BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BYBLOS BANK SAL

Qualified 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 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the "*Basis for Qualified Opinion*" section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As disclosed in notes 35 and 36 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried excess provisions of LL 229,162 million (the "excess provisions") as at 31 December 2017. 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). Our audit opinion for the current year is also qualified due to the effect of these prior years transactions on the consolidated financial statements as at 31 December 2018. As disclosed in note 2.3 and in accordance with regulatory instructions, the Group used an amount of LL 65,394 million from the excess provisions to provide for additional amounts resulting from the first-time adoption of IFRS 9 Expected Credit Losses (ECL) model on 1 January 2018, instead of recognizing the impact within opening "Retained earnings" (as required by IFRS). The remaining excess provisions, net of reversals of LL 8,274 million recorded under "Other operating income", amounted to LL 155,494 million as at 31 December 2018 and were classified under "Other liabilities".

Accordingly, "Profit for the year" 2018 is overstated by LL 8,274 million, and "Other liabilities" are overstated and "Total equity" is understated by LL 155,494 million as at 31 December 2018 (2017: "Other liabilities" and "Provisions for risks and charges" were overstated by LL 86,682 million and LL 142,480 million respectively, and "Total equity" was understated by LL 229,162 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. In addition to the matter described in the *"Basis for Qualified Opinion"* section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Our description of how our audit addressed this matter is provided in that context.

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

Allowances for expected credit losses
Refer to note 2.5 of the consolidated financial statements for a description of the accounting policy and note 49.2 for analysis of credit risk.

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

The key areas of judgement include:
1. The identification of exposure with a significant deterioration in credit quality.
2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.
3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

How the matter was addressed during our audit:
We performed the following procedures:
1. We assessed the modelling techniques and methodology against the requirements of IFRS 9.
2. We tested the data, both current and historical, used in determining the ECL.
3. We tested the expected credit loss models including build, validation and governance of models.
4. We tested the material modelling assumptions in addition to any overlays.
5. We examined a sample of exposures and performed procedures to determine whether significant increase in credit risk had been identified on a timely basis.
6. We re-performed the ECL computation for sample of credit facilities.
7. We assessed the adequacy of disclosures in the consolidated financial statements.

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

Other Information Included in the Group's 2018 Annual Report (continued)
Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

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

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

- 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.

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

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

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

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

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

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

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

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

Ernst & Young BDO, Semaan, Gholam & Co.

22 March 2019
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 LL million	2017 Restated (*) LL million
CONTINUING OPERATIONS			
Interest and similar income	7	**2,038,692**	1,695,793
Interest and similar expense	8	**(1,543,946)**	(1,275,960)
NET INTEREST INCOME		**494,746**	419,833
Fee and commission income	9	**157,483**	145,644
Fee and commission expense	9	**(12,420)**	(11,932)
NET FEE AND COMMISSION INCOME	9	**145,063**	133,712
Net gain from financial assets at fair value through profit or loss	10	**16,451**	46,918
Net (loss) gain from sale of financial assets at amortised cost	11	**(3,119)**	36,232
Revenues from financial assets at fair value through other comprehensive income	26	**5,569**	4,445
Other operating income	12	**42,539**	28,235
TOTAL OPERATING INCOME		**701,249**	669,375
Net impairment loss on financial assets	13	**(14,170)**	(18,933)
NET OPERATING INCOME		**687,079**	650,442
Personnel expenses	14	**(211,334)**	(203,013)
Other operating expenses	15	**(148,435)**	(127,397)
Depreciation of property and equipment	27	**(19,955)**	(20,901)
Amortisation of intangible assets	28	**(114)**	(113)
TOTAL OPERATING EXPENSES		**(379,838)**	(351,424)
OPERATING PROFIT		**307,241**	299,018
Net gain from disposal of property and equipment		**120**	1,257
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**307,361**	300,275
Income tax expense	16	**(57,495)**	(48,433)
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		**249,866**	251,842
DISCONTINUED OPERATIONS			
(Loss) profit from discontinued operations, net of tax	17	**(2,472)**	4,612
PROFIT FOR THE YEAR		**247,394**	256,454
Attributable to:			
Equity holders of the parent		**238,940**	248,539
Profit for the year from continuing operations		***241,099***	*245,464*
(Loss) profit for the year from discontinued operations		***(2,159)***	*3,075*
Non-controlling interests		**8,454**	7,915
Profit for the year from continuing operations		***8,767***	*6,378*
(Loss) profit for the year from discontinued operations		***(313)***	*1,537*
		247,394	256,454
Earnings per share		*LL*	*LL*
Equity holders of the parent:			
Basic earnings per share	18	**338.14**	355.14
Diluted earnings per share	18	**318.75**	333.57
Earnings per share from continuing operations			
Equity holders of the parent:			
Basic earnings per share from continuing operations		**341.98**	349.68
Diluted earnings per share from continuing operations		**321.92**	329.05

(*) Restated for the effect of separate presentations of profit from discontinued operations and earnings per share information.

The attached notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	*2018* *LL million*	*2017* *LL million*
Profit for the year from continuing operations		**249,866**	251,842
(Loss) profit for the year from discontinued operations		**(2,472)**	4,612
PROFIT FOR THE YEAR		**247,394**	256,454
OTHER COMPREHENSIVE INCOME			
Items to be reclassified to the income statement in subsequent periods:			
Net unrealized loss from debt instruments at fair value through other comprehensive income		**(1,225)**	-
Income tax effect		**269**	-
		(956)	-
Exchange difference on translation of foreign operations		**(7,363)**	15,661
Net other comprehensive (loss) income to be reclassified to the income statement in subsequent periods		**(8,319)**	15,661
Items not to be reclassified to the income statement in subsequent periods:			
Net unrealized (loss) gain from equity instruments at fair value through other comprehensive income		**(14,626)**	6,026
Income tax effect		**1,956**	(1,445)
		(12,670)	4,581
Re-measurement gains on defined benefit plans	36 (a)	**15,975**	2,164
Net other comprehensive income not to be reclassified to the income statement in subsequent periods		**3,305**	6,745
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF TAX		**(5,014)**	22,406
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**242,380**	278,860
Attributable to:			
Equity holders of the parent		**235,104**	270,778
Non-controlling interests		**7,276**	8,082
		242,380	278,860

The attached notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	*2018* *LL million*	*2017* *LL million*
ASSETS			
Cash and balances with central banks	19	**16,324,122**	11,966,804
Due from banks and financial institutions	20	**3,864,751**	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	21	**363,633**	754,394
Derivative financial instruments	22	**1,899**	2,790
Financial assets at fair value through profit or loss	23	**90,490**	282,317
Net loans and advances to customers at amortised cost	24	**8,178,229**	8,192,985
Net loans and advances to related parties at amortised cost	45	**24,931**	22,030
Debtors by acceptances		**362,091**	354,023
Financial assets at amortised cost	25	**7,776,276**	8,155,350
Financial assets at fair value through other comprehensive income	26	**228,429**	101,877
Property and equipment	27	**289,537**	273,437
Intangible assets	28	**153**	267
Assets obtained in settlement of debt	29	**51,405**	44,891
Other assets	30	**141,882**	102,073
TOTAL ASSETS		**37,697,828**	34,181,824
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	31	**3,870,523**	1,374,837
Due to banks and financial institutions	32	**1,266,070**	972,315
Derivative financial instruments	22	**1,802**	3,544
Customers' deposits at amortised cost	33	**27,418,142**	26,757,716
Deposits from related parties at amortised cost	45	**421,172**	380,790
Debt issued and other borrowed funds	34	**451,301**	453,556
Engagements by acceptances		**362,091**	354,023
Other liabilities	35	**354,777**	278,487
Provisions for risks and charges	36	**230,423**	350,936
Subordinated debt	37	**426,418**	422,995
TOTAL LIABILITIES		**34,802,719**	31,349,199
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	38	**684,273**	684,273
Share capital – preferred shares	38	**4,840**	4,840
Share premium – common shares	38	**229,014**	229,014
Share premium – preferred shares	38	**591,083**	591,083
Non distributable reserves	39	**982,040**	924,812
Distributable reserves	40	**116,652**	110,616
Treasury shares	41	**(7,105)**	(6,002)
Retained earnings		**77,050**	52,282
Revaluation reserve of real estate	42	**5,689**	5,689
Change in fair value of financial assets at fair value through other comprehensive income	43	**(15,462)**	(4,538)
Net results of the financial period		**238,940**	248,539
Foreign currency translation reserve		**(50,603)**	(49,847)
		2,856,411	2,790,761
NON-CONTROLLING INTERESTS		**38,698**	41,864
TOTAL EQUITY		**2,895,109**	2,832,625
TOTAL LIABILITIES AND EQUITY		**37,697,828**	34,181,824

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 22 March 2019 by:

____
Semaan Bassil
Chairman and General Manager

____
Ziad El Zoghbi
Head of Finance and Administration

The attached notes 1 to 53 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the parent													*Non-controlling interests*	*Total*
	Common shares	*Preferred shares*	*Share premium - common shares*	*Share premium - preferred shares*	*Non-distributable reserves*	*Distributable reserves*	*Treasury shares*	*Retained earnings*	*Revaluation reserve of real estate*	*Change in fair value of financial assets at fair value through other comprehensive income*	*Net results of the financial period - profit*	*Foreign currency translation reserve*	*Total*		
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
Balance at 1 January 2018	684,273	4,840	229,014	591,083	924,812	110,616	(6,002)	52,282	5,689	(4,538)	248,539	(49,847)	2,790,761	41,864	2,832,625
Impact of adopting IFRS 9 at 1 January 2018 (note 2)	-	-	-	-	-	-	-	(2,497)	-	1,564	-	-	(933)	(1,408)	(2,341)
Restated balance at 1 January 2018	684,273	4,840	229,014	591,083	924,812	110,616	(6,002)	49,785	5,689	(2,974)	248,539	(49,847)	2,789,828	40,456	2,830,284
Profit for the year	-	-	-	-	-	-	-	-	-	-	238,940	-	238,940	8,454	247,394
Other comprehensive income (loss)	-	-	-	-	-	-	-	15,975	-	(12,550)	-	(7,261)	(3,836)	(1,178)	(5,014)
Total comprehensive income (loss)	-	-	-	-	-	-	-	15,975	-	(12,550)	238,940	(7,261)	235,104	7,276	242,380
Transfer to retained earnings	-	-	-	-	-	(2,497)	-	2,497	-	-	-	-	-	-	-
Appropriations of 2017 profits	-	-	-	-	57,228	8,533	-	182,778	-	-	(248,539)	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,164)	(4,164)
Equity dividends paid (note 52)	-	-	-	-	-	-	-	(167,908)	-	-	-	-	(167,908)	-	(167,908)
Disposal of a subsidiary	-	-	-	-	-	-	-	(6,025)	-	-	-	6,505	480	(4,870)	(4,390)
Translation difference	-	-	-	-	-	-	-	(52)	-	62	-	-	10	-	10
Treasury shares	-	-	-	-	-	-	(1,103)	-	-	-	-	-	(1,103)	-	(1,103)
Balance at 31 December 2018	**684,273**	**4,840**	**229,014**	**591,083**	**982,040**	**116,652**	**(7,105)**	**77,050**	**5,689**	**(15,462)**	**238,940**	**(50,603)**	**2,856,411**	**38,698**	**2,895,109**

	Attributable to equity holders of the parent													*Non-controlling interests*	*Total*
	Common shares	*Preferred shares*	*Share premium - common shares*	*Share premium - preferred shares*	*Non-distributable reserves*	*Distributable reserves*	*Treasury shares*	*Retained earnings*	*Revaluation reserve of real estate*	*Change in fair value of financial assets at fair value through other comprehensive income*	*Net results of the financial period - profit*	*Foreign currency translation reserve*	*Total*		
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
Balance at 1 January 2017	684,273	4,840	229,014	591,083	843,320	103,246	(5,161)	67,518	5,689	(9,081)	232,672	(65,341)	2,682,072	37,363	2,719,435
Profit for the year	-	-	-	-	-	-	-	-	-	-	248,539	-	248,539	7,915	256,454
Other comprehensive income	-	-	-	-	-	-	-	2,164	-	4,581	-	15,494	22,239	167	22,406
Total comprehensive income	-	-	-	-	-	-	-	2,164	-	4,581	248,539	15,494	270,778	8,082	278,860
Appropriations of 2016 profits	-	-	-	-	81,492	7,370	-	143,810	-	-	(232,672)	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,581)	(3,581)
Equity dividends paid (note 52)	-	-	-	-	-	-	-	(161,137)	-	-	-	-	(161,137)	-	(161,137)
Translation difference	-	-	-	-	-	-	-	(73)	-	(38)	-	-	(111)	-	(111)
Treasury shares	-	-	-	-	-	-	(841)	-	-	-	-	-	(841)	-	(841)
Balance at 31 December 2017	684,273	4,840	229,014	591,083	924,812	110,616	(6,002)	52,282	5,689	(4,538)	248,539	(49,847)	2,790,761	41,864	2,832,625

The attached notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	*2018* *LL million*	*2017* *LL million*
OPERATING ACTIVITIES			
Profit before tax from continuing operations		**307,361**	300,275
(Loss) profit before tax from discontinued operations		**(2,472)**	4,612
Profit before tax		**304,889**	304,887
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	27 & 28	**20,069**	21,014
Net impairment loss on financial assets	13	**14,170**	18,933
Gain on disposal of property and equipment		**(120)**	(1,257)
Gain on disposal of assets obtained in settlement of debt	12	**(45)**	(3,202)
Provisions for risks and charges, net		**(17,787)**	17,953
Unrealized fair value losses on financial instruments at fair value through profit or loss		**7,044**	703
Realized gains from financial assets		**(17,239)**	(30,217)
Loss on disposal of discontinued operations		**2,472**	-
Foreign currency translation losses on disposal of subsidiary, net		**(4,390)**	-
Derivative financial instruments		**(851)**	3,068
Operating profit before working capital changes		**308,212**	331,882
Changes in operating assets and liabilities			
Due from central banks		**(3,740,210)**	(2,664,426)
Due to central banks		**2,987,821**	596,650
Due from banks and financial institutions		**(56,493)**	54,695
Financial assets at fair value through profit or loss		**183,237**	526,338
Due to banks and financial institutions		**124,456**	16,186
Net loans and advances to customers and related parties		**(22,851)**	(425,896)
Assets obtained in settlement of debt	29	**(8,205)**	(4,546)
Proceeds from sale of assets obtained in settlement of debt		**1,736**	6,156
Other assets		**(40,136)**	8,365
Customers' and related parties' deposits		**702,480**	1,356,845
Other liabilities		**(18,581)**	(8,193)
Cash from (used in) operations		**421,466**	(205,944)
Provision for risks and charges paid	36	**(28,095)**	(5,091)
Taxation paid		**(31,828)**	(116,708)
Net cash from (used in) operating activities		**361,543**	(327,743)
INVESTING ACTIVITIES			
Financial assets at amortised cost		**396,744**	1,521,996
Financial assets at fair value through other comprehensive income		**(124,502)**	(2,704)
Loans to banks and financial institutions and reverse repurchase agreements		**(85,019)**	44,178
Purchase of property and equipment	27	**(38,584)**	(49,484)
Proceeds from sale of property and equipment		**3,098**	3,969
Proceeds from sale of discontinued operations	17	**12,060**	-
Net cash from investing activities		**163,797**	1,517,955
FINANCING ACTIVITIES			
Debts issued and other borrowed funds		**(2,255)**	9,484
Subordinated debt		**3,423**	2,830
Treasury shares		**(1,103)**	(841)
Dividends paid to equity holders of the parent	52	**(167,908)**	(161,137)
Dividends paid to non-controlling interests		**(4,164)**	(3,581)
Net cash used in financing activities		**(172,007)**	(153,245)
INCREASE IN CASH AND CASH EQUIVALENTS		**353,333**	1,036,967
Net foreign exchange difference in respect of cash and cash equivalents		**(7,269)**	15,427
Cash and cash equivalents at 1 January		**6,139,506**	5,087,112
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44	**6,485,570**	6,139,506
Operational cash flows from interest and dividends			
Interest paid		**(1,497,607)**	(1,258,322)
Interest received		**1,958,437**	1,735,080
Dividend received		**3,323**	5,293

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. Further information on the Group's structure is provided in note 4.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

The consolidated financial statements are presented in Lebanese 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").

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. 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.

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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.

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. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as profit or loss attributable to non-controlling interests. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have 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.

Put options granted to non-controlling interests give rise to a financial liability for the present value of the redemption amount. Non-controlling interest continues to be recognised within equity, with changes in the carrying amounting arising from: a) an allocation of the profit or loss for the year; b) a share of changes in appropriate reserves; and c) dividends declared before the end of the reporting period. At the end of each reporting period, the non-controlling interest is then derecognised as if it was acquired at that date. The liability is recognised at the end of the reporting period at its fair value, and any difference between the amount of non-controlling interest derecognised and this liability is accounted for within equity.

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

2 ACCOUNTING POLICIES (continued)

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 2018. The nature and the impact of each amendment is described below:

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

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

I. Classification and measurement

The Group has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category fair value though other comprehensive income was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortised cost information, as well as fair value information is relevant and useful. A debt financial asset is measured at fair value through OCI if:
- it is held in a business model whose objective is achieved by both holding assets to collect contractual cash flows and selling the assets, and
- it satisfies the contractual cash flow characteristics (SPPI test).

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

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

The Group's classification of its financial assets and liabilities is explained in Note 2.5. The impact on the classification of the Group's financial assets and their carrying values and equity is discussed in V below.

II. Expected Credit Losses

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

Details of the Group's impairment method are disclosed in Note 2.5. The impact of the adoption of IFRS 9 impairment provisions on the Group's financial assets and their carrying values and equity is discussed in V below.

2 ACCOUNTING POLICIES (continued)

2.3 New and Amended Standards and Interpretations (continued)

IFRS 9 Financial Instruments (continued)

III. IFRS 7 disclosures

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

IV. Hedge accounting

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

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

V. Transition

In accordance with the transition provisions of IFRS 9 (2014), the Group applied this standard retrospectively. The following tables set out the impact of adopting IFRS 9 (2014) on the consolidated statement of financial position, and retained earnings including the effect of replacing IAS 39’s incurred credit loss calculations with IFRS 9’s ECLs.

2 ACCOUNTING POLICIES (continued)

2.3 New and Amended Standards and Interpretations (continued)

IFRS 9 Financial Instruments (continued)

V. Transition (continued)

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

	Classification under IFRS 9 (2010) (31 December 2017)			*Re-measurement*		*Classification under IFRS 9 (2014) (1 January 2018)*	
	Category	*Amount*	*Reclassification*	*ECL*	*Other*	*Category*	*Amount*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
Financial assets							
Cash and balances with central banks	**Amortised cost**	**11,966,804**	**-**	**(26,407)**	**-**	**Amortised cost**	**11,940,397**
Due from banks and financial institutions	**Amortised cost**	**3,928,586**	**-**	**(768)**	**-**	**Amortised cost**	**3,927,818**
Loans to banks and financial institutions and reverse repurchase agreements	**Amortised cost**	**754,394**	**-**	**(89)**	**-**	**Amortised cost**	**754,305**
Financial assets at fair value through profit or loss	**FVPL**	**282,317**	**(152,834)**	**-**	**-**	**FVPL**	**129,483**
Loans and advances to customers at amortised cost	**Amortised cost**	**8,192,985**	**-**	**(10,826)**	**-**	**Amortised cost**	**8,182,159**
Loans and advances to related parties at amortised cost	**Amortised cost**	**22,030**	**-**	**(44)**	**-**	**Amortised cost**	**21,986**
Financial assets at amortised cost	**Amortised cost**	**8,155,350**	**(372,004)**	**(26,560)**	**-**	**Amortised cost**	**7,756,786**
Financial assets at fair value through other comprehensive income	**FVOCI**	**101,877**	**524,838**	**(140)**	**1,564**	**FVOCI**	**628,139**
			-	**(64,834)**	**1,564**		
Non financial liabilities							
Provisions for ECL on financial guarantees and commitments	**Off-balance sheet**	**4,061,107**	**-**	**(4,465)**	**-**	**Off-balance sheet**	**4,056,642**
Total impact of adoption of IFRS 9 (2014)			**-**	**(69,299)**	**1,564**		
Less: amount covered by excess provisions available on 1 January 2018			**-**	**65,394**	**-**		
Net impact on equity			**-**	**(3,905)**	**1,564**		

The increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model compared to IAS 39 incurred loss model amounts to LL 69,299 million, and was covered partly by the Group's excess provisions (note 36). Accordingly, the impact on the Group's equity from the adoption of the IFRS 9 impairment requirements amounted to LL 3,905 million, out of which the share of non-controlling interests amounted to LL 1,408 million.

Total adjustments related to classification and measurements other than impairment increases opening change in fair value of financial assets at fair value through other comprehensive income reserve by LL 1,564 million.

2 ACCOUNTING POLICIES (continued)

2.3 New and Amended Standards and Interpretations (continued)

IFRS 9 Financial Instruments (continued)

V. Transition (continued)

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions for Contingent Liabilities and Contingent Assets* to the ECL allowance under IFRS 9.

	Impairment allowance under IAS 39/IAS 37 at 31 December 2017 *LL million*	*Re-measurement* *LL million*	*ECLs under IFRS 9 at 1 January 2018* *LL million*
Impairment allowance for			
Balances with central banks	**31,533**	**26,407**	**57,940**
Due from banks and financial institutions	**1,919**	**768**	**2,687**
Loans to banks and financial institutions and reverse repurchase agreements	**-**	**89**	**89**
Loans and advances to customers at amortised cost	**292,553**	**10,826**	**303,379**
Loans and advances to related parties at amortised cost	-	**44**	**44**
Financial assets at amortised cost	-	**26,560**	**26,560**
Financial assets at fair value through other comprehensive income	-	**140**	**140**
	326,005	**64,834**	**390,839**
Financial guarantees and other commitments	**-**	**4,465**	**4,465**
	326,005	**69,299**	**395,304**

IFRS 15 *Revenue from contracts with customers*
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. There were no significant impacts from the adoption of IFRS 15 on the consolidated financial statements of the Group.

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

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of transaction for each payment or receipt of advance consideration. This Interpretation does not have any material 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 2018, 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:

IFRS 16 Leases

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

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

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

The Group is currently assessing the impact of adopting IFRS 16 and expects an increase in its assets and liabilities with no material impact on its retained earnings.

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. The effective date is 1 January 2019. The Group is currently assessing the impact of IFRIC 23 and does not expect it to have a material impact on the Group's financial statements.

IAS 12 – Income Taxes *Amendments to IAS 12*

As part of the Annual Improvements to IFRS Standards 2015–2017 Cycle, the IASB amended IAS 12 in order to clarify the accounting treatment of the income tax consequences of dividends. Effective from 1 January 2019 the tax consequences of all payments on financial instruments that are classified as equity for accounting purposes, where those payments are considered to be a distribution of profit, will be included in, and will reduce, the income statement tax charge. The Group does not expect the adoption of this improvement to have a significant impact on the Group's financial statements.

IAS 19 – Employee Benefits *Amendments to IAS 19*

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies

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

(i) Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rate of exchange ruling at the date the transaction first qualifies for recognition.

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 (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is 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 Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is 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 closing rate.

Financial Instruments – Initial recognition

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

(ii) 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 cases of financial instrument is 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.

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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 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 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.

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.

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

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.

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Financial Assets – Classification and Measurement (continued)

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

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

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

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

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)
Dividends on these investments are recognised under "revenue from financial assets at fair value through other comprehensive income" in the consolidated income statement when the Group's right to receive payment of dividend is established in accordance with IFRS 15: "Revenue from contracts with customers" unless the dividends clearly represent a recovery of part of the cost of the investment. Equity instruments at 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 through other comprehensive income"* above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

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

Equity Instruments at Fair Value through Profit or Loss
Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income. These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under "net gain on financial assets at fair value through profit or loss" in the 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 instruments is first considered that separation of the embedded derivatives is prohibited.

Financial liabilities at fair value though 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 though 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 and 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, 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 interest rate swaps, futures, credit derivatives, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

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
The Bank issues financial guarantees, letters of credit and 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 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of Financial Assets and Financial Liabilities (continued)

Financial Assets (continued)

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

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.

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Derecognition of Financial Assets and Financial Liabilities (continued)

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”.

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 within “due to banks under repurchase agreements”, reflecting the transaction’s economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to “financial assets given as collateral”.

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 (Policy applicable from 1 January 2018)

(i) Overview of the ECL Principles
As described in Note 2.3, the adoption of IFRS 9 has fundamentally changed the Group’s loan loss impairment method by replacing IAS 39’s incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under IFRS 9.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Impairment of Financial Assets (Policy applicable from 1 January 2018) (continued)

(ii) Measurement of ECLs

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

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

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, expected drawdowns on committed facilities, and accrued interest from missed payments.
- 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 lender 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 similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

(iii) Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Impairment of Financial Assets (Policy applicable from 1 January 2018) (continued)

(iii) Forborne and modified loans (continued)

From 1 January 2018, when the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-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:

- All of its facilities has to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period; and
- The customer does not have any contract that is more than 30 days past due.

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

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

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

(v) Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently, these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realised is recognised in the consolidated income statement under "other operating income" 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.

(vi) 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 data:

- 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.

(vii) Write Offs

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (Policy applicable before 1 January 2018)
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization default or delinquency in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not the foreclosure is probable.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised; the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Net credit losses" in the consolidated income statement.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (Policy applicable before 1 January 2018) (continued)

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

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

Upon sale of repossessed assets, any gain or loss realized 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 for capital increase" in the following financial year.

Fair value measurement
The Group measures financial instruments, such as, derivatives, and financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, 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.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair 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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Fair value measurement (continued)
The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.
For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

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

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in 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.

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Leasing
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.

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 payable 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.

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

(i) Interest and similar income and expense

The effective interest rate
Interest income and expense are recognised 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 amortised 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

(i) Interest and similar income and expense (continued)

Interest income and interest expense (continued)
When a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the net amortised 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 amortised 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 statement of profit or loss and other comprehensive income includes:

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

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

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

Interest income 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.

(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.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

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

(iv) Net gain (loss) 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 comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

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

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

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

Buildings	50 years
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 (loss) on disposal of fixed assets” in the year the asset is derecognised.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or 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 previously held equity interest in the acquiree is remeasured at 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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling 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.

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.

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Intangible assets (continued)
The useful lives of intangible assets are assessed to be either finite of 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 treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

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:

- Key money 10-15 years

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 derecognised.

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

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. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)
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.

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

Pensions and other post-employment benefits
The Group operates defined benefit pension plans, which requires contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method which involves making actuarial assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension 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 statement of financial position with a corresponding debit or credit to retained earnings through OCI 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

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

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 by the reporting date.

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

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

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

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

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

Segment reporting
The Group's segmental reporting is based on the following operating segments: consumer banking, corporate banking, and treasury and capital markets.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgements, 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.

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Judgements (continued)

Business model
In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

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 sold assets are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets
The Group exercises judgement 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.

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 are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates and assumptions (continued)

Impairment Losses on Financial Instruments (Applicable after 1 January 2018)
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 and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

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

Impairment losses on loans and advances (Applicable before 1 January 2018)
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

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 subject to significant uncertainty.

4 GROUP INFORMATION

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

Subsidiary	Percentage of ownership 2018 %	2017 %	Principal activity	Country of incorporation
Byblos Bank Europe SA	**99.95**	99.95	Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris	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
Byblos Bank RDC SARL	**-**	66.67	Banking activities	Democratic Republic of Congo

5 MATERIAL PARTLY-OWNED SUBSIDIARIES

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

Proportion of equity interests held by non-controlling interests:

Name	*2018* %	*2017* %
Adonis Insurance and Reinsurance Co. (ADIR) SAL	**36.05**	36.05

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

Summarized income statement for the year ended 31 December:

	Adonis Insurance and Reinsurance Co. (ADIR) SAL	
	2018 ***LL million***	*2017* *LL million*
Net interest income	**14,133**	11,504
Net fee and commission income	**5,031**	4,636
Net (loss) gain from financial assets at fair value through profit or loss	**(59)**	406
Other operating income	**19,404**	21,002
Total operating expenses	**(12,972)**	(12,765)
Income tax expense	**(1,540)**	(2,067)
Profit for the year	**23,997**	22,716
Attributable to non-controlling interests	**8,651**	8,189
Dividends paid to non-controlling interests	**4,086**	3,219

5 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized statement of financial position as at 31 December:

	Adonis Insurance and Reinsurance Co. (ADIR) SAL	
	2018	*2017*
	LL million	*LL million*
Cash and balances with central banks	**39**	12
Due from banks and financial institutions	**29,569**	37,117
Balances with Parent and Group entities	**206,575**	165,276
Financial assets at fair value through profit or loss	**26,940**	37,811
Net loans and advances at amortised cost	**6,921**	5,182
Financial assets at amortised cost	**183,787**	186,848
Financial assets at fair value through other comprehensive income	**14,380**	-
Property and equipment	**2,067**	2,267
Other assets	**83,946**	62,672
Deposits at amortised cost	**(297,222)**	(272,925)
Other liabilities	**(156,652)**	(129,669)
Total equity	**100,350**	94,591
Attributable to non-controlling interests	**36,176**	34,100

Summarized cash flow information for the year ended 31 December:

	Adonis Insurance and Reinsurance Co. (ADIR) SAL	
	2018	*2017*
	LL million	*LL million*
Operating	**29,828**	29,257
Investing	**16,751**	(18,217)
Financing	**(7,203)**	(4,640)
Net increase in cash and cash equivalents	**39,376**	6,400

6 SEGMENT INFORMATION

For management purposes, the Group is organized into three operating segments based on products and services as follows:

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

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

6 SEGMENT INFORMATION (continued)

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

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

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

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

Profit for the year information

	2018				
	Retail banking LL million	***Corporate banking LL million***	***Treasury and capital markets LL million***	***Other[1] LL million***	***Total LL million***
Net interest income	**224,231**	**130,279**	**138,442**	**1,794**	**494,746**
Net fee and commission income	**68,987**	**63,593**	**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 sale of financial assets at amortised cost	**-**	**-**	**(3,119)**	**-**	**(3,119)**
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	**(6,648)**	**(27,192)**	**19,670**	**-**	**(14,170)**
Net operating income	**286,570**	**166,680**	**181,656**	**52,173**	**687,079**

	2017				
	Retail banking LL million	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Other[1] LL million*	*Total LL million*
Net interest income (expense)	165,463	127,590	129,128	(2,348)	419,833
Net fee and commission income	62,536	59,334	2,179	9,663	133,712
Net gain from financial assets at fair value through profit or loss	-	-	46,918	-	46,918
Net gain from sale of financial assets at amortised cost	-	-	36,232	-	36,232
Revenues from financial assets at fair value through other comprehensive income	-	-	4,445	-	4,445
Other operating income	-	-	-	28,235	28,235
Net impairment loss on financial assets	(6,070)	(12,863)	-	-	(18,933)
Net operating income	221,929	174,061	218,902	35,550	650,442

[1] Other includes all non-banking activities.

6 SEGMENT INFORMATION (continued)

Financial position information

	2018				
	Retail banking LL million	***Corporate banking LL million***	***Treasury and capital markets LL million***	***Other[1] LL million***	***Total LL million***
Total assets	**2,998,211**	**5,567,040**	**28,649,601**	**482,976**	**37,697,828**
Total liabilities	**26,425,680**	**1,413,633**	**6,016,115**	**947,291**	**34,802,719**

	2017				
	Retail banking LL million	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Other[1] LL million*	*Total LL million*
Total assets	2,935,563	5,633,475	25,192,118	420,668	34,181,824
Total liabilities	25,674,063	1,464,443	3,246,864	963,829	31,349,199

[1] Other includes all non-banking activities.

Geographic information

The Group operates in three geographical segments, Lebanon, Europe and other countries. The following table shows the distribution of the Group's net operating income and non-current assets.

	2018			
	Lebanon LL million	***Europe LL million***	***Other LL million***	***Total LL million***
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 income[2]	**605,693**	**58,650**	**22,736**	**687,079**
Non-current assets[3]	**299,355**	**10,281**	**31,459**	**341,095**

	2017			
	Lebanon LL million	*Europe LL million*	*Other LL million*	*Total LL million*
Total operating income	594,712	51,866	22,797	669,375
Net impairment loss on financial assets	(15,039)	(3,630)	(264)	(18,933)
Net operating income[2]	579,673	48,236	22,533	650,442
Non-current assets[3]	282,983	8,525	27,087	318,595

[2] 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.

[3] Non-current assets consist of property and equipment, 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.

7 INTEREST AND SIMILAR INCOME

Interest and similar income	*2018 LL million*	*2017 LL million*
Balances with central banks	**885,533**	532,532
Due from banks and financial institutions	**73,198**	46,468
Loans to banks and financial institutions and reverse repurchase agreements	**22,813**	21,053
Loans and advances to customers at amortised cost	**587,603**	526,239
Loans and advances to related parties at amortised cost	**1,543**	1,457
Financial assets at amortised cost	**542,882**	571,562
Debt instruments at fair value through other comprehensive income	**18,411**	-
	2,131,983	1,699,311
Tax on interest		
Balances with central banks	**(64,920)**	-
Financial assets at amortised cost	**(27,538)**	(3,518)
Debt instruments at fair value through other comprehensive income	**(726)**	-
Due from banks and financial institutions	**(85)**	-
Loans to banks and financial institutions and reverse repurchase agreements	**(22)**	-
	(93,291)	(3,518)
Interest and similar income, net of tax	**2,038,692**	1,695,793

8 INTEREST AND SIMILAR EXPENSE

	2018 LL million	*2017 LL million*
Due to central banks	**57,881**	19,547
Due to banks and financial institutions	**31,574**	22,058
Customers' deposits at amortised cost	**1,369,487**	1,152,207
Deposits from related parties at amortised cost	**21,360**	18,646
Debt issued and other borrowed funds	**31,796**	31,806
Subordinated debt	**31,848**	31,696
	1,543,946	1,275,960

9 NET FEE AND COMMISSION INCOME

Fee and commission income	*2018 LL million*	*2017 LL million*
Loans and advances	**26,086**	25,214
Letters of guarantee	**13,338**	11,403
Acceptances	**8,360**	7,206
Letters of credit	**23,235**	20,966
Credit cards	**22,455**	19,919
Domiciled bills	**2,411**	2,322
Checks for collection	**2,906**	2,901
Maintenance of accounts	**16,654**	16,296
Transfers	**10,290**	9,658
Safe rental	**1,138**	1,171
Portfolio commission	**2,845**	2,203
Commission on insurance related activities	**11,111**	10,952
Refund of banking services	**13,085**	11,933
Other commissions	**3,569**	3,500
	157,483	145,644
Fee and commission expense	**(12,420)**	(11,932)
Net fee and commission income	**145,063**	133,712

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

	2018	*2017*
	LL million	*LL million*
Interest and similar income from debt instruments		
- Lebanese treasury bills	**3,709**	22,954
- Certificates of deposit issued by the Central Bank of Lebanon	**-**	9,412
- Debt securities issued by banks and financial institutions	**1**	197
	3,710	32,563
(Loss) gain from sale of debt instruments		
- Lebanese treasury bills	**(1,568)**	(2,857)
- Certificates of deposit issued by the Central Bank of Lebanon	**-**	(3,908)
- Debt securities issued by banks and financial institutions	**36**	22
	(1,532)	(6,743)
Unrealized loss from revaluation of debt instruments		
- Lebanese treasury bills	**(1,636)**	(3,723)
- Debt securities issued by banks and financial institutions	**-**	(19)
	(1,636)	(3,742)
Net gain from debt instruments	**542**	22,078
Equity instruments		
- (Loss) gain from sale	**(14)**	637
- Unrealized (loss) gain from revaluation	**(5,408)**	3,039
- Dividend income	**88**	848
Net (loss) gain from equity instruments	**(5,334)**	4,524
Foreign exchange (*)	**21,243**	20,316
	16,451	46,918

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

11 NET GAIN FROM SALE 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:

	2018		
	Gains LL million	***Losses LL million***	***Net LL million***
Lebanese treasury bills	**-**	**(2,558)**	**(2,558)**
Certificates of deposit issued by the Central Bank of Lebanon	**-**	**(561)**	**(561)**
	-	**(3,119)**	**(3,119)**

	2017		
	Gains LL million	*Losses LL million*	*Net LL million*
Lebanese treasury bills	22,576	(591)	21,985
Certificates of deposit issued by the Central Bank of Lebanon	12,943	-	12,943
Foreign governmental debt securities	1,304	-	1,304
	36,823	(591)	36,232

12 OTHER OPERATING INCOME

	2018 LL million	*2017 LL million*
Income from insurance related activities	**16,485**	18,838
Claims approved by reinsurers (note 30)	**10,553**	-
Write back of provisions for risks and charges (note 36 (b))	**8,274**	1,484
Rental income from assets obtained in settlement of debt	**571**	624
Net gain from sale of assets obtained in settlement of debt	**45**	3,202
Others	**6,611**	4,087
	42,539	28,235

13 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2018 *LL million*	*2017* *LL million*
New and increased impairment allowances:		
Balances with central banks	**7,390**	-
Due from banks and financial institutions	**2,897**	-
Loans to banks and financial institutions and reverse repurchase agreements	**105**	-
Loans and advances to customers at amortised cost	**63,244**	45,326
Loans and advances to related parties at amortised cost	**15**	-
Bad debts written off	**-**	102
Financial assets at amortised cost	**1,787**	-
Financial assets at fair value through other comprehensive income	**284**	-
Financial guarantees and other commitments	**889**	-
	76,611	45,428
Recoveries:		
Balances with central banks	**(29,024)**	-
Due from banks and financial institutions	**(78)**	-
Loans to banks and financial institutions and reverse repurchase agreements	**(25)**	-
Loans and advances to customers at amortised cost	**(30,266)**	(26,495)
Financial assets at amortised cost	**(3,006)**	-
Financial guarantees and other commitments	**(42)**	-
	(62,441)	(26,495)
	14,170	18,933

14 PERSONNEL EXPENSES

	2018 *LL million*	*2017* *LL million*
Salaries and other related benefits	**160,137**	153,051
Social security contributions	**20,412**	20,570
Bonuses	**20,733**	22,777
Provision for employees' end of service benefits (note 36 (a))	**10,052**	6,615
	211,334	203,013

15 OTHER OPERATING EXPENSES

	2018	*2017*
	LL million	*LL million*
Taxes on interest	**4,648**	3,546
Taxes and duties	**8,262**	7,129
Contribution to deposits guarantee fund	**13,350**	12,728
Rent and related charges	**7,016**	6,777
Professional fees	**10,013**	10,436
Telecommunications and postage expenses	**6,978**	7,058
Board of Directors' attendance fees	**1,340**	1,180
Maintenance and repairs	**17,459**	16,612
Electricity and fuel	**5,140**	5,451
Travel and entertainment	**2,786**	3,005
Publicity and advertising	**14,401**	15,132
Subscriptions	**4,459**	4,479
Legal expenses	**2,499**	4,475
Insurance	**1,013**	1,035
Guarding fees	**2,348**	2,447
Printings and stationery	**2,509**	2,852
Donations	**2,936**	2,690
Provisions for risks and charges (note 36 (b))	**27,971**	8,098
Others	**13,307**	12,267
	148,435	127,397

16 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2018 and 2017 are as follows:

	2018	*2017*
	LL million	*LL million*
Current income tax expense	**57,382**	47,508
Other taxes	**113**	925
	57,495	48,433

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.

16 INCOME TAX EXPENSE (continued)

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

	2018	*2017*
	LL million	*LL million*
Profit before tax	**307,361**	300,275
At Lebanon's statutory tax rate	**52,251**	46,128
Impact of increase resulting from:		
Different tax rates	**1,574**	435
Non-deductible expenses	**7,316**	3,368
	8,890	3,803
Impact of decrease resulting from:		
Revenues previously subject to tax	**(3,759)**	(2,423)
	(3,759)	(2,423)
Income tax	**57,382**	47,508
Effective income tax rate	**18.67%**	15.82%

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

	2018	*2017*
	LL million	*LL million*
Balance at 1 January	**31,735**	96,028
Charge for the year	**57,495**	48,433
Discontinued operations	**-**	202
	89,230	144,663
Less taxes paid:		
Current year tax liability *	**-**	(18,149)
Prior years tax liabilities	**(31,828)**	(94,779)
	(31,828)	(112,928)
Balance at 31 December (note 35 (a))	**57,402**	31,735

(*) Represents taxes paid on interest received from treasury bills and central banks' certificates of deposits.

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

	Deferred tax assets		*Deferred tax liabilities*	
	2018	*2017*	***2018***	*2017*
	LL million	*LL million*	***LL million***	*LL million*
Fair value of financial instruments	**882**	137	**3,169**	5,807

17 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) profit from discontinued operations, net of tax" in the consolidated income statement.

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

	2018	*2017*
	LL million	*LL million*
Interest and similar income	**54**	2,975
Interest and similar expense	**-**	(34)
Net interest income	**54**	2,941
Fee and commission income	**134**	1,518
Fee and commission expense	**-**	(206)
Net fee and commission income	**134**	1,312
Other operating income	**544**	5,210
Total operating income	**732**	9,463
Net impairment (loss) gain on financial assets	**(28)**	63
Net operating income	**704**	9,526
Total operating expenses	**(1,642)**	(4,712)
Operating (loss) profit	**(938)**	4,814
Loss on derecognition of discontinued operations	**(1,534)**	-
Tax attributable to operating profit	**-**	(202)
(Loss) profit for the year from discontinued operations	**(2,472)**	4,612
Cash inflow from sale:		
Total consideration received	**12,060**	-
	LL	*LL*
Earnings per share:		
Basic earnings per share	**(3.84)**	5.46
Diluted earnings per share	**(3.17)**	4.52

The net cash flows from discontinued operations are as follows:

	2018	*2017*
	LL million	*LL million*
Operating activities	**3,439**	3,080
Investing activities	**63**	1,723
Financing activities	**(94)**	3,845
Net cash inflows	**3,408**	8,648

18 EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Group (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.

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

	2018	*2017*
Weighted average number of common shares outstanding during the year (*)	**563,252,414**	563,322,218
	2018	*2017*
	LL million	*LL million*
Net profit attributable to equity holders of the parent	**238,940**	248,539
(Less): proposed dividends to preferred shares	**(48,480)**	(48,480)
Net profit attributable to equity holders of the parent	**190,460**	200,059
Basic earnings per share in LL	**338.14**	355.14

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

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

	2018	*2017*
Weighted average number of ordinary shares for basic earnings per share	**563,252,414**	563,322,218
Effect of dilution:		
Convertible subordinated debt	**117,200,000**	117,200,000
Weighted average number of ordinary shares adjusted for the effect of dilution	**680,452,414**	680,522,218
	2018	*2017*
	LL million	*LL million*
Net profit attributable to equity holders of the parent	**190,460**	200,059
Interest on convertible debt	**31,848**	31,696
Less: income tax	**(5,414)**	(4,754)
Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt	**216,894**	227,001
Diluted earnings per share in LL	**318.75**	333.57

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 earnings per share.

19 CASH AND BALANCES WITH CENTRAL BANKS

	2018 *LL million*	*2017* *LL million*
Cash on hand	**342,744**	248,598
Balances with the Central Bank of Lebanon:		
- Current accounts	**367,179**	274,211
- Time deposits	**15,132,903**	11,038,716
	15,500,082	11,312,927
Balances with Central Banks in other countries:		
- Current accounts	**327,519**	318,107
- Time deposits	**468**	443
	327,987	318,550
Accrued interest receivable	**189,637**	118,262
	16,360,450	11,998,337
Less: Allowance for expected credit losses/Impairment allowance	**(36,328)**	(31,533)
	16,324,122	11,966,804

Included under time deposits with the Central Bank of Lebanon is an amount of LL 2,334,095 million as at 31 December 2018 representing balances pledged against loans obtained from the Central Bank of Lebanon (2017: nil) (note 31).

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 exempt 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 2,920,277 million and LL 2,972,575 million respectively as at 31 December 2018 (2017: LL 2,719,320 million and LL 2,763,003 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 2018, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LL 93,674 million (2017: LL 47,061 million).

Provision for balances with Central Banks in other countries represents provision amounting to LL 2,562 million as at 31 December 2018 (2017: LL 31,533 million) against balances held with the Central Bank of Iraq – Kurdistan.

20 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2018	*2017*
	LL million	*LL million*
Current accounts	**991,732**	1,146,373
Time deposits	**2,874,064**	2,780,678
Accrued interest receivable	**4,428**	3,454
	3,870,224	3,930,505
Less: Allowance for expected credit losses/Impairment allowance	**(5,473)**	(1,919)
	3,864,751	3,928,586

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 2,409 million as of 31 December 2018 (2017: the same).

21 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2018	*2017*
	LL million	*LL million*
Loans to banks and financial institutions	**178,490**	117,729
Accrued interest receivable	**1,160**	731
	179,650	118,460
Discounted acceptances	**169,260**	215,099
Interest received in advance	**(2,723)**	(1,325)
	166,537	213,774
Reverse repurchase agreements	**17,597**	419,459
Accrued interest receivable	**17**	2,701
	17,614	422,160
	363,801	754,394
Less: Allowance for expected credit losses/Impairment allowance	**(168)**	-
	363,633	754,394

21 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS (continued)

Reverse repurchase agreements held by the Group as at 31 December 2018 and 2017 comprise of the following:

31 December 2018	***Balance (000)***	***Balance LL million***	***Average interest rate %***	***Collateral type***	***Collateral value LL million***
AMD	**5,640,150**	**17,597**	**5.94**	**Armenian TBs**	**17,607**

31 December 2017	*Balance (000)*	*Balance LL million*	*Average interest rate %*	*Collateral type*	*Collateral value LL million*
LL	240,489,000	240,489	3.59	BDL CDs	228,000
US$	97,997	147,731	3.52	BDL CDs	150,750
AMD	10,044,595	31,239	6.00	Armenian TBs	31,829

The Group has a programme to purchase securities under agreements to resell (reverse repos). The Group has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Group, which instead record a separate asset under reverse repurchase agreement reflecting the transaction's economic substance as a loan by the Group.

As of 31 December 2018, the Group had Armenian Treasury Bills issued by the Armenian government with a total nominal amount of AMD (000) 5,643,111 bought from financial institutions under the agreement to resell them during the first half of 2019 (2017: Certificates of Deposit issued by the Central Bank of Lebanon with a total nominal amount of US$ 100 million and LL 228,000 million and Armenian Treasury Bills issued by the Armenian government with a total nominal amount of AMD (000) 10,234,433 bought from financial institutions under the agreement to resell them during the first half of 2018).

Net interest income on the reverse repurchase agreements amounted to LL 10,449 million for the year ended 31 December 2018 (31 December 2017: LL 14,229 million).

22 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

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

	2018			*2017*		
	Assets LL million	***Liabilities LL million***	***Notional amount LL million***	*Assets LL million*	*Liabilities LL million*	*Notional amount LL million*
Held for trading						
Currency swaps	**444**	**391**	**180,051**	1,522	1,937	260,345
Forward foreign exchange contracts	**1,455**	**1,411**	**154,210**	1,268	1,607	244,451
	1,899	**1,802**	**334,261**	2,790	3,544	504,796

22 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forwards
Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over–the–counter market.

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 or equity index.

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.

Derivative financial instruments held or issued for trading purposes
Most of the Group's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. Also included under this classification are any derivatives entered into for risk management purposes that do not meet the hedge accounting criteria.

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	*2017*
	LL million	*LL million*
Quoted		
Lebanese treasury bills – Eurobonds	**29,624**	71,426
Debt securities issued by banks and financial institutions	**-**	2,494
Equity securities	**39,637**	31,834
	69,261	105,754
Unquoted		
Lebanese treasury bills – denominated in LL	**1,990**	150,271
Equity securities	**19,239**	26,292
	21,229	176,563
	90,490	282,317

Effective 1 January 2018, upon adoption of IFRS 9, financial assets at fair value through profit or loss with a carrying amount of LL 152,834 million were reclassified to financial assets at fair value through other comprehensive income (Notes 2 and 26).

24 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2018	*2017*
	LL million	*LL million*
Commercial loans	**5,400,376**	5,448,570
Consumer loans	**3,088,798**	3,036,968
	8,489,174	8,485,538
Less: Allowance for expected credit losses/Impairment allowance	**(310,945)**	(292,553)
	8,178,229	8,192,985

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

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year ended 31 December 2017 is, as follows:

	2017		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*
Balance at 1 January	179,445	111,440	290,885
Add (less):			
- Charge for the year (note 13)	25,138	20,188	45,326
- Unrealized interest for the year	19,502	1,638	21,140
- Recoveries (note 13)	(11,515)	(14,980)	(26,495)
- Transfer to off financial position	(33,454)	(5,062)	(38,516)
- Amounts written off	(956)	(981)	(1,937)
- Discontinued operations	(81)	-	(81)
- Difference of exchange	2,191	40	2,231
Balance at 31 December	180,270	112,283	292,553
Individual impairment	118,806	98,741	217,547
Collective impairment	61,464	13,542	75,006
	180,270	112,283	292,553
Gross amount of loans individually determined to be impaired	243,251	158,853	402,104

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 238,775 million as of 31 December 2018 (2017: LL 214,368 million).

25 FINANCIAL ASSETS AT AMORTISED COST

	2018 *LL million*	*2017* *LL million*
Quoted		
Lebanese treasury bills – Eurobonds	**1,973,028**	2,204,944
Foreign governmental debt securities	**85,617**	167,733
Debt securities issued by banks and financial institutions	**776**	3,931
	2,059,421	2,376,608
Unquoted		
Lebanese treasury bills – denominated in LL	**1,439,721**	1,808,188
Lebanese treasury bills – denominated in LL, given as collateral (*)	**1,257,136**	735,962
Certificates of deposit issued by the Central Bank of Lebanon – denominated in LL	**1,675,946**	1,736,194
Certificates of deposit issued by the Central Bank of Lebanon – EuroCDs	**1,366,224**	1,498,398
Certificates of deposit issued by banks and financial institutions	**3,051**	-
	5,742,078	5,778,742
	7,801,499	8,155,350
Less: Allowance for expected credit losses/Impairment allowance	**(25,223)**	-
	7,776,276	8,155,350

(*) This balance represents Lebanese treasury bills pledged as collateral against loans obtained from the Central Bank of Lebanon (note 31).

Effective 1 January 2018, upon adoption of IFRS 9, financial assets at amortized cost with a carrying amount of LL 372,004 million were reclassified to financial assets at fair value through other comprehensive income (Notes 2 and 26).

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 *LL million*	*2017* *LL million*
Quoted		
Lebanese treasury bills – Eurobonds	**42,919**	-
Foreign governmental debt securities	**90,884**	-
Debt securities issued by banks and financial institutions	**6,410**	-
Equity securities	**44,664**	47,452
	184,877	47,452
Unquoted		
Equity securities	**43,552**	54,425
	228,429	101,877

Debt instruments at fair value through other comprehensive income:
During the year 2018, total adjustments related to the reclassification and measurements other than impairment mainly consisted of the reclassification of financial assets held at amortised cost and at fair value through profit or loss to debt instruments at fair value through other comprehensive income amounting to LL 524,838 million.

26 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.

	2018			*2017*		
	Carrying amount LL million	***Cumulative fair value changes LL million***	***Dividend income LL million***	*Carrying amount LL million*	*Cumulative fair value changes LL million*	*Dividend income LL million*
Unquoted shares:						
Banque de l'Habitat SAL	**20,336**	**15,148**	**571**	32,162	26,974	94
Intra Investment Company SAL	**17,591**	**4,567**	**583**	17,591	4,567	-
Interbank Payment Network (IPN) SAL	**1,411**	**408**	**50**	1,363	360	-
Arab Trade Financing Program	**2,118**	**626**	**-**	2,118	626	-
Others	**2,096**	**281**	**-**	1,191	346	2,373
Quoted shares:						
Jordan Ahli Bank	**44,664**	**(35,750)**	**2,031**	47,452	(32,962)	1,978
	88,216	**(14,720)**	**3,235**	101,877	(89)	4,445

Dividend income amounted to LL 3,235 million for the year ended 31 December 2018 (2017: LL 4,445 million) and resulted from equity instruments held at year end (2017: 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 (2017: nil).

27 PROPERTY AND EQUIPMENT

	Buildings LL million	***Motor vehicles LL million***	***Furniture and equipment LL million***	***Deposits LL million***	***Advance payments LL million***	***Total LL million***
Cost:						
At 1 January 2018	278,950	3,006	257,039	707	7,680	547,382
Additions	12,358	30	22,786	41	3,369	38,584
Transfers	-	-	2,552	-	(2,552)	-
Disposals	(2,749)	-	(463)	-	-	(3,212)
Foreign exchange difference	10	-	(379)	-	-	(369)
Disposal of a subsidiary	-	(176)	(1,263)	-	-	(1,439)
At 31 December 2018	**288,569**	**2,860**	**280,272**	**748**	**8,497**	**580,946**
Depreciation:						
At 1 January 2018	64,329	2,158	207,458	-	-	273,945
Depreciation during the year	4,778	295	14,882	-	-	19,955
Related to disposals	-	-	(460)	-	-	(460)
Foreign exchange difference	2	-	(624)	-	-	(622)
Disposal of a subsidiary	-	(146)	(1,263)	-	-	(1,409)
At 31 December 2018	**69,109**	**2,307**	**219,993**	**-**	**-**	**291,409**
Net carrying value:						
At 31 December 2018	**219,460**	**553**	**60,279**	**748**	**8,497**	**289,537**

27 PROPERTY AND EQUIPMENT (continued)

	Buildings *LL million*	*Motor vehicles* *LL million*	*Furniture and equipment* *LL million*	*Deposits* *LL million*	*Advance Payments* *LL million*	*Total* *LL million*
Cost:						
At 1 January 2017	248,016	2,788	243,616	688	12,604	507,712
Additions	16,479	389	19,403	2	13,211	49,484
Transfers	16,977	47	1,111	-	(18,135)	-
Disposals	(2,395)	(163)	(7,602)	-	-	(10,160)
Foreign exchange difference	(127)	(55)	511	17	-	346
At 31 December 2017	278,950	3,006	257,039	707	7,680	547,382
Depreciation:						
At 1 January 2017	60,587	2,047	197,983	-	-	260,617
Depreciation during the year	4,545	312	16,044	-	-	20,901
Depreciation related to discontinued operations	-	-	232	-	-	232
Related to disposals	(754)	(163)	(7,127)	-	-	(8,044)
Foreign exchange difference	(49)	(38)	326	-	-	239
At 31 December 2017	64,329	2,158	207,458	-	-	273,945
Net carrying value:						
At 31 December 2017	214,621	848	49,581	707	7,680	273,437

The cost of buildings at 31 December 2018 and 2017 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 2018 (2017: the same) (note 42).

28 INTANGIBLE ASSETS

	2018 ***LL million***	*2017* *LL million*
Cost:		
At 1 January and 31 December	**2,303**	2,303
Accumulated amortization:		
At 1 January	**2,036**	1,923
Amortization expense for the year	**114**	113
At 31 December	**2,150**	2,036
Net carrying value:		
At 31 December	**153**	267

29 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	2018 ***LL million***	*2017* *LL million*
Cost:		
At 1 January	**50,050**	48,458
Additions	**8,205**	4,546
Disposals	**(284)**	(2,954)
Transfers	**(1,407)**	-
At 31 December	**56,564**	50,050
Impairment:		
At 1 January and 31 December	**(5,159)**	(5,159)
Net carrying value:		
At 31 December	**51,405**	44,891

Advance payments received in connection with future sale transactions for the above assets amounted to LL 375 million as of 31 December 2018 (2017: LL 885 million) (note 35).

30 OTHER ASSETS

		2018 ***LL million***	*2017* *LL million*
Obligatory deposits	a	**2,250**	2,250
Other assets	b	**138,750**	99,686
Deferred tax assets (note 16)		**882**	137
		141,882	102,073

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.

b) Other assets comprise of the following:

	2018 ***LL million***	*2017* *LL million*
Prepaid expenses	**4,296**	3,592
Prepaid insurance	**1,739**	1,518
Prepaid maintenance	**2,339**	1,799
Printings and stationery	**4,533**	3,820
Electronic cards and regularization accounts	**18,050**	15,685
Insurance premiums receivable	**6,547**	4,526
Reinsurers' share of technical reserves of subsidiary insurance companies	**69,149**	48,898
Hospitalization and medical care under collection	**12,894**	12,442
Receivable balance related to approved claims by reinsurers (note 12)	**10,553**	-
Other debit balances	**8,650**	7,406
	138,750	99,686

31 DUE TO CENTRAL BANKS

	2018	*2017*
	LL million	*LL million*
Current accounts	**575**	1,109
Loans due to the Central Bank of Lebanon	**3,844,785**	858,203
Loans due to the Central Bank of Armenia	**3,204**	2,110
Time deposits placed by the Central Bank of Angola	**5,567**	507,079
Accrued interest payable	**16,392**	6,336
	3,870,523	1,374,837

Loans due to 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 332,608 million as of 31 December 2018 (2017: LL 197,240 million).

- 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 2018 and 2017 (note 25).

- During 2016, the Group obtained 2 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 221,000 million netted by a discount of LL 58,239 million as at 31 December 2018 (2017: netted by a discount of LL 65,509 million) and are secured by the pledge of Lebanese treasury bills amounting to LL 221,000 million included under financial assets at amortised cost as of 31 December 2018 and 2017 (note 25).

- During 2017, the Group obtained 10 loans from the Central Bank of Lebanon amounting to LL 504,085 million having maturities ranging between the years 2022 and 2027. These loans are secured by the pledge of Lebanese treasury bills amounting to LL 504,085 million included under financial assets at amortised cost as of 31 December 2018 and 2017 (note 25).

- During 2018, the Group obtained 31 loans from the Central Bank of Lebanon amounting to LL 2,843,943 million having maturities ranging between 2023 and 2028. These loans are secured by the pledge of Lebanese treasury bills amounting to LL 509,848 million included under financial assets at amortised cost as of 31 December 2018 (note 25) and the pledge of time deposits held with the Central Bank of Lebanon amounting to LL 2,334,095 million as of 31 December 2018 (note 19).

Loans due to the Central Bank of Angola:

- During 2017, the Central Bank of Angola placed time deposits with the Group denominated in US Dollars amounting to LL 507,079 million and maturing during the first quarter of the year 2018. These deposits were placed to cover the letters of credit issued by the Group in the framework of the essential goods importation program sponsored by the Angolan government. Time deposits placed by the Central Bank of Angola amounted to LL 5,567 million as at 31 December 2018.

32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2018 *LL million*	*2017* *LL million*
Current accounts	**173,235**	142,597
Term loans	**507,127**	434,045
Time deposits	**415,886**	196,933
Cash margins	**163,374**	193,912
Accrued interest payable	**6,448**	4,828
	1,266,070	972,315

33 CUSTOMERS' DEPOSITS AT AMORTISED COST

	2018 *LL million*	*2017* *LL million*
Current accounts	**3,564,335**	3,474,417
Term deposits	**22,387,664**	21,896,171
Cash margins	**1,285,137**	1,241,692
Accrued interest payable	**181,006**	145,436
	27,418,142	26,757,716

34 DEBT ISSUED AND OTHER BORROWED FUNDS

	Maturity	*Interest rate %*	*2018* *LL million*	*2017* *LL million*
Bonds (*)				
Issue 2011	**24/06/2021**	**7.00**	**441,125**	443,404
Accrued interest payable			**616**	616
			441,741	444,020
Debt issued				
Issue 2017	**19/01/2021**	**7.50**	**9,358**	9,334
Accrued interest payable			**202**	202
			9,560	9,536
			451,301	453,556

(*) The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or Democratic Republic of Congo. The Bank shall pay interest on the bonds without deduction or withholding for taxes. The bonds are redeemable, in whole or in part, at the option of the Bank 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 bonds in excess of the current applicable tax rate.

35 OTHER LIABILITIES

	2018	*2017*
	LL million	*LL million*
Accrued expenses	**43,263**	41,280
Fixed assets suppliers	**182**	245
Unearned commission and interest	**6,198**	6,387
Cash margins related to companies under establishment	**1,432**	1,525
Insurance premiums received in advance	**2,908**	2,798
Payables to the National Social Security Fund	**2,237**	1,610
Advance payments linked to assets obtained in settlement of debt (note 29)	**375**	885
Current tax liability (a)	**75,780**	45,376
Deferred tax liability (note 16)	**3,169**	5,807
Put options on non-controlling interests	**4,791**	4,791
Deferred provision for Banque Pharaon & Chiha SAL loans portfolio	**10,723**	24,953
Escrow account upon acquisition of Banque Pharaon & Chiha SAL	**4,776**	4,776
Deferred revenues (b)	**155,494**	86,682
Other creditors	**43,449**	51,372
	354,777	278,487

(a) Current tax liability

	2018	*2017*
	LL million	*LL million*
Income tax due (note 16)	**57,402**	31,735
Withholding tax on salaries	**2,343**	2,257
Withholding tax on interest earned by customers	**12,117**	8,662
Value added tax	**503**	227
Other taxes	**3,415**	2,495
	75,780	45,376

(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, caped to the extent of the losses recorded to comply with recent regulatory provisioning requirements (note 36), 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 2017, the Group carried an amount of LL 86,682 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 for the year ended 31 December 2016. During 2018, the Group transferred the remaining amount of LL 68,812 million from “Provisions for risks and charges” to “Deferred revenues” (note 36). The amount recorded as “Deferred revenues” qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

36 PROVISIONS FOR RISKS AND CHARGES

	2018 *LL million*	*2017* *LL million*
Technical reserves of insurance subsidiaries	**132,260**	108,060
Employees' end of service benefits (a)	**38,655**	48,864
Other provisions (b)	**59,508**	194,012
	230,423	350,936

(a) Employees' end of service benefits

The Bank 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.

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

	2018 *LL million*	*2017* *LL million*
Balance at 1 January	**48,864**	49,189
Costs charged to the income statement (note 14):		
Service costs	**6,877**	3,496
Net interest	**3,175**	3,119
	10,052	6,615
Discontinued operations:		
Service costs	**-**	185
	-	185
Re-measurement gains in other comprehensive income:		
Experience adjustments	**(15,975)**	(2,164)
	(15,975)	(2,164)
Disposal of a subsidiary	**(381)**	-
End of service benefits paid during the year	**(3,843)**	(5,091)
Foreign exchange	**(62)**	130
Balance at 31 December	**38,655**	48,864

36 PROVISIONS FOR RISKS AND CHARGES (continued)

(a) Employees' end of service benefits (continued)

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:

	2018	*2017*
Economic assumptions		
Discount rate	**8.0%**	8.0%
Future salary increase	**3.0%**	5.5%
Future expected return on contributions	**5.0%**	5.0%
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
Mortality rate	**None**	None
Turnover rate	**2.0% for NSSF and 4.0% for WCA**	2.0% for NSSF and 2.0% for WCA

A quantitative sensitivity analysis as a result of an increase/decrease of 50 basis points in the significant assumptions as at 31 December 2018 and 2017 is shown as below:

	Discount rate		*Future salary increase*	
	increase LL million	*decrease LL million*	*increase LL million*	*decrease LL million*
Impact on net defined benefit obligations				
2018	**(930)**	**995**	**2,274**	**(2,158)**
2017	(1,435)	1,541	3,069	(2,909)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

(b) Other provisions

	2018 LL million	*2017 LL million*
Provisions to comply with Central Bank of Lebanon Intermediate Circular number 439 (note 35) (*)	**-**	142,480
Provisions for contingencies	**50,213**	47,184
Provisions for ECL on financial guarantees and commitments (note 46)	**5,289**	-
Other	**4,006**	4,348
	59,508	194,012

(*) During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective provisions equivalent to 2% of consolidated risk weighted loans and advances to customers. As such, provisions for risks and charges as at 31 December 2017 include an amount of LL 142,480 million in excess of the provisioning requirements of IAS 39. During 2018, the Group utilized part of this provision to cover an amount of LL 65,394 million resulting from the impact of first-time adoption of IFRS 9 Expected Credit Loss (ECL) model on 1 January 2018. In addition, the Group released an amount of LL 8,274 million from "Provisions for risks and charges" to "Other operating income" and transferred the remaining amount of LL 68,812 million from "Provisions for risks and charges" to "Deferred revenues" (note 35).

36 PROVISIONS FOR RISKS AND CHARGES (continued)

(b) Other provisions (continued)

Movement in other provisions during the year was as follows:

	2018	*2017*
	LL million	*LL million*
At 1 January	**194,012**	151,189
Charge for the year (note 15)	**27,971**	8,098
Write back during the year (note 12)	**(8,274)**	(1,484)
Discontinued operations	**-**	(3,227)
Transfer to ECL allowances on financial assets (note 2.3)	**(65,394)**	-
Provisions for ECL on financial guarantees and commitments	**5,289**	-
Transfer from / to "Deferred revenues" (note 35)	**(68,812)**	40,000
Paid during the year	**(24,252)**	-
Foreign exchange	**(1,032)**	(564)
At 31 December	**59,508**	194,012

37 SUBORDINATED DEBT

	2018	*2017*
	LL million	*LL million*
Nominal value	**441,678**	441,544
Unamortised discount	**(15,505)**	(18,712)
Accrued interest payable	**245**	163
	426,418	422,995

On 21 December 2012, the Bank 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.

The convertible subordinated loan was recorded at issuance as follows:

	LL million
Nominal value of convertible bonds	**441,678**
Equity component	**(31,618)**
Liability component	**410,060**

The equity component of the convertible subordinated loan is recorded in equity under "non-distributable reserves" (note 39).

38 SHARE CAPITAL

	2018			2017		
	No of shares	*Share capital LL million*	*Share premium LL million*	*No of shares*	*Share capital LL million*	*Share premium LL million*
Common shares	**565,515,040**	**684,273**	**229,014**	565,515,040	684,273	229,014
Preferred shares						
- 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
	4,000,000	**4,840**	**591,083**	4,000,000	4,840	591,083

The capital of the Bank is divided into 569,515,040 shares of LL 1,210 each fully paid (2017: 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.

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.

38 SHARE CAPITAL (continued)

Listing of shares
As of 31 December the Bank's shares were listed as follows:

	Stock exchange	**2018** No of shares	2017 No of shares
Ordinary shares	Beirut	**502,237,540**	502,087,540
Global depository receipts (*)	London SEAQ and Beirut	**1,265,550**	1,268,550
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.

39 NON DISTRIBUTABLE RESERVES

	Legal reserve LL million	General reserve LL million	Reserves for capital increase LL million	Equity component of convertible subordinated debt LL million	Reserve for general banking risks LL million	Other reserves LL million	Total LL million
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**
Balance at 1 January 2017	286,956	-	68,420	31,618	298,583	157,743	843,320
Appropriations from retained earnings	24,142	-	49,564	-	-	7,786	81,492
Balance at 31 December 2017	311,098	-	117,984	31,618	298,583	165,529	924,812

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

During 2018, the Group appropriated LL 22,226 million from 2017 profits to the legal reserve (2017: LL 24,142 million from 2016 profits).

39 NON DISTRIBUTABLE RESERVES (continued)

Reserves for capital increase
This represents regulatory reserves constituted in accordance with circulars issued by the Central Bank of Lebanon and the Banking Control Commission. These reserves cannot be distributed as dividends and comprise the following:

	2018	2017
	LL million	*LL million*
Reserve equivalent to gain on sale of assets acquired in settlement of debt	**40,158**	36,439
Reserve against gains realized from deferred revenues	**43,130**	43,130
Reserve equivalent to provisions recovered	**9,737**	9,737
Reserve against assets obtained in settlement of debt	**21,771**	19,183
Reserve against realized gain from liquidation of fixed position	**8,870**	8,870
Others	**625**	625
	124,291	117,984

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 2018, the Group transferred an amount of LL 9,454 million from retained earnings to other reserves in this respect (2017: LL 7,786 million).

- As of 31 December 2018, "Other reserves" include reserves of LL 110,406 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2017: LL 106,040 million).

40 DISTRIBUTABLE RESERVES

	2018	2017
	LL million	*LL million*
General reserves	**115,626**	109,590
Other capital reserves	**1,026**	1,026
	116,652	110,616

40 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:

	2018 ***LL million***	*2017* *LL million*
At 1 January	**109,590**	102,220
Appropriation from retained earnings	**8,533**	7,370
Transfers to retained earnings	**(2,497)**	-
At 31 December	**115,626**	109,590

Other capital reserves

	2018 ***LL million***	*2017* *LL million*
Premium on capital increase of Byblos Bank Armenia CJSC	**1,026**	1,026

41 TREASURY SHARES

Movement of treasury shares recognised in the statement of financial position for the years 2018 and 2017 was as follows:

Year ended 31 December 2018

	Common shares		***Global Depository Receipts***	
	No. of shares	***Amount US$(000)***	***No. of shares***	***Amount US$(000)***
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 LL million				**7,105**

Year ended 31 December 2017

	Common shares		*Global Depository Receipts*	
	No. of shares	*Amount US$(000)*	*No. of shares*	*Amount US$(000)*
At 1 January 2017	1,532,182	2,686	8,941	738
Acquisitions of treasury shares	383,423	648	250	19
Sales of treasury shares	(62,500)	(109)	-	-
At 31 December 2017	1,853,105	3,225	9,191	757
Total treasury shares in LL million				6,002

42 REVALUATION RESERVE OF REAL ESTATE

	2018 *LL million*	*2017* *LL million*
Revaluation reserve accepted in Tier II capital	**1,978**	1,978
Revaluation reserve not accepted in Tier II capital	**3,711**	3,711
	5,689	5,689

43 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:

	2018 *LL million*	*2017* *LL million*
At 1 January	**(4,538)**	(9,081)
Impact of adopting IFRS 9 at 1 January 2018	**1,564**	-
Net changes in fair values during the year	**(14,775)**	6,026
Net changes in deferred taxes	**2,225**	(1,445)
Difference on exchange	**62**	(38)
Balance at 31 December	**(15,462)**	(4,538)

44 CASH AND CASH EQUIVALENTS

	2018 *LL million*	*2017* *LL million*
Cash and balances with central banks	**3,270,373**	2,672,001
Due from banks and financial institutions	**3,794,748**	3,894,191
Loans to banks and financial institutions and reverse repurchase agreements	**209,152**	684,852
	7,274,273	7,251,044
Less: Due to central banks	**(24,215)**	(516,350)
Less: Due to banks and financial institutions	**(764,488)**	(595,188)
Cash and cash equivalents at 31 December	**6,485,570**	6,139,506

45 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.

45 RELATED PARTY TRANSACTIONS (continued)

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

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 2018			*31 December 2017*		
	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	**-**	**155,623**	**155,623**	-	15,095	15,095
Loans and advances	**8,806**	**16,125**	**24,931**	7,992	14,038	22,030
Due to banks and financial institutions	**-**	**100,214**	**100,214**	-	93,493	93,493
Deposits	**114,999**	**306,173**	**421,172**	107,988	272,802	380,790
Debt issued and other borrowed funds	**887**	**10,449**	**11,336**	973	10,307	11,280
Subordinated debt	**314**	**7,781**	**8,095**	360	8,710	9,070
Guarantees received	**8,245**	**5,304**	**13,549**	6,587	5,305	11,892
Guarantees given	**205**	**166**	**371**	77	729	806
Commitments (including acceptances)	**3,232**	**1,997**	**5,229**	2,812	1,603	4,415

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

	31 December 2018			*31 December 2017*		
	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 loans and advances	**545**	**998**	**1,543**	419	1,038	1,457
Interest expense on deposits	**6,609**	**14,751**	**21,360**	6,124	12,522	18,646
Interest expense on due to banks and financial institutions	**-**	**3,410**	**3,410**	-	1,566	1,566
Interest expense on debt issued and other borrowed funds	**62**	**856**	**918**	68	805	873
Interest expense on subordinated debt	**20**	**500**	**520**	23	560	583
Rent expense	**-**	**600**	**600**	-	600	600

45 RELATED PARTY TRANSACTIONS (continued)

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 2018, guarantees issued by IFC amounted to LL 45,085 million (2017: LL 18,013 million).

Compensation of the Key Management Personnel of the Group

	2018	*2017*
	LL million	*LL million*
Short-term benefits[1]	**21,637**	19,921

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

46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit-related commitments and contingent liabilities

To meet the financial needs of customers, the Group enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including financial and other 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.

		2018	
	Banks	***Customers***	***Total***
	LL million	***LL million***	***LL million***
Guarantees and contingent liabilities			
Financial guarantees	**-**	**238,700**	**238,700**
Other guarantees	**149,384**	**822,475**	**971,859**
	149,384	**1,061,175**	**1,210,559**
Commitments			
Documentary credits	**306,148**	**422,798**	**728,946**
Loan commitments	**-**	**2,198,843**	**2,198,843**
	306,148	**2,621,641**	**2,927,789**

		2017	
	Banks	*Customers*	*Total*
	LL million	*LL million*	*LL million*
Guarantees and contingent liabilities			
Financial guarantees	-	208,735	208,735
Other guarantees	152,940	779,968	932,908
	152,940	988,703	1,141,643
Commitments			
Documentary credits	352,327	425,887	778,214
Loan commitments	-	2,141,250	2,141,250
	352,327	2,567,137	2,919,464

46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Guarantees
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.

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.

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 6,571 million as of 31 December 2018 (2017: LL 10,989 million).

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

Operating lease commitments – Group as lessee
The Group has entered into commercial leases on premises. These leases have an average life of between five and ten years. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2018	*2017*
	LL million	*LL million*
Within one year	**4,029**	4,346
After one year but not more than five years	**12,310**	12,371
More than five years	**10,185**	10,577
	26,524	27,294

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 2018 and the review of the National Social Security Fund (NSSF) for the period from 1 November 2014 to 31 December 2018. 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.

47 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2018	*2017*
	LL million	*LL million*
Assets held in custody and under administration	**2,569,033**	3,073,423

47 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION (continued)

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 activities including the valuation of portfolios of securities and other financial assets on behalf of clients, which complements the custody business.

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 realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Group as a going concern.

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

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

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

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

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

	2018			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
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	**39,637**	**-**	**19,239**	**58,876**
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**
Equity securities	**44,664**	**-**	**43,552**	**88,216**
Liabilities:				
Derivative financial instruments:				
Currency swaps	**-**	**391**	**-**	**391**
Forward foreign exchange contracts	**-**	**1,411**	**-**	**1,411**

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	2017			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Assets:				
Derivative financial instruments:				
Currency swaps	-	1,522	-	1,522
Forward foreign exchange contracts	-	1,268	-	1,268
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	71,426	150,271	-	221,697
Debt securities issued by banks and financial institutions	2,494	-	-	2,494
Equity securities	31,834	-	26,292	58,126
Financial assets at fair value through other comprehensive income	47,452	-	54,425	101,877
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	1,937	-	1,937
Forward foreign exchange contracts	-	1,607	-	1,607

There were no transfers between levels during 2018 (2017: the same).

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

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

Government bonds, certificates of deposits and other debt securities
The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. The Group does not have Level 3 government bonds, certificates of deposits and other debt instruments.

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

Equity shares of non-listed entities
The Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private 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.

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)

Equity shares of non-listed entities (continued)

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

	2018	*2017*
	LL million	*LL million*
Balance at 1 January	**54,425**	51,447
Additions	**1,003**	16
Re-measurement recognised in other comprehensive income	**(11,876)**	2,962
	43,552	54,425

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

	2018		*2017*	
	Fair value LL million	***Carrying value LL million***	*Fair value LL million*	*Carrying value LL million*
FINANCIAL ASSETS				
Cash and balances with central banks	**16,324,122**	**16,324,122**	11,966,804	11,966,804
Due from banks and financial institutions	**3,864,751**	**3,864,751**	3,928,586	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	**363,763**	**363,633**	754,381	754,394
Net loans and advances to customers at amortised cost	**8,158,943**	**8,178,229**	8,193,358	8,192,985
Net loans and advances to related parties at amortised cost	**24,931**	**24,931**	22,030	22,030
Financial assets at amortised cost				
Lebanese treasury bills	**4,397,961**	**4,651,184**	4,707,143	4,749,094
Certificates of deposit issued by the Central Bank of Lebanon	**3,095,621**	**3,035,723**	3,287,258	3,234,592
Foreign governmental debt securities	**88,220**	**85,577**	172,163	167,733
Debt securities issued by banks and financial institutions	**798**	**776**	3,931	3,931
Certificates of deposit issued by banks and financial institutions	**2,765**	**3,016**	-	-
FINANCIAL LIABILITIES				
Due to central banks	**3,870,523**	**3,870,523**	1,374,837	1,374,837
Due to banks and financial institutions	**1,266,070**	**1,266,070**	972,315	972,315
Customers' deposits at amortised cost	**27,365,114**	**27,418,142**	26,812,215	26,757,716
Deposits from related parties at amortised cost	**421,008**	**421,172**	386,795	380,790
Debt issued and other borrowed funds	**408,337**	**451,301**	450,164	453,556
Subordinated debt	**350,666**	**426,418**	402,644	422,995

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

Government bonds, certificates of deposits and other debt securities
The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. The Group does not have Level 3 government bonds, certificates of deposits and other debt instruments.

Loans and advances to customers
For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers with long-term maturities is estimated using discounted cash flows by applying current rates for new loans granted during 2018 with similar characteristics.

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

Debt issued and other borrowed funds and subordinated debt
Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

	2018			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Assets for which fair values are disclosed:				
Cash and balances with central banks	**342,744**	**15,981,378**	**-**	**16,324,122**
Due from banks and financial institutions	**-**	**3,864,751**	**-**	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	**-**	**363,763**	**-**	**363,763**
Net loans and advances to customers at amortised cost	**-**	**-**	**8,158,943**	**8,158,943**
Net loans and advances to related parties at amortised cost	**-**	**-**	**24,931**	**24,931**
Financial assets at amortised cost:				
Lebanese treasury bills	**1,690,556**	**2,707,405**	**-**	**4,397,961**
Certificates of deposit issued by the Central Bank of Lebanon	**-**	**3,095,621**	**-**	**3,095,621**
Foreign governmental debt securities	**88,220**	**-**	**-**	**88,220**
Debt securities issued by banks and financial institutions	**798**	**-**	**-**	**798**
Certificates of deposit issued by banks and financial institutions	**-**	**2,765**	**-**	**2,765**
Liabilities for which fair values are disclosed:				
Due to central banks	**-**	**3,870,523**	**-**	**3,870,523**
Due to banks and financial institutions	**-**	**1,266,070**	**-**	**1,266,070**
Customers' deposits at amortised cost	**-**	**27,365,114**	**-**	**27,365,114**
Deposits from related parties at amortised cost	**-**	**421,008**	**-**	**421,008**
Debt issued and other borrowed funds	**-**	**408,337**	**-**	**408,337**
Subordinated debt	**-**	**350,666**	**-**	**350,666**

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2017			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Assets for which fair values are disclosed:				
Cash and balances with central banks	248,598	11,718,206	-	11,966,804
Due from banks and financial institutions	-	3,928,586	-	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	-	754,381	-	754,381
Net loans and advances to customers at amortised cost	-	-	8,193,358	8,193,358
Net loans and advances to related parties at amortised cost	-	-	22,030	22,030
Financial assets at amortised cost:				
Lebanese treasury bills	2,145,082	2,562,061	-	4,707,143
Certificates of deposit issued by the Central Bank of Lebanon	-	3,287,258	-	3,287,258
Foreign governmental debt securities	172,163	-	-	172,163
Debt securities issued by banks and financial institutions	3,931	-	-	3,931
Liabilities for which fair values are disclosed:				
Due to central banks	-	1,374,837	-	1,374,837
Due to banks and financial institutions	-	972,315	-	972,315
Customers' deposits at amortised cost	-	26,812,215	-	26,812,215
Deposits from related parties at amortised cost	-	386,795	-	386,795
Debt issued and other borrowed funds	-	450,164	-	450,164
Subordinated debt	-	402,644	-	402,644

49 RISK MANAGEMENT

49.1 INTRODUCTION

Risk is inherent in the Group's activities, yet it is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, interest rate risk, liquidity risk and market risk. It is also subject to various operational risks.

The Group's risk management process involves identification, measurement, monitoring and controlling risks to ensure that:

- Individuals who take or manage risks clearly understand it;
- The organization's risk exposure is within the limits established by the Board of Directors (Board);
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through the bank's strategic planning process.

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

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:

Risk Committee: It is primarily responsible to formulate the risk appetite statement for the Bank 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 to 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 Bank's compliance with anti-money laundering laws (namely Law Number 318 dated April 20, 2001 and BDL circular number 83 dated 18 May 2001) and all amendments thereto. The committee has an oversight responsibility over the Bank'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 the 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 the 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, FX 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 the risk policies, the risk measurement tools such as rating and scoring, and risk-based processes including stress testing, economic capital, and risk-based profitability. It oversees the risk reports prepared 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 the 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 develops annually 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, as well as risk factors emanating from the environment in which it operates. 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 in managing the IFRS 9 Expected Credit Loss (ECL) process and the calculation of the expected credit loss provision. The Bank 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 Bank 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 in 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 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 report on 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 the 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. 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 risks 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 decision making process documented in a written procedure.

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. 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 Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. 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.

49.2.1 Impairment assessment

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the *Summary of significant accounting policies*.

Definition of default and cure

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

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

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

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

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

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

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

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.1 Impairment assessment (continued)

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

The Group's internal rating and PD estimation process
The Group's independent Credit Risk Department operates its internal rating models. The Bank 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 bank'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, as shown in the table below.

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.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.1 Impairment assessment (continued)

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 Bank's credit rating risk
The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

(i) External ratings from approved credit rating agencies for governments and central banks, financial institutions and financial assets.

(ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing. These internal rating models include a Corporate model, SME model, and Contracting model. The bank developed in 2018 a new Real Estate model.

(iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.

(iv) Supervisory ratings, comprising six main categories: (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 regularisation* 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 utilisation 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.

<u>Sovereign:</u>

Internal rating grade	Moody's Rating
Performing	Aaa, Aa, A, Baa
	Ba
	B
Non-performing	Caa-C
	Investment-Grade
	Speculative-Grade
	All Rated

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.1 Impairment assessment (continued)

The Group's internal rating and PD estimation process (continued)

Banks and financial institutions:

Internal rating grade	S&P Rating
Performing	AAA
	AA
	A
	BBB
	BB
	B
Non-performing	CCC/C

Commercial loans:

Score-cut	Rank	Moody's alphanumeric	Rating scale
100	1	Aaa	1
100	2	Aa1	2+
100	3	Aa2	2
100	4	Aa3	2-
100	5	A1	3+
100	6	A2	3
100	7	A3	3-
94.08	8	Baa1	4+
86.74	9	Baa2	4
78.42	10	Baa3	4-
70.47	11	Ba1	5+
63.19	12	Ba2	5
52.23	13	Ba3	5-
43.02	14	B1	6+
32.71	15	B2	6
21.89	16	B3	6-
12.03	17	Caa1	7+
8.59	18	Caa2	7
4.01	19	Caa3	7-

Consumer loans:

The Bank calculates consumer loans PD at account level by estimating the survival probability based on behavioural and other account characteristics.

Internal rating grade	Internal rating description	Supervisory Rating	Stage
Performing			
0 days past due	High	Regular	1
1 to 30 days past due	Standard	Regular	1
31 to 60 days past due	Past due but not impaired	Follow-up	2
61 to 90 days past due	Past due but not impaired	Follow-up and regularisation	2
Non-performing (*)			
91 to 180 days past due	Individually impaired	Substandard	3
181 days to 360 days past due	Individually impaired	Doubtful	3
more than 360 days past due	Individually impaired	Bad	3

(*) Housing loans that are more than 180 days past due are classified as non-performing and are assigned as Stage 3.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.1 Impairment assessment (continued)

Exposure at Default
EAD represents the expected exposure in the event of a default. The Bank 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. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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 based 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, external benchmark information is used to supplement the internally available data.

Significant increase in credit risk
The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank 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 Bank uses a quantitative test based on movement in ORR of the counterparty (which reflects the movement of the PD).

The Bank 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 Bank 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.

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 Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

The Bank 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 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.1 Impairment assessment (continued)

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.

Forward Looking Information
The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a baseline, which is the median scenario assigned with a certain probability of occurring, and two less likely scenarios, one optimistic and one pessimistic, each assigned a specific probability of occurring. The baseline scenario is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The Group relies on economists within its Research Department for the forecast of these three scenarios including the weight attributable to each scenario. The scenario weighting are determined by an expert credit judgment. Scenario design and probability weights are updated at least annually (if required).

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

Key driver	*ECL Scenario*	*Assigned Probabilities*	*2019*	*2020*	*2021*	*2022*	*2023*
		%	*%*	*%*	*%*	*%*	*%*
GDP growth	Optimistic	**30**	**2.0**	**2.7**	**4.0**	**4.7**	**5.0**
	Baseline	**40**	**1.6**	**1.9**	**2.7**	**3.0**	**3.0**
	Pessimistic	**30**	**0.8**	**1.0**	**1.0**	**1.0**	**1.0**

49.2.2 Overview of modified and forborne loans

From 1 January 2018
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in the *Summary of significant accounting policies* above.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

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 Bank'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.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.2 Overview of modified and forborne loans (continued)

From 1 January 2018 (continued)
Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

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

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the year.

	2018 ***LL million***
Amortised costs of financial assets modified during the year	**60,770**

There are no previously modified financial assets for which loss allowance has changed to 12mECL measurement as at 31 December 2018. There are no previously modified financial assets for which loss allowance had changed to 12mECL measurement and reverted to LTECL as at 31 December 2018.

Before 1 January 2018
Restructuring activity aims to manage customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances.

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

	2017 *LL million*
Commercial loans	44,785

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 2018 and 1 January 2018. The Group does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross exposure				*Impairment allowance*				*Net*
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*exposure*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*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)**	**16,324,122**
Due from banks and financial institutions	**3,866,614**	**1,769**	**1,841**	**3,870,224**	**(3,368)**	**(264)**	**(1,841)**	**(5,473)**	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	**351,599**	**12,202**	**-**	**363,801**	**(159)**	**(9)**	**-**	**(168)**	**363,633**
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)**	**8,178,229**
Net loans and advances to related parties at amortised cost	**22,186**	**2,804**	**-**	**24,990**	**(35)**	**(24)**	**-**	**(59)**	**24,931**
Financial assets at amortised cost	**7,801,499**	**-**	**-**	**7,801,499**	**(25,223)**	**-**	**-**	**(25,223)**	**7,776,276**
Financial guarantees and other commitments	**3,968,614**	**169,734**	**-**	**4,138,348**	**(4,732)**	**(557)**	**-**	**(5,289)**	**4,133,059**
Total	**39,757,630**	**886,202**	**404,654**	**41,048,486**	**(129,203)**	**(19,501)**	**(234,781)**	**(383,485)**	**40,665,001**

	Gross exposure				*Impairment allowance*				*Net*
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*exposure*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
1 January 2018									
Balances with central banks	11,960,688	6,116	31,533	11,998,337	(26,402)	(5)	(31,533)	(57,940)	11,940,397
Due from banks and financial institutions	3,927,801	785	1,919	3,930,505	(768)	-	(1,919)	(2,687)	3,927,818
Loans to banks and financial institutions and reverse repurchase agreements	746,963	7,431	-	754,394	(55)	(34)	-	(89)	754,305
Net loans and advances to customers at amortised cost	7,665,713	417,722	402,103	8,485,538	(67,478)	(18,354)	(217,547)	(303,379)	8,182,159
Net loans and advances to related parties at amortised cost	19,531	2,499	-	22,030	(44)	-	-	(44)	21,986
Financial assets at amortised cost	8,155,350	-	-	8,155,350	(26,560)	-	-	(26,560)	8,128,790
Financial guarantees and other commitments	3,897,012	164,095	-	4,061,107	(4,389)	(76)	-	(4,465)	4,056,642
Total	36,373,058	598,648	435,555	37,407,261	(125,696)	(18,469)	(250,999)	(395,164)	37,012,097

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 at amortized cost:

	Stage 1 LL million	*Stage 2 LL million*	*Stage 3 LL million*	*Total LL million*
Balance at 1 January 2018	75,006	-	217,547	292,553
Effect of IFRS 9 adoption (note 2.3)	(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 13)	3,799	4,126	55,319	63,244
Write-offs	-	-	(25,854)	(25,854)
Other movements	-	-	26,960	26,960
Recoveries (note 13)	(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**

49.2.4 Analysis of risk concentrations

The Group's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2018 was LL 94,332 million (2017: LL 95,605 million), before taking into account collateral or other credit enhancements and LL 39,400 million (2017: LL 95,605 million) net of such protection.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.4 Analysis of risk concentrations (continued)

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:

	2018				2017			
	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	**15,657,267**	**137,410**	**186,701**	**15,981,378**	11,431,189	125,157	161,860	11,718,206
Due from banks and financial institutions	**230,314**	**2,282,663**	**1,351,774**	**3,864,751**	91,562	2,462,733	1,374,291	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	**18,771**	**137,522**	**207,340**	**363,633**	398,614	169,193	186,587	754,394
Derivative financial instruments	**232**	**1,532**	**135**	**1,899**	530	1,385	875	2,790
Financial assets at fair value through profit or loss:								
Lebanese treasury bills	**31,614**	**-**	**-**	**31,614**	221,697	-	-	221,697
Debt securities issued by banks and financial institutions	**-**	**-**	**-**	**-**	-	777	1,717	2,494
Net loans and advances to customers at amortised cost								
Commercial	**4,366,370**	**233,983**	**588,694**	**5,189,047**	4,557,803	165,467	545,030	5,268,300
Consumer	**2,802,181**	**49,051**	**137,950**	**2,989,182**	2,769,798	43,936	110,951	2,924,685
Net loans and advances to related parties at amortised cost	**24,266**	**653**	**12**	**24,931**	21,253	666	111	22,030
Debtors by acceptances	**280,785**	**7,354**	**73,952**	**362,091**	290,018	6,374	57,631	354,023
Financial assets at amortised cost								
Lebanese treasury bills	**4,651,184**	**-**	**-**	**4,651,184**	4,749,094	-	-	4,749,094
Certificates of deposit issued by the Central Bank of Lebanon	**3,035,723**	**-**	**-**	**3,035,723**	3,234,592	-	-	3,234,592
Foreign governmental debt securities	**-**	**72,104**	**13,473**	**85,577**	-	154,338	13,395	167,733
Debt securities issued by banks and financial institutions	**-**	**776**	**-**	**776**	-	3,931	-	3,931
Certificates of deposit issued by banks and financial institutions	**3,016**	**-**	**-**	**3,016**	-	-	-	-
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**	-	-	-	-
	31,144,642	**3,020,342**	**2,560,031**	**36,725,015**	27,766,150	3,133,957	2,452,448	33,352,555

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:

	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										
Commercial	**-**	**-**	**-**	**1,768,078**	**1,121,444**	**1,177,648**	**-**	**994,862**	**127,015**	**5,189,047**
Consumer	**-**	**-**	**2,989,182**	**-**	**-**	**-**	**-**	**-**	**-**	**2,989,182**
Net loans and advances to related parties at amortised cost										
Commercial	**-**	**-**	**-**	**4,012**	**12,082**	**-**	**-**	**-**	**-**	**16,094**
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**
Debt securities issued by banks and financial institutions	**776**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**776**
Certificates of deposit issued by banks and financial institutions	**3,016**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,016**
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)

49.2.4 Analysis of risk concentrations (continued)

Industrial analysis (continued)

	2017									
	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	-	11,431,188	-	-	-	-	-	-	-	11,431,188
Other Central Banks	-	287,018	-	-	-	-	-	-	-	287,018
Due from banks and financial institutions	3,928,586	-	-	-	-	-	-	-	-	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	754,394	-	-	-	-	-	-	-	-	754,394
Derivative financial instruments	2,790	-	-	-	-	-	-	-	-	2,790
Financial assets at fair value through profit or loss	2,494	221,697	-	-	-	-	-	-	-	224,191
Net loans and advances to customers at amortised cost										
Commercial	-	-	-	1,968,031	1,194,155	1,054,665	-	940,105	111,344	5,268,300
Consumer	-	-	2,924,685	-	-	-	-	-	-	2,924,685
Net loans and advances to related parties at amortised cost										
Commercial	-	-	-	3,480	7,002	-	-	6	-	10,488
Consumer	-	-	11,542	-	-	-	-	-	-	11,542
Debtors by acceptances	36,436	-	-	220,401	8,806	67,496	-	20,072	812	354,023
Financial assets at amortised cost										
Lebanese treasury bills	-	4,749,094	-	-	-	-	-	-	-	4,749,094
Certificates of deposit issued by the Central Bank of Lebanon	-	3,234,592	-	-	-	-	-	-	-	3,234,592
Foreign governmental debt securities	-	167,733	-	-	-	-	-	-	-	167,733
Debt securities issued by banks and financial institutions	3,931	-	-	-	-	-	-	-	-	3,931
	4,728,631	20,091,322	2,936,227	2,191,912	1,209,963	1,122,161	-	960,183	112,156	33,352,555

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.5 Credit Quality Per Class of Financial Asset

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

	2018				
	Neither past due nor impaired				
	High grade LL million	***Standard grade LL million***	***Past due but not impaired LL million***	***Individually impaired LL million***	***Total LL million***
Balances with central banks	**15,823,443**	**191,701**	**-**	**2,562**	**16,017,706**
Due from banks and financial institutions	**3,261,646**	**606,737**	**-**	**1,841**	**3,870,224**
Loans to banks and financial institutions and reverse repurchase agreements	**136,484**	**227,317**	**-**	**-**	**363,801**
Derivative financial instruments	**1,899**	**-**	**-**	**-**	**1,899**
Financial assets at fair value through profit or loss:					
Lebanese treasury bills	**31,614**	**-**	**-**	**-**	**31,614**
Net loans and advances to customers at amortized cost:					
Commercial loans	**4,774,738**	**325,666**	**55,548**	**244,424**	**5,400,376**
Consumer loans	**2,700,826**	**45,531**	**186,615**	**155,826**	**3,088,798**
Net loans and advances to related parties at amortized cost	**24,990**	**-**	**-**	**-**	**24,990**
Debtors by acceptances	**288,138**	**73,953**	**-**	**-**	**362,091**
Financial assets at amortized cost:					
Lebanese treasury bills	**4,669,885**	**-**	**-**	**-**	**4,669,885**
Certificates of deposit issued by the Central Bank of Lebanon	**3,042,170**	**-**	**-**	**-**	**3,042,170**
Foreign governmental debt securities	**6,421**	**79,196**	**-**	**-**	**85,617**
Debt securities issued by banks and financial institutions	**776**	**-**	**-**	**-**	**776**
Certificates of deposit issued by banks and financial institutions	**3,051**	**-**	**-**	**-**	**3,051**
Financial assets at fair value through other comprehensive income:					
Lebanese treasury bills	**42,919**	**-**	**-**	**-**	**42,919**
Debt securities issued by banks and financial institutions	**6,410**	**-**	**-**	**-**	**6,410**
Foreign governmental debt securities	**90,884**	**-**	**-**	**-**	**90,884**
	34,906,294	**1,550,101**	**242,163**	**404,653**	**37,103,211**

	2017				
	Neither past due nor impaired				
	High grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Individually impaired LL million*	*Total LL million*
Balances with central banks	11,584,765	133,441	-	31,533	11,749,739
Due from banks and financial institutions	3,175,841	752,745	-	1,919	3,930,505
Loans to banks and financial institutions and reverse repurchase agreements	521,151	233,243	-	-	754,394
Derivative financial instruments	2,790	-	-	-	2,790
Financial assets at fair value through profit or loss:					
Lebanese treasury bills	221,697	-	-	-	221,697
Debt securities issued by banks and financial institutions	2,494	-	-	-	2,494
Net loans and advances to customers at amortized cost:					
Commercial loans	5,003,300	156,125	45,894	243,251	5,448,570
Consumer loans	2,649,104	29,218	199,793	158,853	3,036,968
Net loans and advances to related parties at amortized cost	22,030	-	-	-	22,030
Debtors by acceptances	319,148	34,875	-	-	354,023
Financial assets at amortized cost:					
Lebanese treasury bills	4,749,094	-	-	-	4,749,094
Certificates of deposit issued by the Central Bank of Lebanon	3,234,592	-	-	-	3,234,592
Foreign governmental debt securities	75,169	92,564	-	-	167,733
Debt securities issued by banks and financial institutions	3,931	-	-	-	3,931
	31,565,106	1,432,211	245,687	435,556	33,678,560

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

49.2.5 Credit Quality Per Class of Financial Asset (continued)

Aging analysis of past due but not impaired loans per class of financial assets:

	2018			
	Less than 90 days LL million	***91 to 180 days LL million***	***More than 181 days LL million***	***Total LL million***
Loans and advances to customers at amortised cost:				
- Commercial loans	**14,391**	**10,538**	**30,619**	**55,548**
- Consumer loans	**181,299**	**1,920**	**3,396**	**186,615**
	195,690	**12,458**	**34,015**	**242,163**

	2017			
	Less than 90 days LL million	*91 to 180 days LL million*	*More than 181 days LL million*	*Total LL million*
Loans and advances to customers at amortised cost:				
- Commercial loans	14,769	3,833	27,292	45,894
- Consumer loans	192,997	2,423	4,373	199,793
	207,766	6,256	31,665	245,687

The classification of loans and advances to customers at amortised cost in accordance with the ratings of Central Bank of Lebanon are as follows:

	2018		
	Gross balance LL million	***ECL Stage 3 LL million***	***Net balance LL million***
Regular	**6,857,480**	**-**	**6,857,480**
Follow up	**776,975**	**-**	**776,975**
Follow up and regularization	**454,468**	**-**	**454,468**
Substandard	**62,552**	**(11,359)**	**51,193**
Doubtful	**255,836**	**(137,156)**	**118,680**
Bad	**81,863**	**(81,863)**	**-**
	8,489,174	**(230,378)**	**8,258,796**
ECL Stages 1 and 2	**(80,567)**	**-**	**(80,567)**
	8,408,607	**(230,378)**	**8,178,229**

	2017			
	Gross balance LL million	*Unrealised interest LL million*	*Impairment allowances LL million*	*Net balance LL million*
Regular	7,286,683	-	-	7,286,683
Follow up	537,698	-	-	537,698
Follow up and regularization	259,053	-	-	259,053
Substandard	56,967	(7,512)	-	49,455
Doubtful	272,070	(36,716)	(100,252)	135,102
Bad	73,067	(8,774)	(64,293)	-
	8,485,538	(53,002)	(164,545)	8,267,991
Collective impairment	(75,006)	-	-	(75,006)
	8,410,532	(53,002)	(164,545)	8,192,985

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.

	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**
	36,362,924	**(1,075,581)**	**(119,772)**	**(31,636)**	**(2,914,983)**	**32,220,952**
Financial guarantees	**238,700**	**(13,050)**	**-**	**-**	**-**	**225,650**
Documentary credits (including acceptances)	**1,091,037**	**(20,795)**	**-**	**-**	**-**	**1,070,242**
	37,692,661	**(1,109,426)**	**(119,772)**	**(31,636)**	**(2,914,983)**	**33,516,844**
Utilized collateral		**(1,109,426)**	**(119,772)**	**(31,636)**	**(2,914,983)**	
Surplus of collateral before undrawn credit lines		**(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 is 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)

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

	2017					
	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	11,718,206	-	-	-	-	11,718,206
Due from banks and financial institutions	3,928,586	(638)	-	-	-	3,927,948
Loans to banks and financial institutions and reverse repurchase agreements	754,394	(60,480)	(406,970)	-	-	286,944
Derivative financial instruments	2,790	-	-	-	-	2,790
Financial assets at fair value through profit or loss	224,191	-	-	-	-	224,191
Net loans and advances to customers at amortised cost:						
Commercial loans	5,268,300	(655,571)	(92,405)	(3,421)	(1,078,861)	3,438,042
Consumer loans	2,924,685	(365,977)	(20)	(192)	(1,591,876)	966,620
Net loans and advances to related parties at amortised cost	22,030	(5,258)	-	-	(3,103)	13,669
Financial assets at amortised cost	8,155,350	-	-	-	-	8,155,350
	32,998,532	(1,087,924)	(499,395)	(3,613)	(2,673,840)	28,733,760
Financial guarantees	208,735	(13,012)	-	-	-	195,723
Documentary credits (including acceptances)	1,132,237	(15,766)	-	-	-	1,116,471
	34,339,504	(1,116,702)	(499,395)	(3,613)	(2,673,840)	30,045,954
Utilized collateral		(1,116,702)	(499,395)	(3,613)	(2,673,840)	
Surplus of collateral before undrawn credit lines		(319,318)	(323,426)	(52,632)	(2,206,622)	
Guarantees received from banks, financial institutions and customers		(1,436,020)	(822,821)	(56,245)	(4,880,462)	

The surplus of collateral mentioned above presented before offsetting additional credit commitments given to customers amounting to LL 2,141,250 million as at 31 December 2017.

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

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 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)

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		***2018***	*2017*
	Year-end	**29.47%**	30.27%
	Maximum	**30.60%**	30.27%
	Minimum	**29.47%**	29.48%
	Average	**30.06%**	29.79%

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 2018 and 2017 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

	2018					
	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*	*Total 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**

49 RISK MANAGEMENT (continued)

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

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

	2017					
	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*	*Total LL million*
Financial assets						
Cash and balances with central banks	1,671,084	1,021,605	810,141	5,423,911	8,364,685	17,291,426
Due from banks and financial institutions	3,189,937	706,832	13,493	17,986	2,916	3,931,164
Loans to banks and financial institutions and reverse repurchase agreements	607,254	77,923	53,897	16,328	-	755,402
Derivative financial instruments	2,557	210	23	-	-	2,790
Financial assets at fair value through profit or loss	426	10,117	159,366	21,160	149,806	340,875
Net loans and advances to customers at amortised cost	3,260,509	583,515	1,242,948	2,465,023	1,644,251	9,196,246
Net loans and advances to related parties at amortised cost	7,973	2,343	595	2,993	8,428	22,332
Debtors by acceptances	106,542	115,326	114,041	18,114	-	354,023
Financial assets at amortised cost	75,681	287,730	882,664	5,059,642	4,542,780	10,848,497
Financial assets at fair value through other comprehensive income	-	-	-	-	101,877	101,877
Total undiscounted financial assets	8,921,963	2,805,601	3,277,168	13,025,157	14,814,743	42,844,632
Financial liabilities						
Due to central banks	209,696	307,855	27,682	536,102	400,704	1,482,039
Due to banks and financial institutions	492,581	104,374	90,227	214,233	132,372	1,033,787
Derivative financial instruments	3,206	283	55	-	-	3,544
Customers' deposits at amortised cost	13,870,804	3,542,345	6,784,127	2,918,964	415,287	27,531,527
Deposits from related parties at amortised cost	85,905	15,629	267,602	44,730	5,990	419,856
Debt issued and other borrowed funds	-	-	31,658	522,548	-	554,206
Engagements by acceptances	106,542	115,326	114,041	18,114	-	354,023
Subordinated debt	-	7,349	21,966	539,845	-	569,160
Total undiscounted financial liabilities	14,768,734	4,093,161	7,337,358	4,794,536	954,353	31,948,142
Net undiscounted financial assets / (liabilities)	(5,846,771)	(1,287,560)	(4,060,190)	8,230,621	13,860,390	10,896,490

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.

	2018					
	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***	***Total 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**

	2017					
	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*	*Total LL million*
Financial guarantees	-	-	26,765	181,970	-	208,735
Documentary credits	102,927	422,903	247,846	4,538	-	778,214
Commitments to lend	2,141,250	-	-	-	-	2,141,250
	2,244,177	422,903	274,611	186,508	-	3,128,199

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

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. 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 and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits. The Group measures interest rate risk through applying varying scenarios of increase and decrease of market interest rates and assessing their impact on net interest income (Earnings' perspective) and capital (Economic Value perspective). The Bank has revised the interest rate risk policy to set new internal gap limits for local currency and foreign currencies.

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

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

		2018	*2017*
Currency	***Increase in basis points***	***Effect on net interest income LL million***	*Effect on net interest income LL million*
LL	50 basis point	**(17,776)**	(19,561)
US Dollar	50 basis point	**(2,634)**	792
Euro	50 basis point	**(1,134)**	(559)

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 was as follows:

	2018						
	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*	*Total LL million*
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**

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Interest rate risk (continued)

Interest rate sensitivity (continued)

	2017						
	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*	*Total LL million*
ASSETS							
Cash and balances with central banks	799,418	957,263	250,000	3,101,434	5,924,515	934,174	11,966,804
Due from banks and financial institutions	2,043,683	704,265	14,524	17,986	220	1,147,908	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	606,381	77,916	53,337	16,328	-	432	754,394
Derivative financial instruments	-	-	-	-	-	2,790	2,790
Financial assets at fair value through profit or loss	-	-	-	-	-	282,317	282,317
Net loans and advances to customers at amortised cost	3,304,400	780,152	2,422,575	1,218,836	250,662	216,360	8,192,985
Net loans and advances to related parties at amortised cost	14,110	813	-	-	7,093	14	22,030
Debtors by acceptances	-	-	-	-	-	354,023	354,023
Financial assets at amortised cost	22,257	197,634	519,774	3,418,480	3,877,096	120,109	8,155,350
Financial assets at fair value through other comprehensive income	-	-	-	-	-	101,877	101,877
Total	6,790,249	2,718,043	3,260,210	7,773,064	10,059,586	3,160,004	33,761,156
LIABILITIES							
Due to central banks	205,747	305,298	14,007	468,890	373,449	7,446	1,374,837
Due to banks and financial institutions	333,917	101,348	72,798	176,486	121,953	165,813	972,315
Derivative financial instruments	-	-	-	-	-	3,544	3,544
Customers' deposits at amortised cost	10,878,370	3,414,944	6,487,675	2,892,252	348,210	2,736,265	26,757,716
Deposits from related parties at amortised cost	77,609	13,540	241,571	25,630	565	21,875	380,790
Debt issued and other borrowed funds	-	-	-	443,404	9,335	817	453,556
Engagements by acceptances	-	-	-	-	-	354,023	354,023
Subordinated debt	-	-	-	422,832	-	163	422,995
Total	11,495,643	3,835,130	6,816,051	4,429,494	853,512	3,289,946	30,719,776
Total interest sensitivity gap	(4,705,394)	(1,117,087)	(3,555,841)	3,343,570	9,206,074	(129,942)	3,041,380

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.

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.

	2018		
	LL million	*Foreign currencies in LL million*	*Total LL million*
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 and equipment	**250,650**	**38,887**	**289,537**
Intangible assets	**153**	**-**	**153**
Assets obtained in settlement of debt	**(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)

Following is the consolidated statement of financial position as of 31 December 2017 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2017		
	LL million	*Foreign currencies in LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	4,202,817	7,763,987	11,966,804
Due from banks and financial institutions	39,756	3,888,830	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	240,594	513,800	754,394
Derivative financial instruments	2,144	646	2,790
Financial assets at fair value through profit or loss	150,271	132,046	282,317
Net loans and advances to customers at amortised cost	2,290,455	5,902,530	8,192,985
Net loans and advances to related parties at amortised cost	3,831	18,199	22,030
Debtors by acceptances	-	354,023	354,023
Financial assets at amortised cost	4,280,345	3,875,005	8,155,350
Financial assets at fair value through other comprehensive income	34,419	67,458	101,877
Property and equipment	240,026	33,411	273,437
Intangible assets	267	-	267
Assets obtained in settlement of debt	(8,222)	53,113	44,891
Other assets	87,602	14,471	102,073
TOTAL ASSETS	11,564,305	22,617,519	34,181,824
LIABILITIES AND EQUITY			
Due to central banks	863,058	511,779	1,374,837
Due to banks and financial institutions	8,575	963,740	972,315
Derivative financial instruments	2,956	588	3,544
Customers' deposits at amortised cost	9,031,051	17,726,665	26,757,716
Deposits from related parties at amortised cost	16,034	364,756	380,790
Debt issued and other borrowed funds	-	453,556	453,556
Engagement by acceptances	-	354,023	354,023
Other liabilities	209,727	68,760	278,487
Provisions for risks and charges	340,988	9,948	350,936
Subordinated debt	-	422,995	422,995
TOTAL LIABILITIES	10,472,389	20,876,810	31,349,199
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	525,332	399,480	924,812
Distributable reserves	92,586	18,030	110,616
Treasury shares	-	(6,002)	(6,002)
Retained earnings	(88,237)	140,519	52,282
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	22,989	(27,527)	(4,538)
Net results of the financial period – profit	206,273	42,266	248,539
Foreign currency translation reserves	(49,847)	-	(49,847)
NON-CONTROLLING INTERESTS	34,108	7,756	41,864
TOTAL EQUITY	1,438,006	1,394,619	2,832,625
TOTAL LIABILITIES AND EQUITY	11,910,395	22,271,429	34,181,824

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Currency risk (continued)

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

	2018			2017		
Currency	***Change in currency rate %***	***Effect on profit before tax LL million***	***Effect on equity LL million***	*Change in currency rate %*	*Effect on profit before tax LL million*	*Effect on equity LL million*
US Dollar	**+1**	**377**	**-**	+1	135	-
Euro	**+1**	**6**	**1,562**	+1	10	1,521

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 2018 would have increased other comprehensive income by LL 2,233 million and net income by LL 1,982 million (2017: LL 2,373 million and LL 1,592 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 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 Bank'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.

	2018							
	Less than 12 months				*Over 12 months*			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*Total*
ASSETS								
Cash and balances with central banks	**1,889,914**	**1,380,459**	**371,000**	**3,641,373**	**2,909,605**	**9,773,144**	**12,682,749**	**16,324,122**
Due from banks and financial institutions	**3,518,064**	**276,684**	**56,017**	**3,850,765**	**13,374**	**612**	**13,986**	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	**125,614**	**83,538**	**129,111**	**338,263**	**25,370**	**-**	**25,370**	**363,633**
Derivative financial instruments	**1,899**	**-**	**-**	**1,899**	**-**	**-**	**-**	**1,899**
Financial assets at fair value through profit or loss	**19**	**94**	**337**	**450**	**5,066**	**84,974**	**90,040**	**90,490**
Net loans and advances to customers at amortised cost	**3,570,020**	**405,291**	**978,133**	**4,953,444**	**1,958,179**	**1,266,606**	**3,224,785**	**8,178,229**
Net loans and advances to related parties at amortised cost	**9,189**	**649**	**2,826**	**12,664**	**2,942**	**9,325**	**12,267**	**24,931**
Debtors by acceptances	**143,992**	**141,506**	**62,714**	**348,212**	**13,879**	**-**	**13,879**	**362,091**
Financial assets at amortised cost	**13,981**	**56,005**	**349,596**	**419,582**	**4,239,365**	**3,117,329**	**7,356,694**	**7,776,276**
Financial assets at fair value through other comprehensive income	**45**	**219**	**7,528**	**7,792**	**48,769**	**171,868**	**220,637**	**228,429**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**289,537**	**289,537**	**289,537**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**153**	**153**	**153**
Assets obtained in settlement of debt	**-**	**-**	**-**	**-**	**-**	**51,405**	**51,405**	**51,405**
Other assets	**7,914**	**-**	**131,718**	**139,632**	**-**	**2,250**	**2,250**	**141,882**
TOTAL ASSETS	**9,280,651**	**2,344,445**	**2,088,980**	**13,714,076**	**9,216,549**	**14,767,203**	**23,983,752**	**37,697,828**
LIABILITIES								
Due to central banks	**13,595**	**10,620**	**33,924**	**58,139**	**1,044,206**	**2,768,178**	**3,812,384**	**3,870,523**
Due to banks and financial institutions	**625,858**	**138,629**	**143,243**	**907,730**	**223,377**	**134,963**	**358,340**	**1,266,070**
Derivative financial instruments	**1,802**	**-**	**-**	**1,802**	**-**	**-**	**-**	**1,802**
Customers' deposits at amortised cost	**13,044,282**	**4,024,936**	**7,386,590**	**24,455,808**	**2,684,058**	**278,276**	**2,962,334**	**27,418,142**
Deposits from related parties at amortised cost	**367,855**	**9,500**	**8,437**	**385,792**	**35,380**	**-**	**35,380**	**421,172**
Debt issued and other borrowed funds	**-**	**203**	**616**	**819**	**450,482**	**-**	**450,482**	**451,301**
Engagements by acceptances	**143,992**	**141,506**	**62,714**	**348,212**	**13,879**	**-**	**13,879**	**362,091**
Other liabilities	**61,620**	**-**	**136,429**	**198,049**	**156,728**	**-**	**156,728**	**354,777**
Provisions for risks and charges	**-**	**-**	**-**	**-**	**-**	**230,423**	**230,423**	**230,423**
Subordinated debt	**-**	**245**	**-**	**245**	**426,173**	**-**	**426,173**	**426,418**
TOTAL LIABILITIES	**14,259,004**	**4,325,639**	**7,771,953**	**26,356,596**	**5,034,283**	**3,411,840**	**8,446,123**	**34,802,719**
Net	**(4,978,353)**	**(1,981,194)**	**(5,682,973)**	**(12,642,520)**	**4,182,266**	**11,355,363**	**15,537,629**	**2,895,109**

50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	2017							
	Less than 12 months				Over 12 months			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*Total*
ASSETS								
Cash and balances with central banks	1,666,714	1,005,287	293,503	2,965,504	3,102,319	5,898,981	9,001,300	11,966,804
Due from banks and financial institutions	3,188,591	705,600	13,493	3,907,684	17,986	2,916	20,902	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	607,023	77,829	53,214	738,066	16,328	-	16,328	754,394
Derivative financial instruments	2,557	210	23	2,790	-	-	-	2,790
Financial assets at fair value through profit or loss	196	3,892	153,915	158,003	4,717	119,597	124,314	282,317
Net loans and advances to customers at amortised cost	3,234,684	535,481	1,068,519	4,838,684	1,993,612	1,360,689	3,354,301	8,192,985
Net loans and advances to related parties at amortised cost	9,436	2,257	383	12,076	2,193	7,761	9,954	22,030
Debtors by acceptances	106,542	115,326	114,041	335,909	18,114	-	18,114	354,023
Financial assets at amortised cost	43,710	218,734	507,223	769,667	3,487,902	3,897,781	7,385,683	8,155,350
Financial assets at fair value through other comprehensive income	-	-	-	-	-	101,877	101,877	101,877
Property and equipment	-	-	-	-	-	273,437	273,437	273,437
Intangible assets	-	-	-	-	-	267	267	267
Assets obtained in settlement of debt	-	-	-	-	-	44,891	44,891	44,891
Other assets	5,402	-	76,457	81,859	-	20,214	20,214	102,073
TOTAL ASSETS	8,864,855	2,664,616	2,280,771	13,810,242	8,643,171	11,728,411	20,371,582	34,181,824
LIABILITIES								
Due to central banks	209,530	306,820	16,148	532,498	468,890	373,449	842,339	1,374,837
Due to banks and financial institutions	492,049	103,139	80,071	675,259	175,976	121,080	297,056	972,315
Derivative financial instruments	3,206	283	55	3,544	-	-	-	3,544
Customers' deposits at amortised cost	13,568,253	3,451,766	6,728,455	23,748,474	2,660,994	348,248	3,009,242	26,757,716
Deposits from related parties at amortised cost	84,703	13,583	256,309	354,595	25,630	565	26,195	380,790
Debt issued and other borrowed funds	-	202	615	817	452,739	-	452,739	453,556
Engagements by acceptances	106,542	115,326	114,041	335,909	18,114	-	18,114	354,023
Other liabilities	43,273	1,515	77,722	122,510	102,252	53,725	155,977	278,487
Provisions for risks and charges	-	-	-	-	-	350,936	350,936	350,936
Subordinated debt	-	163	-	163	422,832	-	422,832	422,995
TOTAL LIABILITIES	14,507,556	3,992,797	7,273,416	25,773,769	4,327,427	1,248,003	5,575,430	31,349,199
Net	(5,642,701)	(1,328,181)	(4,992,645)	(11,963,527)	4,315,744	10,480,408	14,796,152	2,832,625

51 CAPITAL

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

During 2016, the Central Bank of Lebanon issued intermediary circular no. 436 by which it amended Basic Circular 44 related to the minimum Capital Adequacy Ratios (CAR). These ratios are set to increase gradually between December 2016 and December 2018 to reach 10.0%, 13.0% and 15.0% for Common Equity Tier 1 (CET1), Tier 1 and Total CAR respectively in 2018, including a capital conservation buffer of 4.5% in 2018. The following table shows the applicable regulatory capital ratios from end of 2015 to end of 2018:

	Common Tier 1 capital ratio	**Tier 1 capital ratio**	**Total capital ratio**
Year ended 31 December 2015 (*)	8.0%	10.0%	12.0%
Year ended 31 December 2016 (*)	8.5%	11.0%	14.0%
Year ended 31 December 2017 (*)	9.0%	12.0%	14.5%
Year ended 31 December 2018 (*)	10.0%	13.0%	15.0%

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

51 CAPITAL (continued)

Risk weighted assets

As of 31 December 2018 and 2017, risk weighted assets are as follows:

	2018	*2017*
	LL million	*LL million*
Risk weighted assets	**17,873,010**	17,416,358

Regulatory capital

At 31 December 2018 and 2017, regulatory capital consists of the following:

	Excluding profit for the year		*Including profit for the year less proposed dividends*	
	2018	*2017*	***2018***	*2017*
	LL million	*LL million*	***LL million***	*LL million*
Common Equity Tier 1 capital	**1,940,583**	1,862,906	**2,011,186**	1,943,108
Additional Tier 1 capital	**595,938**	596,191	**595,938**	596,191
Tier 2 capital	**643,258**	554,831	**643,258**	554,831
Total capital	**3,179,779**	3,013,928	**3,250,382**	3,094,130

Capital adequacy ratio

As of 31 December 2018 and 2017, capital adequacy ratio is as follows:

	Excluding profit for the year		*Including profit for the year less proposed dividends*	
	2018	*2017*	***2018***	*2017*
Common Equity Tier 1 capital ratio	**10.86%**	10.70%	**11.25%**	11.16%
Total Tier 1 capital ratio	**14.19%**	14.12%	**14.59%**	14.58%
Total capital ratio	**17.79%**	17.31%	**18.19%**	17.77%

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

52 DIVIDENDS PAID AND PROPOSED

	2018	*2017*
	LL million	*LL million*
Dividends paid during the year		
Equity dividends on ordinary shares: LL 212 per share (2017: LL 200 per share)	**119,889**	113,103
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
	168,337	161,551
Less: dividends on treasury shares	**(429)**	(414)
	167,908	161,137
Proposed for approval at Annual General Assembly (not recognised as a liability as at 31 December)		
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
	168,337	168,337

53 COMPARATIVE INFORMATION

- Financial assets have been reclassified from “Financial assets at fair value through other comprehensive income” to “Financial assets at fair value through profit or loss”. Comparative amounts of LL 26,292 million have been reclassified accordingly.

- Other creditors have been reclassified from “Financial assets at fair value through other comprehensive income” to “Other liabilities”. Comparative amounts of LL 19,617 million have been reclassified accordingly.