 31 December 2019 were calculated based on the recorded figures and do not take into consideration the adjustments that will result from the resolution of the uncertainties reflected in Note 1. In addition, the Group did not comply with Central Bank of Lebanon Intermediary Circular 534 towards maintaining the minimum capital adequacy ratio levels as at 31 December 2019. The Group is currently assessing the impact of the future effects of the economic crisis and the restructuring plan on its capital adequacy ratios, based on the various available scenarios. However, until all uncertainties are resolved the amount of the recapitalization needs that will be required cannot be determined presently.

54 DIVIDENDS PAID

	2019 <i>LL million</i>	2018 <i>LL million</i>
<i>Dividends paid during the year</i>		
Equity dividends on ordinary shares: LL 212 per share	119,889	119,889
Distributions to preferred shares – 2008 series: US\$ 8.00 per share	24,224	24,224
Distributions to preferred shares – 2009 series: US\$ 8.00 per share	24,224	24,224
	<u>168,337</u>	<u>168,337</u>
Less: dividends on treasury shares	(504)	(429)
	<u>167,833</u>	<u>167,908</u>

In accordance with the Central Bank of Lebanon intermediary circular 532, the Board of Directors does not propose the payment of dividends for 2019.

55 SUBSEQUENT EVENTS**Outbreak of COVID-19**

The COVID-19 pandemic has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. It has caused disruption to businesses and economic activities and increased the level of uncertainty in domestic and international markets. Regulators and governments across the globe have introduced schemes to provide financial support to parts of the economy most impacted by the COVID-19 pandemic.

55 SUBSEQUENT EVENTS (continued)

Outbreak of COVID-19 (continued)

In the case of the Group, similar to many entities for which the operating environment is mostly in Lebanon, the impact of COVID-19 cannot be isolated and assessed independently from the economic crisis that the country is witnessing, which is described in Note 1. COVID-19 will add up to the severity of the economic downturn from a commercial, regulatory and risk perspective. Future impairment charges, already subject to high uncertainty and volatility due to the severe crisis in Lebanon described in Note 1, may be subject to further uncertainty and volatility as a result of the COVID-19 pandemic and related containment measures. More adverse economic scenarios and macro-economic variables, with higher probabilities than as at 31 December 2019 will be considered for Expected Credit Losses financial impact in the first half of 2020.

It remains unclear how this will evolve through 2020 and thereafter, and the Group continues to monitor the situation closely. Any and all such events mentioned above will add up to the already material adverse prospects on the Group's business, financial condition, results of operations, prospects, liquidity and capital position which is disclosed in Note 1.

Other subsequent events

Other subsequent events are disclosed in Notes 33, 36 and 37 to these consolidated financial statements.