SGBL GROUP

Annual Report 2018

Let's get things moving

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Let's get things moving

The road ahead

is a road paved with dreams.

After a positive year for SGBL despite global headwinds, we wanted to praise the dreamers out there: the positive thinkers who get things moving no matter what.

Hope is the name of the game, and our visual style brings this to life through surreal images, with people leaping forward and nothing but their dreams to propel them.

As a bank that embraces hope and positivity, this dreamy visual style was the perfect way to look back at the year's achievements and look ahead towards a brighter tomorrow.

The future belongs to those who
believe in the beauty of their dreams.

Eleanor Roosevelt

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Financial Highlights

Total Assets

USD
25,798M

Loans and Advances to Customers

USD
5,810M

Deposits from Customers

USD
18,699M

Equity

USD
1,919M

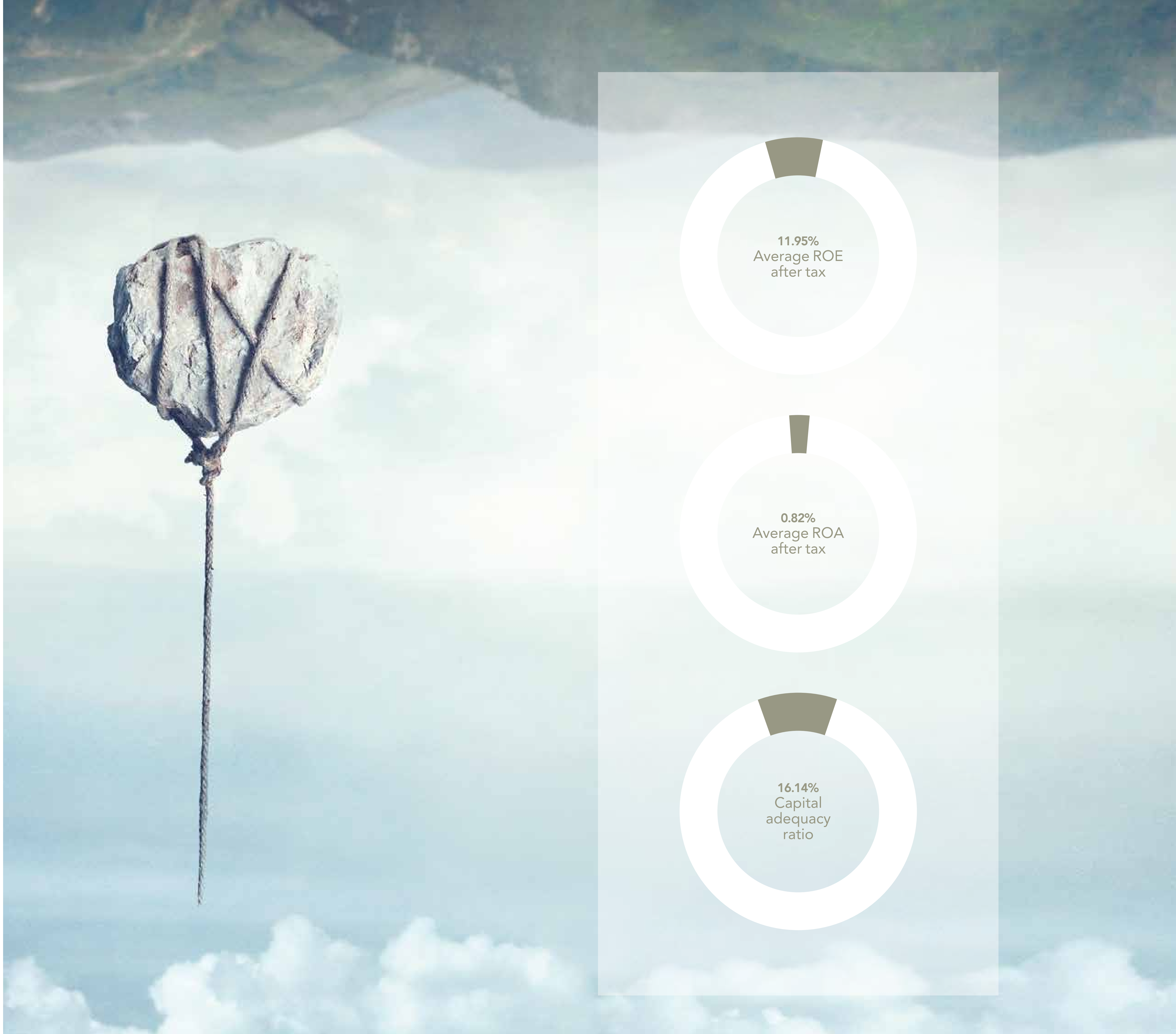
Net Banking Income

USD
477M

Net Profit

USD
195M

As at December 31, 2018



The SGBL group is a major player on the international banking scene, offering universal banking services to all customer segments in Lebanon, Jordan, the United Arab Emirates and Europe.

Societe Generale de Banque au Liban SAL (SGBL) is a joint stock company incorporated in 1953, with a term of 99 years. It is registered with the Commercial Registry of Beirut under No. 3696 and registered under No. 19 on the list of banks licensed by Banque du Liban, the Central Bank of Lebanon.

Group Profile

Our Vision

To grow alongside our clients and shareholders against all odds.

Our Mission

As bankers, we at SGBL endeavor to provide cutting edge universal banking services to best serve our individual and corporate clients day after day.

Our Values

- Team spirit
- Responsibility
- Innovation
- Commitment

The group's activity is concentrated around 4 core business lines:

- Retail Banking
- Corporate Banking
- Investment Banking
- Private Banking

The Group's other businesses include: life insurance, leasing, financial brokerage and credit card processing.

Regional Network

SGBJ

Societe Generale de Banque - Jordanie (SGBJ)
A universal bank, listed on the Amman Stock Exchange, SGBJ operates 19 branches across the kingdom's territory and focuses on the Jordanian market's main business lines.

SGBCy

Societe Generale Bank - Cyprus (SGBCy)
SGBCy operates 4 branches across Cyprus and offers a wide range of products and services to individuals and enterprises.

Banque Richelieu GCC

Banque Richelieu GCC
Located in Abu Dhabi Global Market (ADGM) – UAE, Banque Richelieu GCC is regulated by the Financial Services Regulatory Authority (FSRA) of (ADGM) with a Category 1 License type.

2,283
Employees

Staff members as at December 31, 2018 in Lebanon, Jordan, Cyprus and UAE

157 ATMs

BRANCHES IN **LEBANON**	70
BRANCHES IN **JORDAN**	19
BRANCHES IN **CYPRUS**	4
BRANCH IN **UAE**	1

International Development

Banque Richelieu Richelieu Gestion

SGBL group is strongly present in Europe through a private banking and asset management platform bringing together Banque Richelieu France, Banque Richelieu Monaco, and Richelieu Gestion.

This group of companies with an aggregate amount of assets under management of US$ 3.6 billion, is steered by Companie Financière Richelieu (fully owned by SGBL) which manages this platform of private banking and asset management.

Affiliated Companies

SGBL Insurance

SGBL Insurance

A life insurance company that ranks among the top 10 life insurance companies in Lebanon, SGBL Insurance offers a complete range of life insurance products based on contingency and capitalization.

SOGELEASE LIBAN

Sogelease Liban

A provider of financial leasing solutions, Sogelease Liban offers professionals, craftsmen and enterprises of all sizes and solutions for financing their equipment.

fidus WEALTH MANAGEMENT SGBL GROUP

Fidus

Fidus is a financial institution that provides a full range of investment, wealth management, brokerage, advisory and financial services to a diversified clientele, including high-net-worth individuals, banks, corporations and financial institutions.

Centre De Traitement Monétique (CTM)

Specialized in credit card management, CTM is an electronic card processing company that is a joint venture between SGBL and Banque Libano-Française.

Corporate Governance

Every great dream begins with a dreamer. Always remember, you have within you the strength, the patience, and the passion to reach for the stars to change the world.

Harriet Tubman

Corporate Governance

Shareholding

Main Holders of Common Shares
(as at 31 Dec. 2018)
% of common shares

ANTOUN SEHNAOUI 51.65%	MINA B.H.C. HOLDING SAL 19.25%
SOCIETE GENERALE SA 16.79%	NSKINV LTD 12.20%

Corporate Governance

Board of Directors and Committees

BOARD OF DIRECTORS		EXECUTIVE NON-EXECUTIVE (*) INDEPENDENT (**)	COMMITTEES				
			Audit	Risk	Governance	Remuneration	AML/CFT
Antoun SEHNAOUI	Chairman	E		Member	Chairman		
Nabil SEHNAOUI	Member	NE	Member		Member	Member	Member
Pierre Frédéric KAMEL	Member	NE		Member	Member		
Mina B.H.C. Holding SAL-represented by Pierre Frédéric KAMEL	Member	NE					
NSKINV Ltd - Represented by Antoun SEHNAOUI	Member	NE					
Societe Generale France SA - Represented by Alexandre MAYMAT	Member	NE	Member				
Jean-Louis MATTEI	Member	I					Chairman
Ishac Mazen HANNA	Member	I		Chairman		Chairman	
Eric WORMSER	Member	NE	Member	Member	Member	Member	Member
Jean-Pierre DUCROQUET	Member	I	Chairman				

(*) A Director may be considered non-executive if he/she:

- does not perform management duties within the Bank, does not carry out any executive tasks at this Bank and/or in any of its branches or subsidiaries in Lebanon and abroad, or does not have advisory capacity vis-à-vis senior management either at the moment or during the two years preceding his/ her appointment as a director;

(**) A Director may be considered Independent if he/she:

- is a Non-Executive Director;
- is not one of the major shareholders who owns, directly or indirectly, more than 5% of the total amount of the shares of the Bank or of the voting rights relating thereto, whichever is higher;
- is independent of any members of the Senior Management of the Bank and of its major shareholders, i.e. that there has been no employment ties with any of above mentioned parties whether at the moment or during the two years preceding his/ her appointment as a director;
- is not a member of the immediate family, up to fourth degree of consanguinity, of any major shareholder;
- is not one of the Bank's debtors.

Corporate Governance

Statutory Auditors

BDO, Semaan, Gholam & Co
Ernst & Young P.C.C.

Group Internal Audit

Marie-Joëlle Chabenne Abi-Aad

Corporate Governance

Executive Committee

Chairman & CEO
Antoun Sehnaoui

A. Sehnaoui is SGBL's Chairman and CEO since 2007. He is also the Chairman of Fidus- the Group's financial institution, the Chairman of Compagnie Financière Richelieu, the Chairman of the Supervisory Board of Banque Richelieu France, the Chairman of Banque Richelieu Monaco and the Chairman of Banque Richelieu GCC. Mr. Sehnaoui holds a BA in Business Administration – major in International Finance and Banking from the University of Southern California (USA) and is a member of the Board of Directors of the Association of Banks in Lebanon.

Deputy Chief Executive Officer
Philippe Dubois

Ph. Dubois joined SGBL group in 2014 and was appointed Deputy CEO by the board in March 2015. Prior to that, he was with Societe Generale group where he held several positions in Societe Generale's network in France, before taking up executive positions within the international network (French Polynesia and Serbia) and later on, supervising the Retail banking activity in Russia. Mr. Dubois graduated from French business school ESLSCA (Ecole Supérieure Libre des Sciences Commerciales Appliquées) and holds a Master's Degree in Management Control.

Deputy General Manager
Tarek Chehab

Head of the Commercial Division - Retail, Corporate and Private Banking

T. Chehab joined SGBL group in 1999 as General Manager of Fidus. Prior to that, Mr. Chehab held several executive positions in France in various businesses, among which as Group Financial Controller with Tractel Group and as Senior Consultant at United Group Consultants. Within SGBL group, Mr. Chehab also acts as Chairman of Sogelease Liban, the Group's leasing company. He holds a Master's degree in Management – major in Finance, from the University of Dauphine in Paris.

Deputy General Manager
Georges Saghbini

Head of Strategy, Capital Markets, International Banking & Corporate Secretariat
Group CFO

G. Saghbini joined SGBL group in 1996. He has since occupied several executive positions in the Bank and within the Group. Mr. Saghbini presently acts as Chairman of SGBL Insurance, the Group's life insurance company, and is a Board Member of SGBJ and SGBCy, the Group's subsidiary banks in Jordan and Cyprus respectively. He is also Vice-Chairman of the Supervisory Board of Banque Richelieu France, Chairman of Banque Richelieu Gestion and member of the Board of Banque Richelieu Monaco. He holds a Master's degree in Economics from the Paris I – Sorbonne University and from Ecole Normale Supérieure in Paris, as well as a Post graduate diploma in Money, Banking and Finance from the Sorbonne University.

Deputy General Manager
Sleiman Maaraoui

Head of the Systems, Projects, and Infrastructure Division

S. Maaraoui joined SGBL group in 2001 after holding several executive positions in the banking sector in France. He is actually a Board Member of CTM, the credit card processing company that is 50% owned by SGBL. Prior to heading the Systems, Projects and Infrastructure Division, Mr. Maaraoui was SGBL's Head of Internal Audit and Inspection. He holds a Master's degree in Economics – major in Finance from the University of Amiens (France).

Deputy General Manager
Khalil Letayf

CEO of Societe Generale Bank – Cyprus Ltd

K. Letayf joined SGBL group in 2008. Prior to that, he held different managerial positions in the e-payment and banking businesses in both France and Lebanon. Within SGBL group, and prior to heading SGBL's subsidiary in Cyprus, Mr. Letayf acted as SGBL's Head of the Resources and Services Division and occupied, on rotating presidency basis, the position of Chairman of CTM, the credit card processing company that is 50% owned by SGBL. He holds a degree in Engineering from Ecole Centrale de Paris.

Do not follow where the path may lead,

Go instead where there is no path and leave a trail.

Ralph Waldo Emerson

Corporate Governance

Management

GENERAL MANAGEMENT DIVISION

General Management Office
Noha Abou-Saad

Change of Core Banking Application
Carol Karkour

Group Risks
Hervé Bel

Risks
Fady Bou Samra

Compliance
Karen Zabloski

Human Resources
Henri El Hachem

Procurement
Fares Abou Jaoude

COMMERCIAL DIVISION

Assistant Deputy GM
Georgette Charchar Achkar

Corporate Banking
Rabih Abdallah

Small & Medium Enterprises
Michel Geammal

Private Banking
Elie Jeffy

International Banking
Ali Ghazli

Retail Banking & Branches Network
Nagib Ghantous

Distribution
Walid Arab

COMMERCIAL DIVISION

Regional Managers
Espérance Abi Hayla
Wajih Abi Nader
Younes Dbouk
Aula Farhat
Ziad Ghattas
Jean-Claude Mattar
Philippe Nahhas
Antoine Saadeh
Roger Saghbini
Sleiman Youssef

Sogelease Liban
Waddah Olabi

SYSTEMS, PROJECTS, & INFRASTRUCTURE DIVISION

Assistant Deputy GM | Execution & Control of Credits and Operations
Sami Bou Khalil

Information Technology, Systems & Services
Elie Rizk

Security Monitoring & Data Protection
Antoine Nassif

Planning, Project Management & Organization
Danielle Diab Haddad

Cards, POS & ATM Management
Pascale Ghaoui Kadi

Execution & Control of Credits & Operations
Elias Kassab

STRATEGY, FINANCE & GENERAL SECRETARIAT DIVISION

Assistant Deputy GM
Noha Abou Saad

Strategy, Marketing & Communication
Habib Khoury

Financial Markets
Karim Khoury

Finance
Sarita Ammoun Chaanine

Global Transaction Banking
Mona Hakim Mroue

Investment Finance
Jimmy El Azar

Shareholders & Institutions Relations
Jeanine Kabenji

Recovery
Emile Khalife

Real Estate
Marc El Feghaly

SUBSIDIARIES

SGBL Insurance
Michel Fiani

SGBJ
Nadim Abawat

SGBCy
Khalil Letayf

Richelieu GCC
Rachid Romanos

Richelieu France
Jean Danckaert

Richelieu Monaco
Jean Danckaert

Richelieu Gestion
Christophe Boulanger

Corporate Governance

Framework

The implementation of appropriate Corporate Governance guidelines allows for consolidating the Bank's universal banking model that is geared towards customers, expanding the customer base, improving operational efficiency and developing human capital.

In addition to its obligations towards its shareholders, SGBL Group has the obligation of fulfilling its responsibilities towards depositors and other stakeholders. Setting up a sound corporate governance framework earns and maintains the trust and confidence of the public.

A Corporate Governance Charter was developed at SGBL in 2008. It evolves continuously in accordance with new local and international regulations, with the latest amendments introduced in 2017 in line with the Central Bank's recently issued guidelines.

The organizational structure that was adopted by SGBL promotes the sound and proper functioning of the Bank in compliance with the fundamental principles of sound Corporate Governance. It also reflects and serves SGBL Group's corporate culture, objectives and strategy.

This Structure Is Based On

1. Internal stakeholders, primarily the Board of Directors, Senior Management Executives, Internal Audit, Risk Management, and Compliance divisions for which a clear definition of roles and responsibilities is established while respecting the principle of the separation of powers through the creation of several committees serving that purpose;
2. The committees of the deliberative and decision making bodies as well as those deriving from these bodies, namely the Audit, Risk, Governance, Remuneration and AML/ CFT Committees;
3. External stakeholders, mainly shareholders, supervisory authorities and external auditors;
4. A risk management system stemming from the implementation of an overall risk management policy. This policy has been devised in accordance with the provisions of the Banking Control Commission circulars. Furthermore, this policy has been detailed for each specific risk: credit risk, concentration risk, market risk and interest rate risk, liquidity risk and operational risks;
5. An internal monitoring system built on formal procedures, both at the continuous monitoring level (daily security and formal supervision) and at the level of periodic internal audit.
6. An efficient communication and information system specifying the communication channels between all levels of the hierarchy as well as the reporting process enabling all stakeholders to be up to date with policies, procedures and internal control systems adopted by the Bank.

The Board and its committees are governed by their own specific internal regulations. Moreover, each Director acknowledges and agrees to comply with the Director's Charter as adopted by the Board of Directors.

Board of Directors

The Board of Directors consists of 10 Directors, the majority of whom are independent and non-executive. Board members are elected by an Ordinary General Shareholders' Meeting for a period of three years.

The Board of Directors bears the ultimate responsibility of the Bank's operations and financial soundness. Its main mission is to ensure that the Bank operates in accordance with the regulations to which it is subject, in line with the established strategy and in the best interests of the shareholders whom it represents.

In certain areas, the preparatory work for the deliberations of the Board is carried out by specialized Committees composed of directors appointed by the Board; these Committees examine matters within their remit and submit their opinions and proposals to the Board for approval.

These committees achieve their mission under the authority of the Board of Directors.

Risk Committee

The mission of the Risk Committee comprises i) periodically reviewing the organization and the performance of the Risk monitoring framework at SGBL, ii) supervising the effective application of the principles of risk management at the Bank and Group level, iii) examining the portfolio of credit and market risks borne by the Bank, iv) monitoring the portfolio breakdown and its evolution by category of limits/outstanding volumes and debtor clients, the regulatory ratios and key indicators (allocation of common equity per major risk, risk deterioration, concentration risks by sector, cost of risk, etc.), changes to the quality of loans etc, v) ensuring that IFRS9 requirements have been fulfilled.

Audit Committee

The Audit Committee assists the Board of Directors in its missions and its supervisory role. Overall, the committee i) examines, at regular intervals, the operating conditions and the activities of periodic and permanent internal control, ii) ensures the consistency and effectiveness of the security control measures, of the mechanisms established for the internal control of procedures, risks, regulatory accounting and ethical standards as well as anti-money laundering and anti-terrorist financing mechanisms, iii) ensures that the Bank complies with all the laws, rules and standards that govern the banking industry, namely with the directives, circulars and recommendations of the Central Bank of Lebanon, the Banking Control Commission, the Special Investigation Commission and the Capital Markets Authority, iv) reports to the Board of Directors the delays detected and the potential discrepancies within the framework of critical or high-priority corrective actions, particularly deficiencies that might expose the Bank to significant risk, v) ensures that IFRS9 requirements have been fulfilled.

Remuneration Committee

The Remuneration Committee is assigned the task of making recommendations to the board based on the review of the practices followed by SGBL Group. Its mission comprises i) to prepare the Remuneration Policy and the Remuneration System and submit them to the Board of Directors for approval, ii) to supervise the proper implementation of both the Remuneration Policy and Remuneration System, iii) to review at least once a year the rules/principles based on which the Remuneration Policy is implemented, iv) to assess periodically the efficiency of the Remuneration Policy and its effectiveness, v) to evaluate accurately the total remunerations granted, and compare them against the future expected revenues in order to avoid any likely negative results, vi) to submit to the Board of Directors specific proposals about the Senior Executive Management and holders of key positions remunerations, vii) the process of renewal and replacement of directors and members of Senior Management, viii) to propose long term incentives ix) to propose fees paid to directors and executives, x) to coordinate closely with the Risk Committee upon assessing the remuneration and their related risks and upon reviewing the Remuneration Policy.

AML/CFT Committee

The mission of AML/CFT Committee is to i) to support the Board of Directors in its functions and supervisory role with respect to fighting money laundering and terrorist financing and understanding the related risks, and to assist it with making the appropriate decisions in this regard, and ii) to review, from a risk-based approach, the reports submitted by the Compliance Unit and the Internal Audit Unit on adopted procedures, unusual operations and high-risk accounts, regarding cash deposits and withdrawals, transfers, exemptions from filling Cash Transaction Slips (CTS) and the link between these operations and economic activities, and to also take the relevant decisions.

Governance Committee

The mission of the Governance Committee is to i) oversee the effective functioning of the corporate governance structure, ii) evaluate and update this structure, iii) carry out preparatory work for the examination by the Board of Directors of corporate governance issues, and iv) conduct an annual assessment of the Board of Directors' performance.

Executive Committee

The Bank's Executive Committee comprises: the Chairman and Chief Executive Officer, the Deputy Chief Executive Officer and the Deputy General Managers.

The Bank's Executive Committee implements the strategy approved by the Board of Directors, delegates tasks and establishes an organizational structure that allows for appropriate operations; it monitors the responsibilities, and it is ultimately responsible before the Board for the effective operation of the Bank.

Management Committee

The Management Committee is composed of members of executive committee, senior managers and managers representing the major functions and sectors of the Bank and whose responsibilities have a major impact on the activity of the Bank. This Committee is an instance for communication and exchanges on the strategy and the bank's general interest issues. It promotes the exchange of information and thorough reflection as well as the emergence of positive initiatives for the development of the bank.

Corporate Governance

Framework

Frequency of Meetings

The Board holds at least four meetings each year, and whenever required. At least once a year, an item of the agenda is dedicated to the evaluation of the performance of the Board of Directors.
The frequency of the meetings of the Committees is set by the Board of Directors, taking into account local regulations. A minimum number of meetings is required as follows:

- Four annual meetings of the Risk and Audit Committees at the rate of one committee per quarter of which at least two are to be held in Lebanon,
- Two annual Remuneration and AML/CFT Committees at the rate of one per semester,
- One annual Corporate Governance Committee.

Internal Specialized Committees

In order to achieve an adequate level of protection against the risks faced by the Bank, Senior Management must hold on regular basis internal specialized committees that comprise officers in charge of handling the issues mentioned below. The following committees fall within the category of internal specialized committees:

Credit Committees
Credit Committees approve loans which exceed the approval limits set for the commercial division.

Sensitive Risk Committees
Sensitive Risk Committees review sensitive and doubtful loans managed by the commercial entities.

Recovery Committees
Recovery Committees are mandated to take decisions in respect of non-performing loans managed by the Recovery Department.

Asset/Liability Management Committee (ALCO)
This committee's mission is to prepare the decisions of the Management in terms of general tolerance to liquidity risks, validate the contingency funding plan to enable the bank to overcome liquidity crisis, monitor the evolution of the liquidity situation, validate the adequacy of the monitoring system, management and supervision of structural risks, and review developments of structural Group risk through consolidated reports.

Treasury Committee
Delegated by the ALCO Management Committee, this committee assesses the Bank's short-term liquidity and takes steering decisions in accordance with the market's situation.

Correspondent Banking Committee
This Committee's mission is to approve the files of correspondent banks that have been authorized by the Board of Directors according to the limits set.

Market Risk Monitoring Committee
Its mission is i) to identify, assess and track market risk generated by operations carried out on behalf of his activities of proprietary trading, corporate and institutional clients and the financial department in relation to the ALCO Committee, ii) to define and follow up the alert procedures, and iii) to ensure the real independence between the back and the front offices.

Investment Committee
Its mission is to approve any equity participation of the Bank in a company in Lebanon or abroad.

Operating Real estate Investment Committee
Its mission is to approve i) any purchase or sale of real estate within the scope of article 153 of CMC and ii) any participation in a real estate company which activities are strictly limited to the acquisition of said real estate properties.

Operational Committee for Combatting Money Laundering and Terrorism Financing
Its mission is to analyze AML/CFT Risk Cartography, follow the upgrade and development of new measures to take related to AML/CFT as well as the business plan through compliance reports concerning the implementation of decisions and AML/CFT regulations.

Operational Risks Committee
This committee ensures the proper implementation of policies and procedures pertaining to the management of operational risks as set by the Board of Directors and Senior Management.

IFRS 9 Committee
This committee ensures the classification of financials assets into 3 categories according to IFRS9 requirements, takes impairment decisions for expected credit losses and hold meetings with audit and risk committees in order to discuss IFRS9 reports and requirements.

Physical and IT Security Committee
Its mission is to i) validate the IT and physical security policies following the recommendation of the Head of IT, ii) supervise the proper implementation of this policy, iii) decide on appropriate corrective actions and iv) recommend measures to be taken in case of breaches of any security rules.

Subsidiaries Monitoring Committee
This committee's mission is to monitor the situation of subsidiaries both at the level of their performance and at the level of ongoing risk assessment and compliance with local regulations and with the directives of SGBL Group.

Projects Portfolio Monitoring Committee
This Committee is in charge of i) implementing the Bank transversal projects, ii) monitoring their progress, and iii) taking decisions on projects priorities and deadlines.

New Product Committee
This committee approves the concept and the proposal for a new product based on a feasibility study. It also gives the green light for launching a product based on a complete report detailing targets, marketing channels and the subsequent action plan.

Legal Affairs Committee
This committee makes an assessment of the coverage of legal risks at the Recovery and Legal Affairs departments.

Quality Monitoring Committee
This committee validates the quality policy to be validated by the Board and submits to the General Management periodic reports, at least quarterly, about customers' claims, the nature, handling, and outcome of these claims, and the measures proposed to improve the policy relating to "The Principles of Banking and Financial Operations with Customers".

Procurement Committee
The committee's mission is to authorize purchases, orders or agreements pertaining to services or maintenance.

Consolidated Financial Statements

The positive thinker sees the invisible, feels the intangible, and achieves the impossible.

Winston Churchill

Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOCIÉTÉ GÉNÉRALE DE BANQUE AU LIBAN SAL

Qualified opinion

We have audited the consolidated financial statements of Société Générale de Banque au Liban SAL (the "Bank") and its subsidiaries (collectively 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 sonsolidated 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, 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 36 and 37 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried excess provisions of LL 350,681 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 compliance with regulatory instructions, the Group used an amount of LL 121,585 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 39,497 million recorded under "Other operating income" and LL 109,412 million recorded under "net gain from sale of amortized cost instruments" and net of "income tax expense" amounting to LL 16,412 million, amounted to LL 96,599 million as at 31 December 2018 and were classified under "Other liabilities".

Accordingly, "Profit for the year" 2018 is overstated by LL 132,497 million, "Other liabilities" is overstated by LL 96,599 million and "Total equity" is understated by LL 96,599 million as at 31 December 2018 (2017: "Other liabilities" and "Provisions for risks and charges" were overstated by LL 184,856 million and LL 165,825 million respectively, and "Total equity" was understated by LL 350,681 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 judgment, 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, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our 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 51.1 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young

BDO, Semaan, Gholam & Co

20 April 2019
Beirut, Lebanon

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2018

	Notes	2018 LL million	2017 LL million
Interest and similar income	5	2,041,023	1,648,668
Interest and similar expense	6	(1,627,224)	(1,210,167)
NET INTEREST INCOME		413,799	438,501
Fee and commission income	7	120,660	98,024
Fee and commission expense		(44,398)	(39,781)
NET FEE AND COMMISSION INCOME		76,262	58,243
Net gain from financial assets at fair value through profit or loss	8	20,036	12,476
Revenue from financial assets at fair value through other comprehensive income	9	5,260	1,715
Net gain from sale of financial assets at amortized cost	24	115,910	182,556
Other operating income	10	87,260	34,114
TOTAL OPERATING INCOME		718,527	727,605
Net credit losses	11	(13,239)	(12,285)
NET OPERATING INCOME		705,288	715,320
Personnel expenses	12	(172,808)	(142,058)
Other operating expenses	13	(177,003)	(157,326)
Depreciation of property and equipment	24	(12,761)	(11,955)
Amortization of intangible assets	25	(3,415)	(3,336)
Provision for impairment on non-currrent assets held for sale	27	-	(3,010)
TOTAL OPERATING EXPENSES		(365,987)	(317,685)
PROFIT BEFORE TAX		339,301	397,635
Income tax expense	14	(44,957)	(64,573)
PROFIT FOR THE YEAR		294,344	333,062
Attributable to:			
Equity holders of the parent		292,180	330,768
Non-controlling interest		2,164	2,294
		294,344	333,062

The attached notes 1 to 52 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018 LL million	2017 LL million
PROFIT FOR THE YEAR	294,344	333,062
Other comprehensive loss		
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods (net of tax):		
Exchange differences on translation of foreign operations	(10,160)	14,269
Net loss from financial assets at fair value through other comprehensive income	(5,841)	-
	(16,001)	14,269
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax):		
Net loss from financial assets at fair value through other comprehensive income	(21,005)	(11,918)
Actuarial gain on defined benefits plans	1,091	-
Other comprehensive (loss) income for the year, net of tax	(35,915)	2,351
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	258,429	335,413
Attributable to:		
Equity holders of the parent	256,303	333,136
Non-controlling interests	2,126	2,277
	258,429	335,413

	Notes	2018 LL million	2017 LL million
ASSETS			
Cash and balances with the Central Banks	15	16,615,531	13,259,404
Due from banks and financial institutions	16	1,779,148	854,226
Amounts due from affiliated banks and financial institutions	17	226,416	590,385
Loans to banks and financial institutions		8,397	8,397
Derivative financial instruments	18	25,541	9,197
Financial assets at fair value through profit or loss	19	99,162	201,687
Loans and advances to customers at amortized cost	20	8,635,701	7,344,616
Loans and advances to related parties at amortized cost	21	123,229	111,065
Debtors by acceptances		843,212	445,375
Financial assets at amortized cost	22	9,172,652	8,642,264
Financial assets at fair value through other comprehensive income	23	360,213	161,514
Property and equipment	24	537,424	485,330
Intangible assets	25	61,941	48,019
Investment properties	26	1,226	1,478
Non-current assets held for sale	27	203,080	186,504
Other assets	28	157,297	134,084
Other intangible assets and goodwill arising on acquisition	3	37,029	-
Goodwill	29	3,405	3,405
Total assets		38,890,604	32,486,950

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)
As at 31 December 2017

	Notes	2018 LL million	2017 LL million
LIABILITIES AND EQUITY			
LIABILITIES			
Due to the Central Banks	30	3,930,160	1,622,207
Loans and repurchase agreements	31	1,461,028	1,681,384
Due to banks and financial institutions	32	1,194,562	479,217
Amounts due to affiliated banks and financial institutions	33	7,553	6,844
Derivative financial instruments	18	27,212	164
Customers' deposits at amortized cost	34	28,064,058	24,690,508
Related parties' deposits at amortized cost	35	124,574	165,282
Engagements by acceptances		849,560	445,375
Other liabilities	36	261,622	367,376
Provision for risks and charges	37	77,049	248,920
Total liabilities		35,997,378	29,707,277
EQUITY			
Share capital – common shares	38	14,586	14,586
Share capital – preferred shares	38	9,675	9,675
Share premium – common shares	38	149,349	149,349
Share premium – preferred shares	38	565,279	563,200
Preferred shares under issuance	38	191,663	-
Preferred shares under redemption	38	(190,793)	-
Cash contribution by shareholders	38	106,746	106,746
Non distributable reserves	39	1,179,389	961,685
Actuarial gain on defined benefit obligation		1,091	-
Distributable reserves	40	26,447	29,460
Revaluation reserve of property	41	3,934	3,934
Cumulative change in fair value of financial assets at fair value through other comprehensive Income	42	(38,526)	(11,678)
Profit for the year		292,180	330,768
Foreign currency translation reserve		(14,738)	(4,618)
Retained earnings		545,668	573,600
Equity attributable to equity holders of parent		2,841,950	2,726,707
Non-controlling interests		51,276	52,966
Total equity		2,893,226	2,779,673
Total liabilities and equity		38,890,604	32,486,950

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 20 April 2019:

Antoun Sehnaoui
Chairman

Georges Saghbini
Deputy General Manager

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Notes	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT LL MILLION																Non-controlling interest LL million	Total equity LL million
		Share capital – common shares LL million	Share capital – preferred shares LL million	Share premium – common shares LL million	Share premium – preferred shares LL million	Preferred shares under issuance LL million	Preferred shares under redemption LL million	Cash contribution by shareholders LL million	Non distributable reserves LL million	distributable reserves LL million	Revaluation reserve of property LL million	Cumulative change in fair value of financial assets at fair value through other comprehensive income LL million	Foreign currency translation reserve LL million	Actuarial gain on defined benefit obligation LL million	Profit for the year LL million	Retained earnings LL million	Total LL million		
Balance at 31 December 2016		14,586	9,675	149,349	561,171	-	-	106,746	864,648	20,532	3,934	(218)	(18,862)	-	286,259	496,250	2,494,070	65,689	2,559,759
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	-	-	330,768	-	330,768	2,294	333,062
Other comprehensive loss		-	-	-	-	-	-	-	-	-	-	(11,876)	14,244	-	-	-	2,368	(17)	2,351
Total comprehensive income		-	-	-	-	-	-	-	-	-	-	(11,876)	14,244	-	330,768	-	333,136	2,277	335,413
Transfer to retained earnings		-	-	-	-	-	-	-	-	-	-	416	-	-	(286,259)	285,843	-	-	-
Transfer to non distributable reserves	39	-	-	-	-	-	-	-	97,536	-	-	-	-	-	-	(97,536)	-	-	-
Transfer to distributable reserves	40	-	-	-	-	-	-	-	-	8,928	-	-	-	-	-	(8,928)	-	-	-
Transfer to share premium	38	-	-	-	2,029	-	-	-	-	-	-	-	-	-	-	(2,029)	-	-	-
Dividends paid to equity holders of the parent – preferred shares		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(39,763)	(39,763)	-	(39,763)
Dividends paid to equity holders of the parent – common shares	43	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(60,588)	(60,588)	-	(60,588)
Acquisition of non controlling interest in SGBL insurance		-	-	-	-	-	-	-	-	-	-	-	-	-	-	351	351	(13,166)	(12,81 5)
Dividends paid to non-controlling interest	43	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,834)	(1,834)
Adjustments	3	-	-	-	-	-	-	-	(499)	-	-	-	-	-	-	-	(499)	-	(499)
Balance at 31 December 2017		14,586	9,675	149,349	563,200	-	-	106,746	961,685	29,460	3,934	(11,678)	(4,618)	-	330,768	573,600	2,726,707	52,966	2,779,673
Impact of IFRS 9 at 1 January		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(23,154)	(23,154)	(1,846)	(25,000)
		14,586	9,675	149,349	563,200	-	-	106,746	961,685	29,460	3,934	(11,678)	(4,618)	-	330,768	550,446	2,703,553	51,120	2,754,673
Profit for the year								-	-	-	-	-	-	-	292,180	-	292,180	2,164	294,344
Other comprehensive loss		-	-	-	-	-	-	-	-	-	-	(26,848)	(10,120)	1,091	-	-	(35,877)	(38)	(35,915)
Total comprehensive income		-	-	-	-	-	-	-	-	-	-	(26,848)	(10,120)	1,091	292,180	-	256,303	2,126	258,429
Issuance of preference shares	38	-	-	-	-	188,438	-	-	-	-	-	-	-	-	-	-	188,438	-	188,438
Redemption of preference shares	38	-	-	-	-	-	(190,793)	-	-	-	-	-	-	-	-	-	(190,793)	-	(190,793)
Transfer to retained earnings		-	-	-	-	-	-	-	(8,167)	-	-	-	-	-	(330,768)	338,935	-	-	-
Transfer to non distributable reserves	39	-	-	-	-	-	-	-	225,871	-	-	-	-	-	-	(225,871)	-	-	-
Transfer to distributable reserves	40	-	-	-	-	-	-	-	-	212	-	-	-	-	-	(212)	-	-	-
Transfer to share premium	38	-	-	-	2,079	-	-	-	-	-	-	-	-	-	-	(2,079)	-	-	-
Dividends paid to equity holders of the parent – preferred shares	43	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(39,769)	(39,769)	-	(39,769)
Dividends paid to equity holders of the parent – common shares	43	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(75,751)	(75,751)	-	(75,751)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-							-	-	(1,970)	(1,970)
Transfers	38	-	-	-	-	3,225	-	-	-	(3,225)	-	-	-	-	-	-	-	-	-
Adjustments		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(31)	(31)	-	(31)
Balance at 31 December 2018		14,586	9,675	149,349	565,279	191,663	(190,793)	106,746	1,179,389	26,447	3,934	(38,526)	(14,738)	1,091	292,180	545,668	2,841,950	51,276	2,893,226

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 income tax		339,301	397,635
Adjustments for:			
Depreciation and amortization	24 & 25	16,176	15,291
Share of profit from an associate	28	(190)	(172)
Amortization of deferred employee termination benefits	28	8,341	8,232
Impairment losses on loans – customers	11	21,538	26,555
Impairment losses on loans – related parties	11	615	1,309
Impairment losses on amounts due from affiliated banks and financial institutions	11	48	-
Impairment losses on due from banks and financial institutions	11	3,040	420
Impairment losses on debtors by acceptance	11	4,155	-
Impairment losses on financial assets at OCI	11	266	-
Impairment losses on financial guarantees and other commitments	11	2,247	-
Loans written off	11	1,870	993
Net provisions for impairment of non-current assets held-for-sale		50	2,288
Write-back for other impaired debit balances	28	-	(10)
Recoveries of credit losses	11	(20,540)	(16,982)
Provision for employees' end of service benefits	12	3,260	3,056
Gain from sale of property and equipment		(43)	-
Gain from sale of non-current assets held-for-sale	10	(534)	(406)
Write-off of property and equipment		332	3
Write-off of intangible assets	25	-	7,753
Net (write-back) provision for risks and charges		(53,122)	3,758
Unrealized (gain) loss on derivative financial instruments		10,144	(16,068)
Transfer from deferred income		(109,412)	-
		227,542	433,655
Working capital changes:			
Cash and balances with the Central Banks		(2,864,834)	(4,559,290)
Due from banks and financial institutions		(66,352)	34,112
Amounts due from affiliated banks and financial institutions		(33,264)	(6,882)
Due to the Central Banks		2,568,382	1,123,056
Loans and repurchase agreements		(220,356)	(380,933)
Due to banks and financial institutions		697,213	86,471
Loans and advances to customers at amortized cost		(533,592)	(742,399)
Loans and advances to related parties at amortized cost		(17,274)	(11,637)
Financial assets at fair value through profit or loss		64,837	(21,417)
Financial assets at fair value through other comprehensive income		(187,687)	(148,224)
Financial assets at amortized cost		(299,129)	1,665,021
Other assets		(5,621)	(32,334)
Customers' deposits at amortized cost		2,256,908	2,902,174
Related parties' deposits at amortized cost		(40,708)	(15,925)
Other liabilities		(36,192)	(52,087)
Cash from operations		1,509,873	273,361

The attached notes 1 to 52 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 (continued)			
Employees' end of service benefits paid	37	(2,662)	(1,440)
Taxation paid		(50,745)	(237,309)
Provision for risks and charges paid		(6,602)	(16,625)
Net cash flows from (used in) operating activities		1,449,864	17,987
INVESTING ACTIVITIES			
Acquisition of subsidiaries , net of cash acquired	3	(73,377)	-
Net cash from acquisition of assets and liabilities	3	120,049	-
Purchase of property and equipment	24	(49,467)	(63,313)
Purchase of intangible assets	25	(10,749)	(9,768)
Proceeds from sale of property and equipment		82	117
Proceeds from sale of non-current assets held for sale		3,317	1,779
Acquisition of a non-controlling interest in a subsidiary	3	-	(12,815)
Net cash flows used in investing activities		(10,145)	(84,000)
FINANCING ACTIVITIES			
Preferred shares under issuance		188,438	-
Preferred shares under redemption		(190,793)	-
Dividends paid to equity holders of the parent	43	(115,520)	(100,351)
Dividends paid to non-controlling interest		(1,970)	(1,834)
Net cash flows used in financing activities		(119,845)	(102,185)
Effect of exchange rate changes and other adjustments		(8,747)	13,661
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,311,127	(154,537)
Cash and cash equivalents at 1 January		1,715,771	1,870,308
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44	3,026,898	1,715,771
Operational cash flows from interest and dividend			
Interest paid		1,563,735	1,172,282
Interest received		2,064,222	1,532,821
Dividend received		3,470	3,437

Consolidated Financial Statements

1 CORPORATE INFORMATION

Société Générale de Banque au Liban SAL (the "Bank") is a shareholding company registered in Beirut, Lebanon. It was registered in 1953 under no. 3696 at the Commercial Registry of Beirut and no. 19 on the list of banks published by the Central Bank of Lebanon. The headquarters of the Bank are located at Saloumeh Square, Sin El Fil, Lebanon.

The Bank, together with its subsidiaries (collectively the "Group"), are mainly involved in banking, insurance and financial services activities (commercial, investment and private).

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

Presentation of financial statements
The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances
:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Group and/or its counterparties

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December. The Bank consolidates a subsidiary when it controls it. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements represent the financial statements of the Bank and the following subsidiaries:

Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2018

Name	Country of incorporation	Activities	PERCENTAGE OF OWNERSHIP 2018	2017
Société Générale Bank - Cyprus Ltd	Cyprus	Banking	100.00%	100.00%
Société Générale de Banque – Jordanie	Jordan	Banking	87.67%	87.67%
Fidus SAL*	Lebanon	Financial services	49.00%	49.00%
Sogelease Liban SAL	Lebanon	Leasing	99.75%	99.75%
SGBL Insurance SAL (previously Sogecap Liban SAL)	Lebanon	Insurance	100.00%	75.00%
Société Générale Jordanie Brokerage Ltd	Jordan	Brokerage	100.00%	100.00%
Société Générale Libanaise Foncière SARL	Lebanon	Real estate	98.66%	98.66%
Société Générale de Services d'Investissement SARL	Lebanon	Services and studies	98.50%	98.50%
LCB Finance SAL	Lebanon	Financial services	100.00%	100.00%
LCB Investments Holding SAL	Lebanon	Investments & management	100.00%	100.00%
LCB Insurance Brokerage House SAL (owned by LCB Investments Holding SAL)	Lebanon	Brokerage	99.14%	99.14%
LCB Estates SAL (owned by LCB Investments Holding SAL)	Lebanon	Real Estate	99.14%	99.14%
SGBL Courtage Assurance SARL	Lebanon	Brokerage	100.00%	100.00%
799 Bassatine Tripoli SAL	Lebanon	Investments and management	60.00%	60.00%
Foncière 415 Saifi SAL	Lebanon	Real estate	100.00%	100.00%
Société d'Investissements et de Services «SIS» SAL	Lebanon	Investments and management	99.00%	99.00%
Liberty International Bank Limited **	Abu Dhabi	Banking	100.00%	100.00%
Companie Financiere Richelieu	France	Holding	99.91%	-
Banque Richelieu Monaco	Monaco	Private Banking	99.99%	-
Banque Richelieu France	France	Private Banking	99.99%	-
Richelieu Gestion	France	Asset management	99.99%	-
Richelieu Monaco Conseil et Courtage en Assurance	Monaco	Brokerage	99.99%	-

* The Group has a de facto control over Fidus SAL. Consequently, the financial statements of Fidus SAL have been consolidated with those of the Bank.

** The Bank incorporated Liberty International Bank Limited on 29 March 2017 in Abu Dhabi, UAE.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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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.

Impairment of goodwill
Management judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management view of future business prospects.

Business model
In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:
- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets
The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized 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 recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, 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 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, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for assets backed securities. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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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;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs and their impact on ECL calculation; and; 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 consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment 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 judgments 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.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Revaluation of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated income statement. The Group engaged an independent valuation specialist to assess fair value as at 31 December. Investment properties were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

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

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

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations effective after 1 January 2018
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

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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.

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 Bank 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 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.

Impact of change in classification and measurement

Expect 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)	
Name	**Notes**	**Category LL million**	**Amount LL million**	**Reclassification LL million**	**ECL LL million**	**Category LL million**	**Amount LL million**
Financial assets							
Cash and balances with central banks		Amortized cost	13,259,404	-	(30,486)	Amortized cost	13,228,918
Amounts due from affiliated banks and financial institutions		Amortized cost	590,385	-	(161)	Amortized cost	590,224
Due from banks and financial institutions		Amortized cost	854,226	-	(2,228)	Amortized cost	851,998
Loans to banks and financial institutions		Amortized cost	8,397	-	-	Amortized cost	8,397
Financial assets at fair value through profit or loss		FVPL	201,687	(37,688)	-	FVPL	163,999
Loans and advances to customers at amortised cost		Amortized cost	7,344,616	-	(74,563)	Amortized cost	7,270,053
Loans and advances to related parties at amortised cost		Amortized cost	111,065	-	(612)	Amortized cost	110,453
Debtors by acceptances		Amortized cost	445,375	-	(2,052)	Amortized cost	443,323
Financial assets at amortised cost		Amortized cost	8,642,264	-	(39,118)	Amortized cost	8,603,146
Financial assets at fair value through other comprehensive Income		FVOCI	161,514	37,688	(69)	FVOCI	199,133
				-	(149,289)		
Non financial liabilities							
Provisions for ECL on financial guarantees and commitments					(5,356)		
Total impact of adoption of IFRS 9 (2014)					(154,645)		
Less: amount covered by excess provisions available on 1 January 2018					121,585		
Less: impact on deferred tax assets					8,060		
Net impact on equity					(25,000)		

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 154,645 million, and was partially covered up to an amount of LL 121,585 million by the Group's excess collective provisions. Accordingly, the impact on the Group's equity from the adoption of the IFRS 9 impairment requirements decreased equity by LL 25,000 million.

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 Provision Contingent Liabilities and Contingent Assets to the ECL allowance under IFRS 9.

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	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			
Cash and balances with central banks	-	30,486	30,486
Amounts due from affiliated banks and financial institutions	-	161	161
Due from banks and financial institutions	711	2,228	2,939
Loans to banks and financial institutions	19,361	-	19,361
Loans and advances to customers at amortised cost	579,969	74,563	654,532
Loans and advances to related parties at amortised cost	19,679	612	20,291
Financial assets at amortised cost	1,083	39,118	40,201
Debtors by acceptances	-	2,052	2,052
Financial assets at fair value through other comprehensive income	15	69	84
	620,818	149,289	770,107
Financial guarantees and other commitments	-	5,356	5,356
	620,818	154,645	775,463

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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. If applicable, the Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. These amendments did not have any impact on the Group's consolidated financial statements.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*
The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of

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

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 financial statements.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases for period beginning on or after 1 January 2019. 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 re-measurement 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 does not expected it to have a material impact on the Group's consolidated 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 consolidated 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 significant impact on the Group's consolidated financial statements.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Foreign currency translation
The consolidated financial statements are presented in Lebanese Lira. For each entity in the Group, the Bank determines the 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 at the functional currency rate of exchange ruling at the date of the transaction.

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

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

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

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

(2) Financial Instruments – Initial recognition
(i) Date of recognition
All financial assets and liabilities are initially recognised on the settlement date. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

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.

(3) 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.

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

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

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

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

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

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

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.

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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 amortized cost
Balances with the Central Banks, due from banks and financial institutions, loans to banks and financial institutions, reverse repurchase agreements, amounts due from affiliated banks and financial institutions and loans and advances to customers and related parties – at amortized 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 profit or loss
Included in this category are those debt instruments that do not meet the conditions in "financial assets at amortized cost" above and "financial assets through other comprehensive income"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.

i. Debt instruments at fair value through profit or loss
These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and interest income are recorded under "Net gain (loss) from 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.

Gains and losses arising from the derecognition of debt instruments at fair value through profit or loss are also reflected under "Net gain (loss) from 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.

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

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Financial assets at fair value through other comprehensive income
Debt Instruments at Fair Value through Other Comprehensive Income (policy applicable from 1 January 2018)
The Group applies the new category under IFRS 9 of debt instruments measured at fair value through other comprehensive income when both of the following conditions are met:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial assets meet the SPPI test.

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

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

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

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

(4) Financial liabilities (other than financial guarantees, letters of credit and loan commitments)
Liabilities are initially measured at fair value, plus particular transaction costs in the case of a financial liability not classified at fair value through profit or loss. Liabilities are subsequently measured at amortized cost or fair value.The Group classifies all financial liabilities as subsequently measured at amortized 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.

Fair value option
An entity 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 recognizing the gains and losses on them on different bases; or

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- 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 entity's key management personnel.
- 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.

Due to the Central Banks, loans and repurchase agreements, due to banks and financial institutions, amounts due to affiliated banks and financial institutions and customers' deposits and related parties' deposits
After initial measurement, "due to the Central Banks", "loans and repurchase agreements", "due to banks and financial institutions", "amounts due to affiliated banks and financial institutions" and "customers' and related parties' deposits" are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized 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.

(5) 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 uses derivatives such as forward foreign exchange contracts and interest rate swaps.

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 included in "net gain (loss) from financial assets at fair value through profit or loss" in the consolidated income statement.

(6) 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.

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An embedded derivative is separated from the host and accounted for as a derivative if, and only if:
d. the hybrid contract contains a host that is not an asset within the scope of IFRS 9;
e. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
f. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
g. the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

(7) Financial Guarantees, Letters of Credit and Undrawn Loan Commitments
The Group 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.

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.

(8) 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. Such changes 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 recognized 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 recognized in profit or loss. If a financial asset is reclassified so that it is measured at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

(9)Derecognition of financial assets and financial liabilities

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

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

Derecognition 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.

(ii) Financial liabilities
A financial liability is derecognized 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 recognized in the consolidated income statement.

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.

(10) Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "loans and repurchase agreements", reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position to "Financial assets pledged as collateral".

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position within "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 effective interest rate.

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

(11) Securities lending and borrowing
Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the consolidated statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

(12) Determination of fair value
The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized 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

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

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

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

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

The Group's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement. 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.

(13) 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 FVPL, 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, or the debt instrument is determined to have low credit risk at the reporting date, in which cases, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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

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

They key inputs into the measurements of ECL are:

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

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

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

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

(iii) Forborne and modified loans
The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. 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.

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

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

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

(iv) Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit impaired" when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable information:
- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

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

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

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

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

(14) Impairment of financial assets (Policy applicable before 1 January 2018)
The Group assesses at each consolidated statement of financial position 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 have 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 amortized cost
For financial assets carried at amortized 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, recognized 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 recognized in the consolidated income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized 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 recognized, the previously recognized 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.

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.

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 experienced.

(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. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. 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's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossessed date in line with the Group's policy.

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(15) Hedge accounting
The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable 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 recognized in the consolidated income statement in "Net gain (loss) from financial assets at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group 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 recognized 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 recognized in "Net gain from financial assets 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 amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated effective interest rate (EIR). If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

(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 recognized directly in equity in the "Cash flow hedge reserve". The ineffective portion of the gain or loss on the hedging instrument is recognized 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 recognized in the 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 recognized when the hedged forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(iii) Hedge of 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 recognized directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in other comprehensive income is transferred to the consolidated income statement.

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(16) Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. 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.

(17) 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 recognized as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rents payable are recognized 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 risk 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(18) Recognition of income and expense
Revenue is recognized 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 recognized.

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

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

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

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

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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

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

Presentation
Interest income calculated using the effective interest method presented in the consolidated income statement includes:
- interest on financial assets at amortised cost;
- 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 consolidated income statement 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 recognized as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized as revenues on expiry.

Fee income from providing transaction services
Fees 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 recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized 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 recognized 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 recognized over those future periods.

(iii) Dividend income
Dividend income is recognized when the Group's right to receive the payment is established.

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(iv) Net gain (loss) on 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.

(19) Cash and cash equivalents
Cash and cash equivalents as referred to in the consolidated statement of cash flows 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, reverse repurchase agreements, amounts due from affiliated banks and financial institutions, due to the Central Banks, loans and repurchase agreements, due to banks and financial institutions and amounts due to affiliated banks and financial institutions.

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

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

The Group's investments in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of this investee is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss in the statement of profit or loss.

(21) Property and equipment
Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Buildings acquired prior to 1 January 1994 were restated for the changes in the general purchasing power of Lebanese Lira after the approval of the Central Bank of Lebanon. Net surplus arising on restatement is credited to "Revaluation reserve of property". 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
• Furniture and fixtures	5 to 12.5 years
• Installations	16.67 years
• Vehicles	10 years

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Property and equipment is derecognized 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 recognized in "Net profit from sale and write-off of other assets" in the consolidated income statement in the year the asset is derecognized.

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

(22) Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non controlling interest 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 acquires a business, 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.

Any contingent consideration to be transferred by the acquirer will be recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 Bank'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 Bank 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.

(23) Intangible assets
An intangible asset is recognized 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 amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight line method to write down the cost of intangible assets to their residual values. The estimated useful lives are as follows:

Software	5 years
Key money	5 years
Customer relationship – core deposits	12.5 years
Customer relationship – loans and advances	12.5 years

Intangible assets with indefinite useful lives are not amortized, 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 recognized in the consolidated income statement when the asset is derecognized.

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

(24) Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on the evaluation performed by independent qualified valuers on the basis of current market values and if any, by reference to sale agreements entered into by the Group for the disposal of the property subsequent to year end.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated income statement in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

(25) Non-current assets held for sale
Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets 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 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:

- Represents a separate major line of business or geographical area of operations

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- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations

Or

- Is a subsidiary acquired exclusively with a view to resale

In the consolidated statement of comprehensive income 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 sale.

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 (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU 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.

(26) Impairment of non-financial assets
For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement.

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

(27) Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements (within "Other liabilities") 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 recognized less, when appropriate, cumulative amortization recognized in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement in "Net credit losses". The premium received is recognized in the consolidated income statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

(28) Tax
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 taxation rates and tax law used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

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

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 utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized 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 realized 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 recognized directly in other comprehensive income are also recognized 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 net off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(29) Provision
Provision are recognized 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.

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

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the 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:

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

(31) 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 under custody or under administration are not treated as assets of the Group and accordingly are recorded as off statement of financial position items.

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

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the consolidated statement of financial position date.

(33) Customer's acceptances
Customer's 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 consolidated statement of financial position for the same amount.

(34) Equity reserves
The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

"Cumulative change in fair value of financial instruments at fair value through other comprehensive income" reserve which comprises changes in fair value of equity instruments at fair value through other comprehensive income.
"Distributable and non-distributable reserve" which include transfers from retained earnings in accordance with regulatory requirements.

"Revaluation reserve of property" which comprises the revaluation surplus relating to property.

3 BUSINESS COMBINATIONS

- On 1 December 2017, the Bank signed a shares and IP rights purchase agreement ("SPA") with KBL European Private Bankers SA to acquire KBL Monaco and KBL France. Pursuant to the letter dated 9 May 2018 and clause 20.1.2 of the SPA, the Bank transferred all the rights and obligations in the SPA to Compagnie Financiere Richelieu SA. The transaction was approved by the regulatory authorities in Lebanon, France and Monaco during the second half of 2018.

  The closing date of the transaction was determined to be 9 July 2018, and the consideration paid was as follows:
  - EUR 100,182,135 for the shares of KBL France;
  - EUR 36,174,445 for the shares of KBL Monaco; and
  - EUR 1,000,000 for Richelieu IP rights;

The preliminary fair value of the identifiable assets and liabilities of KBL France as at the date of acquisition were:

	Fair value recognized on acquisition EUR	Fair value recognized on acquisition LL million
Assets		
Cash and bank balances with central banks	40,938,900	71,892
Due from banks and financial institutions	88,557,547	155,515
Loans and advances at amortized cost	109,116,715	191,619
Property and equipment	2,072,483	3,639
Intangible assets	32,568	57
Derivative asset	1,431	3
Other assets	3,269,978	5,742
	243,989,622	428,467
Liabilities		
Due to banks and other financial institutions	37,606,442	66,040
Deposits from customers	97,953,356	172,015
Derivative liability	177,369	311
Other liabilities	12,970,038	22,776
Provision for risks and charges	8,279,723	14,540
	156,986,928	275,682
Total identifiable net assets at fair value	87,002,694	152,785
Other intangible assets and goodwill arising on acquisition	13,179,441	23,144
	100,182,135	175,929

Cash flow on acquisition	**EUR**	**LL million**
Net cash acquired from the acquisition	91,890,005	161,367
Cash paid	(100,182,135)	(175,929)
Net cash flow on acquisition	(8,292,130)	(14,562)

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The preliminary fair value of the identifiable assets and liabilities of KBL Monaco as at the date of acquisition were:

	Fair value recognized on acquisition EUR	Fair value recognized on acquisition LL million
Assets		
Cash and bank balances with central banks	3,629,274	6,373
Due from banks and financial institutions	121,839,342	213,961
Loans and advances at amortized cost	286,192,879	502,580
Financial assets at amortized cost	39,977,266	70,204
Financial assets at fair value through other comprehensive income	45,222	79
Property and equipment	329,462	579
Intangible assets	87,484	154
Derivative asset	3,934,272	6,909
Other assets	1,762,495	3,095
	457,797,696	803,934
Liabilities		
Due to banks and other financial institutions	121,346,973	213,096
Deposits from customers	299,281,020	525,564
Derivative liability	4,078,098	7,162
Other liabilities	4,207,202	7,388
	428,913,293	753,210
Total identifiable net assets at fair value	28,884,403	50,724
Other intangible assets and goodwill arising on acquisition	7,290,043	12,802
Purchase consideration transferred in Euro	36,174,446	63,526

Cash flow on acquisition	EUR	LL million
Net cash acquired from the acquisition	3,682,861	6,467
Cash paid	(36,174,446)	(63,526)
Net cash flow on acquisition	(32,491,585)	(57,059)

The cumulative amount of other intangible assets and goodwill amounting to Euro 21,469,484 (equivalent to LL 37,029 million as at 31 December 2018) comprise the value of different intangible assets relating to the Bank's operations and a residual value for goodwill. An exercise of purchase price allocation will be conducted during 2019 to determine the different values of the intangible assets and the resulting goodwill.

From the date of acquisition till 31 December 2018, the above entities decreased the net profit of the Group by incurring losses amounting to EUR 6,202,959 (equivalent to LL 11,046 million). If the acquisition had taken place at the beginning of the year 2018, consolidated net income for the year ended 31 December 2018 would have decreased by EUR 9,587,466 (Equivalent to LL 17,073 million).

- On 8 March 2017, the Group acquired an additional 25% interest in the voting shares of SGBL Insurance SAL (previously Sogecap Liban SAL), increasing its ownership interest to 100%. Cash consideration of LL

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12,815 million was paid to the non-controlling shareholders.The carrying value of the net assets of SGBL Insurance SAL (excluding goodwill on the original acquisition) was LL 13,166 million. Following is a schedule of additional interest acquired in SGBL Insurance SAL:

	LL million
Cash consideration paid to non-controlling shareholders	12,815
Carrying value of the additional interest in SGBL Insurance SAL	(13,166)
Difference recognized in retained earnings	(351)

On 12 July 2018 the Group signed an agreement to acquire the assets and liabilities of the National Bank of Abu Dhabi branches in Jordan after being granted the approval of the Central Bank of Jordan.

The fair value of the identifiable assets acquired and liabilities assumed at the acquisition date (15 November 2018) were as follows:

	Book Value at acquisition date JOD	Adjustments on the fair value JOD	Fair value recognized on acquisition JOD	Fair value recognized on acquisition LL million
Assets				
Cash and balances with the Central Bank	56,532,557	-	56,532,557	120,049
Financial assets at OCI	199,307	3,203	202,510	430
Financial assets at amortized cost	54,488,630	(449,116)	54,039,514	114,755
Loans and advances to customers	79,175,281	(3,707,137)	75,468,144	160,260
Property and equipment	5,086,282	-	5,086,282	10,801
Intangible assets	-	3,519,000	3,519,000	7,473
Other assets	4,124,910	-	4,124,910	8,759
	199,606,967		198,972,917	422,527
Liabilities				
Customers' deposits	197,341,881		197,341,881	419,063
Other liabilities	1,345,536	285,500	1,631,036	3,464
	198,687,417		198,972,917	422,527
Difference between assets and liabilities	919,550		-	-

	JOD	LL million
Cash flow on acquisition		
Net cash acquired from the acquisition	56,532,557	120,049
Net cash flow on acquisition	56,532,557	120,049

A purchase price allocation was conducted during the year to estimate the value of the identified material intangible assets acquired with the acquisition. The values were determined as such:

	JOD	LL million
Customer relationship – core deposits	3,519,000	7,473

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4 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	Country of incorporation	2018 %	2017 %
Fidus SAL	Lebanon	51.00	51.00
Société Générale de Banque – Jordanie (SGBJ)	Jordan	12.33	12.33

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

Summarized statements of profit and loss for 2018:

	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Net interest income	7,026	38,776
Net fee and commission income	4,153	7,195
Net (loss) gain from financial assets at fair value through profit or loss	(29)	2,532
Net gain from sale of debt instruments at amortized cost	-	-
Revenue from financial assets at fair value through other comprehensive income	-	40
Other operating income	184	1,480
Net impairment (loss) gain on financial assets	(655)	4,408
Operating expenses	(10,670)	(28,018)
Income tax expense	-	(8,815)
Profit for the year	9	17,599
Attributable to non-controlling interests	5	2,170
Dividends paid to non-controlling interest	-	1,969

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Summarized statements of profit and loss for 2017:

	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Net interest income	5,781	40,254
Net fee and commission income	7,907	5,975
Net (loss) gain from financial assets at fair value through profit or loss	(64)	1,994
Net gain from sale of debt instruments at amortized cost	-	2,851
Revenue from financial assets at fair value through other comprehensive income	-	28
Other operating income	66	2,222
Net credit losses	(1,329)	(946)
Operating expenses	(11,699)	(26,800)
Income tax expense	(175)	(8,978)
Profit for the year	487	16,600
Attributable to non-controlling interests	248	2,047
Dividends paid to non-controlling interest	-	1,834

Summarized statements of financial position as at 31 December 2018:

	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Cash and balances with the Central Banks	583	339,834
Due from banks and financial institutions	41,578	54,394
Amounts due from affiliated banks and financial institutions	31,207	212,640
Financial assets at fair value through profit or loss	214	-
Loans and advances at amortized cost	166,667	1,722,431
Financial assets at amortized cost	-	1,192,491
Financial assets at fair value through other comprehensive income	201	3,385
Property and equipment	4,024	62,340
Intangible assets	-	9,947
Non-current assets held for sale	-	7,808
Other assets	1,601	12,261
Due to the Central Banks	-	(33,093)
Due to banks and financial institutions	(86,406)	(77,616)
Amounts due to affiliated banks and financial institutions	(63,151)	(572)
Deposits at amortized cost	(58,539)	(3,182,307)
Other liabilities	(3,080)	(52,456)
Total equity	34,899	271,487
Attributable to non-controlling interests	17,798	33,474

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Summarized statements of financial position as at 31 December 2017:

	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Cash and balances with the Central Banks	233	170,859
Due from banks and financial institutions	45,962	79,799
Amounts due from affiliated banks and financial institutions	38,097	127,111
Financial assets at fair value through profit or loss	241	-
Loans and advances at amortized cost	109,926	1,387,102
Financial assets at amortized cost	-	1,045,438
Financial assets at fair value through other comprehensive income	373	1,109
Property and equipment	4,425	47,825
Intangible assets	-	2,721
Non-current assets held for sale	-	6,140
Other assets	345	6,670
Due to the Central Banks	-	(22,528)
Due to banks and financial institutions	(86,132)	(41,051)
Amounts due to affiliated banks and financial institutions	(1,145)	(518)
Deposits at amortized cost	(71,289)	(2,504,258)
Other liabilities	(6,146)	(21,309)
Total equity	34,890	285,110
Attributable to non-controlling interests	17,794	35,154

Summarized cash flow information for the year ended 31 December 2018:

	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Operating	(73,201)	34,491
Investing	(3)	163,758
Financing	-	13,478
Net (decrease) increase in cash and cash equivalents	(73,204)	211,727

Summarized cash flow information for the year ended 31 December 2017:

	Fidus SAL LL million	Société Générale de Banque - Jordanie LL million
Operating	(42,784)	(36,897)
Investing	(47)	(42,039)
Financing	-	(19,329)
Net decrease in cash and cash equivalents	(42,831)	(98,265)

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5 INTEREST AND SIMILAR INCOME

	2018 LL million	2017 LL million
Balances with the Central Banks	1,075,326	601,578
Financial assets at amortized cost	530,655	590,563
Loans and advances to customers at amortized cost	510,671	440,477
Due from banks and financial institutions	15,796	7,423
Loans and advances to related parties at amortized cost	5,656	5,696
Amounts due from affiliated banks and financial institutions	884	2,810
Reverse repurchase agreements	1,184	121
	2,140,172	1,648,668
Tax on interest		
Balances with the Central Bank of Lebanon	(78,462)	-
Financial assets at amortized cost	(20,645)	-
Due from banks and financial institutions	(42)	-
Interest and similar income, net of tax	2,041,023	1,648,668

6 INTEREST AND SIMILAR EXPENSE

	2018 LL million	2017 LL million
Customers' deposits at amortized cost	1,474,541	1,079,985
Due to banks and financial institutions	84,944	83,111
Due to the Central Banks	57,973	38,048
Related parties' deposits at amortized cost	9,312	7,021
Amounts due to affiliated banks and financial institutions	454	2,002
	1,627,224	1,210,167

7 FEE AND COMMISSION INCOME

	2018 LL million	2017 LL million
Credit-related fees and commissions	40,981	37,196
Maintenance of accounts	25,285	22,414
Brokerage and custody income	21,279	12,153
Other commissions	11,867	5,896
Trade finance income	11,809	9,132
Commercial banking income	8,686	9,188
Insurance brokerage income	753	2,045
	120,660	98,024

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8 NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 LL million	2017 LL million
Net gain on foreign exchange	25,317	11,109
Interest income on debt instruments at fair value through profit or loss	1,284	8,939
Dividend income from equity instruments at fair value through profit or loss	1,689	1,722
Realized and unrealized (loss) gain from financial assets at fair value through profit or loss	(8,254)	(9,294)
	20,036	12,476

Net gain on foreign exchange includes gains and losses from spot and forward contracts and the revaluation of the daily open trading position.

9 REVENUE FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 LL million	2017 LL million
Dividend income from financial assets at fair value through other comprehensive income	1,781	1,715
Interest income from debt instruments at fair value through other comprehensive income	3,479	-
	5,260	1,715

10 OTHER OPERATING INCOME

	2018 LL million	2017 LL million
Write-back of excess provisions related to Central Bank of Lebanon Intermediate Circular number 439 (note 37)	39,497	-
Write-back of provision for risks and charges	13,625	-
Income from services rendered	133	134
Write-back of impairment losses on non-current assets held-for-sale (note 27)	-	722
Gain from sale of non-current assets held-for-sale (note 27)	534	406
Income from insurance activities	28,976	27,580
Other operating income	4,495	5,272
	87,260	34,114

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11 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2018 LL million	2017 LL million
New and increased impairment allowances:		
Amounts due from affiliated banks and financial institutions	(48)	-
Due from banks and financial institutions	(3,040)	(476)
Loans and advances to customers at amortised cost	(21,538)	(26,559)
Debtors by acceptance	(4,155)	-
Loans and advances to related parties at amortised cost	(615)	(1,309)
Financial assets at fair value through other comprehensive income	(266)	-
Financial guarantees and other commitments	(2,247)	-
Loans written-off	(1,870)	(785)
	(33,779)	(29,129)
Recoveries:		
Cash and balances with Central Banks	3,253	-
Due from banks and financial institutions	-	55
Loans and advances to customers at amortised cost	16,838	16,779
Financial assets at amortised cost	449	-
Other assets	-	10
	20,540	16,844
	(13,239)	(12,285)

12 PERSONNEL EXPENSES

	2018 LL million	2017 LL million
Salaries and wages	118,747	97,196
Social Security contributions	22,387	14,261
Provisions for employees' end of service benefits (note 37)	3,260	3,056
Other allowances	28,414	27,545
	172,808	142,058

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13 OTHER OPERATING EXPENSES

	2018 LL million	2017 LL million
Professional services	49,586	20,404
Rent	20,843	17,272
Publicity and advertising	19,288	19,723
Travelling and entertainment expenses	13,496	15,575
Premiums for guarantee of deposits	10,717	9,377
Telecommunication and postage	10,671	10,047
Maintenance and repairs	10,257	11,093
Taxes and fees	8,813	7,294
Electricity, water and fuel	5,404	4,855
Legal expenses	4,247	2,805
Printings and stationery	3,040	2,714
Net provision for risks and charges	-	8,246
Other operating charges	20,641	27,921
	177,003	157,326

14 INCOME TAX

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

	2018 LL million	2017 LL million
Current tax		
Current income tax	26,856	63,527
Other adjustments	52	1,282
Deferred tax		
Relating to origination and reversal of temporary differences	1,637	(236)
Relating to transactions with the Central Bank of Lebanon	16,412	-
	44,957	64,573

Reconciliation of the total tax charge

The reconciliation between the tax expense and the accounting profit for the years ended 31 December 2018 and 31 December 2017 is as follows:

	2018 LL million	2017 LL million
Accounting profit before tax	339,301	397,635
Less: Revenues previously subject to tax	(250,565)	(87,893)
Add: Non-deductible expenses	74,994	72,543
Taxable profit	163,730	382,285
Effective income tax rate	16.40%	16.62%
Income tax expense	26,856	63,527

The attached notes 1 to 52 form part of these consolidated financial statements.

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	2018 LL million	2017 LL million
Income tax due	26,856	63,527
Tax withheld on interest previously paid	(2,098)	(20,562)
Others	(1,730)	2,595
	23,028	45,560

Deferred tax

The following table shows deferred tax recorded on the consolidated statement of financial position and changes recorded in the income tax expense:

	2018			2017		
	Deferred tax assets LL million	Deferred tax liabilities LL million	Income statement LL million	Deferred tax assets LL million	Deferred tax liabilities LL million	Income statement LL million
Depreciation of property and equipment	-	1,212	(351)	-	861	(278)
Allowance for expected credit losses/Impairment allowance	11,730	-	946	4,625	-	(2)
Unrealized losses on financial instruments at fair value through profit or loss	993	-	(779)	214	-	-
Tax losses expected to be utilized in future periods	512	-	729	1,241	-	(465)
Others	2,055	66	1,092	1,063	-	509
	15,290	1,278	1,637	7,143	861	(236)

The following table represents the movement on deferred tax assets and liabilities for the years ended 31 December 2018 and 2017:

	2018		2017	
	Deferred tax assets LL million	Deferred tax liabilities LL million	Deferred tax assets LL million	Deferred tax liabilities LL million
As at 1 January	7,143	861	7,206	562
Initial application IFRS 9	8,051	-	-	-
Acquisition of assets and liabilities of NBAD	2,150	-	-	-
Movement in deferred tax	(2,054)	417	(63)	299
As at 31 December	15,290	1,278	7,143	861

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15 CASH AND BALANCES WITH THE CENTRAL BANKS

	2018 LL million	2017 LL million
Cash	127,677	121,535
Current accounts with the Central Banks	1,301,046	419,844
Time deposits with the Central Banks	15,214,055	12,718,025
	(27,247)	-
Less: Allowance for expected credit losses/Impairment allowance	16,615,531	13,259,404

Cash and balances with the Central Bank include non-interest bearing balances held at the Central Bank of Lebanon in coverage of the compulsory reserve requirements for all banks operating in Lebanon. This compulsory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments after taking into account certain waivers relating to subsidized loans denominated in Lebanese Lira. Accordingly, the compulsory reserve amounted to LL 465,121 million at 31 December 2018 (2017: LL 222,555 million).

In addition a 15% of total deposits in foreign currencies regardless of nature is required. These placements amounted to US$ 1,311 million (equivalent to LL 1,975,735 million) as at 31 December 2018 (2017: US$ 1,224 million equivalent to LL 1,844,754 million).

Société Générale de Banque – Jordanie, Société Générale Bank – Cyprus Ltd and Banque Richelieu Monaco and France are also subject to compulsory reserve requirements with varying percentages, according to the banking rules and regulations of the Kingdom of Jordan, the Republic of Cyprus, France and Monaco.

Time deposits include placements of LL 2,829,601 million blocked in the favor of the Central Bank of Lebanon against loans granted by the latter as at 31 December 2018 (2017: LL 1,096,176 million) (notes 30 & 31).

16 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2018 LL million	2017 LL million
Current accounts	865,108	238,437
Time deposits	445,191	431,870
Checks for collection	52,907	75,178
Discounted bills	-	103
Pledged accounts (i)	421,212	108,768
Debtor accounts against creditor accounts, net	1,199	581
	1,785,617	854,937
Less: Allowance for expected credit losses/Impairment allowance	(6,469)	(711)
	1,779,148	854,937

(i) Included under pledged accounts an amount of US$ 268,807,795 (equivalent to LL 405,228 million) placed as collateral against repurchase agreements as at 31 December 2018 (2017: US$ 61,546,407 equivalent to LL 92,782 million) (note 31).

17 AMOUNTS DUE FROM AFFILIATED BANKS AND FINANCIAL INSTITUTIONS

	2018 LL million	2017 LL million
Sight deposits	161,283	465,143
Time deposits	65,326	125,242
	226,609	590,385
Less: Allowance for expected credit losses/Impairment allowance	(193)	-
	226,416	590,385

Time deposits include an amount of LL 51,741 million (equivalent to Euro 30 million) as of 31 December 2018 (2017: Euro 30 million, equivalent to LL 54,198 million) pledged in favour of Société Générale SA Paris in guarantee of documentary letters of credit and guarantees issued in favor of the Bank's clients.

18 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 year-end and are indicative of neither the market risk nor the credit risk.

	2018			2017		
	Assets LL million	Liabilities LL million	Total notional amount LL million	Assets LL million	Liabilities LL million	Total notional amount LL million
Derivatives held-for-trading						
Forward foreign exchange contracts	1,688	(2,583)	551,299	9,197	(164)	566,312
Equity options	23,851	(23,851)	80,200	-	-	-
Derivatives held-for-trading						
Forward foreign exchange contracts	2	(778)	44,310	-	-	-
	25,541	(27,212)	675,809	9,197	(164)	566,312

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

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 heading are any derivatives entered into for hedging purposes that do not meet the hedge accounting criteria.

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Fair value hedges
Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans and advances. The Group uses interest rate swaps to hedge interest rate risk.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 LL million	2017 LL million
Quoted		
Shares	14,844	77,294
Funds	20,962	23,720
Lebanese treasury bills – Eurobonds	19,146	11,418
	54,952	112,432
Unquoted		
Shares	43,126	50,477
Lebanese treasury bills – denominated in LL	1,084	1,090
Debt securities issued by banks	-	37,688
	44,210	89,255
	99,162	201,687

Effective 1 January 2018, upon adoption of IFRS 9, financial assets at fair value through profit or loss with a fair value of LL 37,688 million were reclassified at fair value through comprehensive income (Notes 2 and 23).

20 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2018 LL million	2017 LL million
Corporate lending	5,252,196	4,800,919
Retail lending	4,093,437	3,123,666
	9,345,633	7,924,585
Less: Allowance for expected credit losses/Impairment allowance	(709,932)	(579,969)
	8,635,701	7,344,616

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 51).

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:

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(i) The movement of unrealized interest on substandard, doubtful, and bad loans is as follows:

	2017		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	297,801	82,712	380,513
Unrealized interest for the year	44,447	27,337	71,784
Less: Write-back during the year (note 11)	(3,246)	(3,827)	(7,073)
Less: Unrealized interest written off	(89,873)	(18,369)	(108,242)
Transfers from off-statement of financial position	62,209	10,927	73,136
Transfers to off-statement of financial position	(65,660)	(1,952)	(67,612)
Transfer from retail to corporate	2,859	(2,859)	-
Difference of exchange	3,745	5,382	9,127
Balance at 31 December	252,282	99,351	351,633

(ii) The movement of the impairment allowances during the year was as follows:

	2017		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	110,197	121,253	231,450
Charge for the year (note 11)	5,429	21,126	26,555
Less: Write-back of provision (note 11)	(4,242)	(5,667)	(9,909)
Less: Provisions written off	(11,292)	(10,004)	(21,296)
Transfers from off-statement of financial position	8,870	5,625	14,495
Transfers to off-statement of financial position	(18,795)	(2,589)	(21,384)
Transfer from retail to corporate	789	(789)	-
Difference of exchange	3,476	4,949	8,425
Balance at 31 December	94,432	133,904	228,336
Specific provisions	85,486	111,865	197,351
Collective provisions	8,946	22,039	30,985
	94,432	133,904	228,336
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	453,260	309,415	762,675

According to the Central Bank regulations and Banking Control Commission Circular no. 240 dated 8 January 2004, bad debts and related allowance for credit losses meeting the criteria set out in the circular have been transferred to the off-statement of financial position accounts.

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21 LOANS AND ADVANCES TO RELATED PARTIES AT AMORTIZED COST

	2018 LL million	2017 LL million
Corporate lending	89,168	83,568
Retail lending	59,810	47,176
	148,978	130,744
Less: Allowance for expected credit losses/Impairment allowance	(25,749)	(19,679)
	123,229	111,065

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:

(i) The movement of unrealized interest on substandard, doubtful, and bad loans is as follows:

	2017		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	339	-	339
Unrealized interest for the year	55	-	55
Difference of exchange	10	-	10
Balance at 31 December	404	-	404

(ii) The movement of the impairment allowances during the year was as follows:

	2017		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	20,709	-	20,709
Charge for the year (note 11)	1,309	-	1,309
Less: provisions written off	(2,771)	-	(2,771)
Difference of exchange	28	-	28
Balance at 31 December	19,275	-	19,275
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	23,776	-	23,776

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22 FINANCIAL ASSETS AT AMORTIZED COST

	2018 LL million	2017 LL million
Quoted – pledged		
Lebanese treasury bills – Eurobonds pledged as collateral against repurchase agreements	2,761,694	2,176,089
Corporate bonds pledged as collateral against repurchase Agreements	41,518	42,261
Foreign governmental debt securities pledged as collateral against repurchase agreements	25,388	25,290
	2,828,600	2,243,640
Quoted		
Lebanese treasury bills – Eurobonds	45,277	62,642
Foreign governmental debt securities	70,090	-
Debt securities issued by banks	7,566	9,204
	122,933	71,846
Gross quoted investments at amortized cost	2,951,533	2,315,486
Less: Allowance for expected credit losses/Impairment allowance	(25,685)	-
	2,925,848	2,315,486
Unquoted – pledged / blocked		
Lebanese treasury bills – denominated in LL blocked in favour of the Central Bank of Lebanon (i)	444,527	444,440
Lebanese treasury bills – denominated in LL pledged in favour of the Central Bank of Lebanon (i)	172,574	172,776
Lebanese certificates of deposit – denominated in LL pledged in favour of the Central Bank of Lebanon (ii)	19,507	19,554
Lebanese certificates of deposit – EuroCDs pledged in favour of the Central Bank of Lebanon (ii)	310,906	309,388
Lebanese certificates of deposit – EuroCDs pledged in favour of a customer (iii)	778,576	669,674
Lebanese certificates of deposit – EuroCDs pledged as collateral against repurchase agreements	-	45,390
Governmental bonds pledged in favor of Social Security of Jordan	454,141	400,424
Governmental bonds pledged in favor of the Central Bank of Jordan	16,079	2,318
	2,196,310	2,063,964
Unquoted		
Lebanese treasury bills – denominated in LL	1,476,208	996,572
Lebanese certificates of deposit – denominated in LL	332,655	333,754
Lebanese certificates of deposit – EuroCDs	1,532,477	2,289,792
Certificates of deposits issued by foreign Central Banks	137,095	52,126
Corporate bonds	53,448	21,723
Foreign governmental debt securities	532,695	569,930
	4,064,578	4,263,897

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Gross unquoted investments at amortized cost	6,260,888	6,327,861
Less: Allowance for expected credit losses/Impairment allowance	(14,084)	(1,083)
	6,246,804	6,326,778
	9,172,652	8,642,264

(i) These Lebanese treasury bills are pledged / blocked against soft loans granted by the Central Bank of Lebanon (note 30).

(ii) During 2016, the Bank obtained the approval of the Central Bank of Lebanon to release an amount of US$ 200 million (equivalent LL 301,500 million) from obligatory reserves provided that this amount is invested in governmental bonds pledged in the favor of the Central Bank of Lebanon. The Bank pledged Eurobonds with a nominal amount of US$ 200 million (equivalent to LL 301,500 million) from 13 January 2016 until 18 August 2016, and subsequently two certificates of deposits with a total nominal amount of US$ 200 million (equivalent to LL 301,500 million).

During 2017, in addition to previous amounts pledged to the Central Bank of Lebanon, the Bank pledged certificates of deposits with a nominal amount of LL 15,000 million against soft loans granted by the latter (note 30).

(iii) The Bank mortgaged and registered certificates of deposit in favor of a customer as a guarantee for the deposit placed at the Bank by the latter (note 34).

The Group derecognized some debt instruments classified at amortized cost during the years ended 31 December 2018 and 2017 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 net gain from sale of financial assets at amortized cost:

	2018			2017		
	Gains LL million	Losses LL million	Net LL million	Gains LL million	Losses LL million	Net LL million
Lebanese sovereign and Central Bank of Lebanon						
Certificates of deposit	71,143	-	71,143	20,737	-	20,737
Treasury bills	44,047	-	44,047	140,288	(98)	140,190
Eurobonds	756	(36)	720	15,633	(962)	14,671
	115,946	(36)	115,910	176,658	(1,060)	175,598
Other sovereign						
Other governmental securities	-	-	-	6,958	-	6,958
	115,946	(36)	115,910	183,616	(1,060)	182,556

During 2017, the Group entered into certain financial transactions with the Central Bank of Lebanon relating to treasury bills denominated in Lebanese Lira, whereby the Central Bank purchased treasury bills denominated in LL with a nominal of LL 1,950,000 million. As a result of this sale, the Group realized a gain of LL 131,248 million in the consolidated income statement and deposited US$ 1,300 million with the Central Bank of Lebanon.

During 2018, the Group transferred an amount of LL 93,000 million from deferred income to the consolidated income statement. An amount of LL 109,412 was recorded under "net gain from sale of financial assets at amortized cost" and the corresponding tax expense amounting to LL 16,412 was recorded under "income tax expense".

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23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 LL million	2017 LL million
Quoted		
Shares	189,759	148,418
Governmental debt securities	123,708	-
	313,467	148,418
Unquoted		
Shares	14,900	13,096
Debt securities issued by banks	31,846	-
	46,746	13,096
	360,213	161,514

Effective 1 January 2018, upon adoption of IFRS 9, financial assets at fair value through profit or loss with a fair value of LL 37,688 million were reclassified at fair value through other comprehensive income (Notes 2 and 19).

Instruments at fair value through other comprehensive income:
The Bank classified the following investments in private sector securities and debt instruments 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	Fair Value LL million	Carrying amount LL million	Cumulative fair value changes LL million	Fair Value LL million
Unquoted instruments:						
Byblos convertible bonds	37,688	(5,842)	31,846	-	-	-
Bank al Salam- Algeria	8,374	1,764	10,138	8,374	1,764	10,138
Others	4,543	219	4,762	2,739	219	2,958
Quoted instruments:						
Solidere A	108,849	(18,954)	89,895	72,437	(5,983)	66,454
Solidere B	104,316	(17,805)	86,511	77,807	(7,385)	70,422
Republic of Cyprus debt securities	86,240	496	86,736	-	-	-
Republic of Portugal debt securities	13,103	308	13,411	-	-	-
Republic of Spain debt securities	12,814	246	13,060	-	-	-
Holcim	8,015	2,204	10,219	8,015	1,519	9,534
Bank of Italy 2.8% 1 December 2028	4,845	364	5,209	-	-	-
BTPs Italia 2% 1 December 2025	4,784	312	5,096	-	-	-
Others	5,241	(1,911)	3,330	3,884	(1,876)	2,008
	398,812	(38,599)	360,213	173,256	(11,742)	161,514

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Income recognized in the income statement from financial assets at fair value through other comprehensive income is as follows:

	2018 LL million	2017 LL million
Dividend income from equity instruments	1,781	1,715
Interest income from debt instruments	3,479	-
	5,260	1,715

24 PROPERTY AND EQUIPMENT

	Advances on purchase of property and equipment LL million	Land and buildings LL million	Furniture and fixtures LL million	Installations LL million	Vehicles LL million	Total LL million
Cost:						
At 1 January 2018	123,243	293,668	131,926	82,587	2,639	634,063
Acquisition of subsidiaries (note 3)	-	7,474	10,733	-	-	18,207
Acquisition of NBAD assets and liabilities (note 3)	-	9,563	3,737	2,896	35	16,231
Additions	43,270	422	3,928	1,919	70	49,609
Disposals	-	(5,236)	(4,190)	-	(52)	(9,478)
Transfers	(25,016)	15,152	1,488	8,376	-	-
Write-off	(332)	-	(266)	(84)	-	(682)
Transfers from intangible assets	-	-	850	-	-	850
Exchange differences	(16)	(120)	(688)	(156)	(10)	(990)
At 31 December 2018	141,149	320,923	147,518	95,538	2,682	707,810
Depreciation:						
At 1 January 2018	-	26,225	75,361	44,136	1,654	147,376
Acquisition of subsidiaries (note 3)	-	5,412	8,577	-	-	13,989
Acquisition of NBAD assets and liabilities (note 3)	-	1,009	1,605	2,781	35	5,430
Provided during the year	-	2,983	5,715	3,810	253	12,761
Relating to disposals	-	(5,236)	(4,190)	-	(13)	(9,439)
Relating to write-off	-	-	(266)	(84)	-	(350)
Exchange differences	-	(88)	(555)	(87)	(8)	(738)
At 31 December 2018	-	30,305	86,247	50,556	1,921	169,029
Impairment:						
At 1 January 2018 and 31 December 2018	-	1,357	-	-	-	1,357
Net carrying amount:						
At 31 December 2018	141,149	289,261	61,271	44,982	761	537,424

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	Advances on purchase of property and equipment LL million	Land and buildings LL million	Furniture and fixtures LL million	Installations LL million	Vehicles LL million	Total LL million
Cost:						
At 1 January 2017	86,204	282,999	124,567	73,843	2,282	569,895
Additions	57,253	76	3,408	2,443	133	63,313
Disposals	-	-	(100)	-	(155)	(255)
Transfers	(20,257)	10,573	3,357	5,973	354	0
Write-off	-	-	(102)	-	-	(102)
Exchange differences	43	20	796	328	25	1,212
At 31 December 2017	123,243	293,668	131,926	82,587	2,639	634,063
Depreciation:						
At 1 January 2017	-	23,601	69,079	40,681	1,392	134,753
Provided during the year	-	2,623	5,751	3,298	283	11,955
Relating to disposals	-	-	(99)	-	(39)	(138)
Relating to write-off	-	-	(99)	-	-	(99)
Exchange differences	-	1	729	157	18	905
At 31 December 2017	-	26,225	75,361	44,136	1,654	147,376
Impairment:						
At 1 January 2017 and 31 December 2017	-	1,357	-	-	-	1,357
Net carrying amount:						
At 31 December 2017	123,243	266,086	56,565	38,451	985	485,330

25 INTANGIBLE ASSETS

	Advances on intangible assets LL million	Customer relationships LL million	Key money LL million	Licenses and software LL million	Total LL million
Cost:					
At 1 January 2018	32,500	20,600	2,196	21,828	77,124
Acquisition of subsidiaries (note 3)	-	-	-	13,813	13,813
Acquisition of NBAD assets and liabilities (note 3)	-	7,473	-	-	7,473
Additions	8,675	-	-	1,932	10,607
Write-off	-	-	-	(988)	(988)
Transfers	(186)	-	-	186	-
Transfers to property plant and equipment	(850)	-	-	-	(850)
Exchange differences	(4)	2	-	(557)	(559)
At 31 December 2018	40,135	28,075	2,196	36,214	106,620

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	Advances on intangible assets LL million	Customer relationships LL million	Key money LL million	Licenses and software LL million	Total LL million
Amortization:					
At 1 January 2018	-	10,301	1,934	16,870	29,105
Acquisition of subsidiaries (note 3)	-	-	-	13,602	13,602
Provided during the year	-	1,717	-	1,698	3,415
Related to write-off	-	-	-	(988)	(988)
Exchange differences	-	-	-	(455)	(455)
At 31 December 2018	-	12,018	1,934	30,727	44,679
Net carrying amount:					
At 31 December 2018	40,135	16,057	262	5,487	61,941

	Advances on intangible assets LL million	Customer relationships LL million	Key money LL million	Licenses and software LL million	Total LL million
Cost:					
At 1 January 2017	24,084	20,600	9,861	20,257	74,802
Additions	8,504	-	-	1,264	9,768
Write off	-	-	(7,753)	-	(7,753)
Transfers	(88)	-	88	-	-
Exchange differences	-	-	-	307	307
At 31 December 2017	32,500	20,600	2,196	21,828	77,124
Amortization:					
At 1 January 2017	-	8,584	1,934	14,967	25,485
Provided during the year	-	1,717	-	1,619	3,336
Exchange differences	-	-	-	284	284
At 31 December 2017	-	10,301	1,934	16,870	29,105
Net carrying amount:					
At 31 December 2017	32,500	10,299	262	4,958	48,019

Customer relationships represents the intangibles resulting from the acquisition of assets and liabilities of the Lebanese Canadian Bank SAL (under liquidation) in prior years and assets and liabilities of NBAD branches in Jordan in the the year ended 31 December 2018.

26 INVESTMENT PROPERTIES

	2018 LL million	2017 LL million
Investment properties	1,226	1,478

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The movement of investment properties recognized in the consolidated statement of financial position is as follows:

	2018 LL million	2017 LL million
At 1 January	1,478	1,483
Exchange difference	(252)	(5)
At 31 December	1,226	1,478

The Group's investment properties consist of properties in Lebanon held by the Group for capital appreciation.

As at 31 December 2018 and 2017, the fair values of the properties are based on valuations performed by accredited independent valuers specialized in valuing these types of properties.

The Group did not generate any rental income nor incurred any expenses relating to investment properties during the years ended 31 December 2018 and 31 December 2017.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

27 NON-CURRENT ASSETS HELD FOR SALE

	2018 LL million	2017 LL million
Assets obtained in settlement of debts (i)	203,080	186,504

(i) The movement of the assets obtained in settlement of debts held for sale recognized in the consolidated statement of financial position is as follows:

	2018 LL million	2017 LL million
Cost:		
At 1 January	206,545	193,679
Additions	19,816	14,866
Disposals	(2,783)	(1,373)
Exchange differences	(407)	(627)
At 31 December	223,171	206,545
Impairment:		
At 1 January	20,041	17,760
Additions	50	3,010
Write-back during the year	-	(722)
Exchange differences	-	(7)
At 31 December	20,091	20,041
Net carrying amount:		
At 31 December	203,080	186,504

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Assets obtained in settlement of debt held-for-sale represent primarily land and buildings acquired by the Group in settlement of certain loans and advances.

During the year, the Group disposed of assets obtained in settlement of debts held for sale with a cost of LL 2,783 million (2017: LL 1,373 million) and recognized a gain of LL 534 million (2017: LL 406 million) there was no write-back of impairment during the year (2017: a write-back of impairment losses amounting to LL 722 million) (refer to note 10), in addition to the release of reserve for non-current assets held for sale amounting to LL 866 million to reserve for capital increase (2017: LL 371 million). This amount relates to appropriations previously booked on reserve for non-current assets held for sale (refer to note 39).

28 OTHER ASSETS

	2017 LL million	2016 LL million
Deferred employee termination benefits (i)	4,187	12,528
Due from the National Social Security Fund	20,027	17,841
Prepaid expenses	28,264	23,267
Deferred tax assets (note 14)	15,290	7,143
Investment in an associate (ii)	2,087	1,897
Receivable from sale of non-current assets held for sale	3,595	4,731
Other debtors	90,391	73,221
Provision (iii)	(6,544)	(6,544)
	157,297	134,084

(i) Deferred employee termination benefits
Deferred employee termination benefits amounting to LL 4,187 million as at 31 December 2018 (2017: LL 12,528 million), represent compensations paid to employees whose contracts were terminated as a result of the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL and their related taxes.

These compensations were calculated on the basis provided for in the staff compensation arbitrary decision dated 29 August 2011.

These benefits were deferred up to an amount of LL 60,300 million (equivalent to US$ 40 million). As a compensation for the employee termination benefits, the Central Bank of Lebanon exempted the Bank from part of the compulsory reserves denominated in Lebanese Lira. Part of these reserves were invested in Lebanese treasury bills whose nominal value amounted to LL 80,000 million and maturing on 1 December 2016.

During June 2012, the Central Bank of Lebanon granted the Bank a soft loan amounting to LL 170,000 million (note 30) in substitute of the exemption from part of the compulsory reserves granted during 2011. The proceeds from the soft loan were invested in Lebanese treasury bills. These treasury bills were pledged as collateral against the settlement of the soft loan. The interest income generated from these treasury bills will be offset against these deferred compensations over the period of the future economic benefits of these treasury bills.

During the year ended 31 December 2018, deferred employee termination benefits of LL 8,341 million (2017 LL 8,232 million) were amortized to the consolidated income statement against a net spread between the interest income from the Lebanese treasury bills and interest expense on the soft loan.

(ii) Investment in an associate
As of 31 December 2018 and 2017 the Group had 50% equity interest in Centre de Traitement Monetique SAL. The Group's share of profit from the associate amounted to LL 190 million for the year ended 31 December 2017 (2017: LL 172 million).

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(iii) Provision
The movement of the provision recognized in the consolidated statement of financial position is as follows:

	2018 LL million	2017 LL million
Provision at 1 January	6,544	7,136
Write-off of provision	-	(582)
Written-back during the year (note 11)	-	(10)
Provision at 31 December	6,544	6,544

29 GOODWILL

	2018 LL million	2017 LL million
Cost:		
At 1 January and 31 December	169,128	169,128
Impairment:		
At 1 January and 31 December	165,723	165,723
Net book value:		
At 1 January and 31 December	3,405	3,405

Impairment testing of goodwill
Goodwill acquired through business combinations has been allocated to three individual cash generating units (CGUs) for impairment testing as follows:

	2018 LL million	2017 LL million
Société Générale de Banque – Jordanie	2,393	2,393
Fidus SAL	199	199
SGBL insurance SAL (previously Sogecap Liban SAL)	813	813
	3,405	3,405

30 DUE TO THE CENTRAL BANKS

	2018 LL million	2017 LL million
Current account	21	14
Term soft loans	3,915,996	1,617,526
Accrued interest	14,143	4,667
	3,930,160	1,622,207

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Term soft loans include:

- Term loans amounting to LL 483 million as at 31 December 2017 were granted by the Central Bank of Lebanon to cover 60% of the replacement costs of the Bank's damaged buildings and installations and to cover 60% of the Bank's credit losses relating to debtors directly affected by July 2006's war. The effective interest rate for year ended 31 December 2017. The loan is secured by the pledge on lebanese treasury bills with a nominal of LL 483 million included under financial assets at amortized cost (note 22). The loan was settled during the year ended 31 December 2018.

- Term loan amounting to LL 170,000 million granted during June 2012 from the Central Bank of Lebanon after the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL for a ten years period. The effective interest rate is 2% for the first 5 years and 1.85% for the remaining 5 years. The loan is secured by the pledge on lebanese treasury bills with a nominal of LL 170,000 million (2017: LL 170,000 million) included under financial assets at amortized cost (note 22).

- Term loans totaling to LL 303,293 million as at 31 December 2018 (31 December 2017: LL 292,990 million) were granted by the Central Bank of Lebanon to subsidize the loans granted to customers under cicular 313 of the Central Bank of Lebanon. The term loans are subject to a 1% interest rate payable on a monthly basis. Part of these term loans are secured by the pledge on Lebanese treasury bills with a nominal of LL 2,302 million (31 December 2017: LL 2,050 million) and certificates of deposits denominated in LL with a nominal of LL 15,000 million as at 31 December 2018 (2017: the same). These instruments are included under financial assets at amortized cost (note 22).

- Term loans totaling to LL 3,263,747 million as at 31 December 2018 (2017: LL 1,108,583 million) were granted by the Central Bank of Lebanon. The term loans are subject to a 2% interest rate payable on a monthly basis. Lebanese treasury bills with a nominal of LL 436,783 million included under financial assets at amortized cost (note 22) (2017: LL 436,783 million) and long-term placements held with the Central Bank of Lebanon amounting to LL 2,829,601 as at 31 December 2018 (2017: LL 674,437 million) (note 15) were blocked against these term loans.

31 LOANS AND REPURCHASE AGREEMENTS

	2018 LL million	2017 LL million
Central Bank of Lebanon	-	431,476
Banks and financial institutions	1,461,028	1,249,908
	1,461,028	1,681,384

The Group has a program to sell securities under agreements to repurchase ('repos'). The securities sold under agreements to repurchase are transferred to third parties and the Group receives cash in exchange. If the securities decrease in value, the Group may be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities, which include credit risk and market risk, and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received as collateral.

The carrying amount and fair value of securities sold under agreements to repurchase at 31 December 2018 was LL 2,828,600 million and LL 2,493,749 million respectively (2017: LL 2,289,030 million and LL 2,246,197 million respectively). Those securities are presented in the statement of financial position under "Financial assets at amortized cost" (note 22).

The following tables provide a summary of financial instruments that have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition or were pledged against facilities granted, together with the associated liabilities:

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2018	Transferred financial asset	Foreign governmental debt securities LL million	Certificates of deposit – EuroCDs & bank placements LL million	Corporate bonds LL million	Lebanese Treasury bills – Eurobonds LL million	Total LL million
Carrying amount of assets	Securities lending and repos	25,388	-	41,518	2,761,694	2,828,600
Fair value of assets	Securities lending and repos	25,459	-	41,786	2,426,504	2,493,749
Carrying amount of associated liabilities	Securities lending and repos	22,345	-	39,910	1,398,773	1,461,028

2017	Transferred financial asset	Foreign governmental debt securities LL million	Certificates of deposit– EuroCDs & bank placements LL million	Corporate bonds LL million	Lebanese Treasury bills – Eurobonds LL million	Total LL million
Carrying amount of assets	Securities lending and repos	25,290	467,129	42,261	2,176,089	2,710,769
Fair value of assets	Securities lending and repos	26,249	465,546	42,894	2,133,247	2,667,936
Carrying amount of associated liabilities	Securities lending and repos	22,344	431,478	39,905	1,187,657	1,681,384

In addition to the above an amount of US$ 268,807,795 (equivalent to LL 405,228 million) is pledged as additional collateral against repurchase agreements as at 31 December 2018 (2017: US$ 61,546,407 equivalent to LL 92,782 million). These collaterals are placed upon the request of the counterparty to cover any decrease in fair value of the pledged assets. These placements are included under "Due from banks and financial institutions" (note 16).

32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2018 LL million	2017 LL million
Sight deposits	158,512	110,698
Time deposits	1,036,050	368,519
	1,194,562	479,217

33 AMOUNTS DUE TO AFFILIATED BANKS AND FINANCIAL INSTITUTIONS

	2018 LL million	2017 LL million
Sight deposits	5,550	6,844
Time deposits	2,003	-
	7,553	6,844

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34 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2018 Corporate LL million	2018 Retail LL million	2018 Total LL million
Sight deposits	1,248,861	2,158,575	3,407,436
Net creditor accounts against debtor accounts	12	812	824
Blocked margins	1,172,573	207,317	1,379,890
	2,421,446	2,366,704	4,788,150
Time deposits	4,862,792	11,127,767	15,990,559
Savings accounts	340,401	6,944,948	7,285,349
	7,624,639	20,439,419	28,064,058

	2017 Corporate LL million	2017 Retail LL million	2017 Total LL million
Sight deposits	765,575	1,307,593	2,073,168
Net creditor accounts against debtor accounts	763	1,147	1,910
Blocked margins	326,064	161,216	487,280
	1,092,402	1,469,956	2,562,358
Time deposits	5,084,658	10,276,492	15,361,150
Savings accounts	352,704	6,414,296	6,767,000
	6,529,764	18,160,744	24,690,508

Included in customers' deposits as at 31 December 2018 are coded accounts amounting to LL 35,052 million (2017: LL 55,521 million). These accounts are opened in accordance with article 3 of the Banking Secrecy Law dated 3 September 1956.

Included under customers' deposits an amount of LL 631,260 million maturing during 2019, 2020, and 2022 guaranteed by certificates of deposit with a nominal amount of LL 764,152 (2017: deposits amounting to LL 583,073 million maturing during 2018, 2019 and 2020 guaranteed by certificates of deposit with a nominal amount of LL 661,190 million) (note 22).

35 RELATED PARTIES' DEPOSITS AT AMORTIZED COST

	2018 Corporate LL million	2018 Retail LL million	2018 Total LL million
Sight deposits	979	5,693	6,672
Time deposits	955	116,947	117,902
	1,934	122,640	124,574

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	2017 Corporate LL million	2017 Retail LL million	2017 Total LL million
Sight deposits	2,102	10,543	12,645
Time deposits	10,283	142,354	152,637
	12,385	152,897	165,282

36 OTHER LIABILITIES

	2018 LL million	2017 LL million
Deferred income (i)	91,856	184,856
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circular number 439 dated 8 November 2016 (note 37)	4,743	-
Current tax liabilities (note 14)	23,028	45,560
Redeemed preferred shares payable to third parties (ii)	-	21,859
Accrued expenses	31,245	26,649
Payable to the shareholders of the Lebanese Canadian Bank SAL (iii)	-	12,060
Customers' transactions between Head Office and branches	17,582	18,989
Other taxes payable	24,492	15,626
Interest and commissions received in advance	12,457	10,631
Allowance for ECL / Impairment allowance on off-statement of financial position	8,755	-
Due to the National Social Security Fund	4,370	1,931
Deferred tax liabilities (note 14)	1,278	861
Other creditors	41,816	28,354
	261,622	367,376

(ii) 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 35), 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.

During 2017, the Group transferred an amount of LL 31,657 million (net of associated costs) from the deferred income to net gain from sale of financial assets at amortized cost in the consolidated income statement. As at 31 December 2017, the Group carried an amount of LL 184,856 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 an amount of LL 93,000 million from deferred income to the consolidated income statement. An amount of LL 109,412 was recorded under "net gain from sale of financial assets at amortized cost" and the corresponding tax expense amounting to LL 16,412 was

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recorded under "income tax expense".

(ii) Redeemed preferred shares payable to third parties represent liabilities acquired with the acquisition of the Lebanese Canadian Bank SAL and relating to preferred shares redeemed by the Lebanese Canadian Bank SAL and not yet claimed by the holders of those shares. These amounts were paid during the year ended 31 December 2018.

(iii) This represents the balance of the cash collateral deposited by the shareholders of the Lebanese Canadian Bank SAL and amounting to US$ 8 million (equivalent to LL 12,060 million) as a guarantee against default of the loans of an acquired subsidiary. This amount is refundable to the shareholders of the Lebanese Canadian Bank SAL, since the initial consideration paid for the acquisition was reduced by the same amount. The amounts were refunded to the shareholders during the year ended 31 December 2018.

37 PROVISION FOR RISKS AND CHARGES

	2018 LL million	2017 LL million
Technical reserve for insurance contracts	26,017	22,812
Employees' end of service benefits (i)	27,699	27,424
Provision for contingencies and charges	9,148	3,276
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circular number 439 dated 8 November 2016 (ii)	-	165,825
Other provisions	14,185	29,583
	77,049	248,920

(i) Banking entities operating in Lebanon have two defined benefit plans covering all their employees. The first requires contributions to be made to the National Social Security Fund whereby the entitlement to and level of these benefits depend on the employees' length of service, the employees' salaries and contributions paid to the fund among other requirements. 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 depend on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. The first plan described above also applies to non-banking entities operating in Lebanon. Defined benefit plans for employees at foreign subsidiaries and branches are set in line with the laws and regulations of the respective countries in which these subsidiaries are located. The movement of provision for staff retirement benefit obligation is as follows:

	2018		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January 2018	27,424	-	27,424
Acquisition of a subsidiary	-	786	786
Charge for the year (Note 12)	3,489	41	3,530
Paid during the year	(2,662)	-	(2,662)
Actuarial gain on obligation-experience	(867)	(224)	(1,091)
Provision no more required (Note 12)	(163)	(107)	(270)
Foreign exchange difference	(6)	(12)	(18)
Balance at 31 December 2018	27,215	484	27,699

	2017		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January 2017	25,808	-	25,808
Charge for the year (Note 12)	3,479	-	3,479
Paid during the year	(1,440)	-	(1,440)
Actuarial loss (gain) on obligation-experience	-	-	-
Provision no more required (Note 12)	(423)	-	(423)
Balance at 31 December 2017	27,424	-	27,424

Defined benefit plans in Lebanon constitute more than 75% of the Group's required obligation. The key assumptions used in the calculation of Lebanese retirement benefit obligation are as follows:

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%	8.5%
Future salary increase	8% for 2019 6% for future years	8% for 2018 and 2019 6% for future years
Future expected return on contributions	5.0%	5.0%
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 the NSSF EOSI 4% for the WCA EOSI	2.0% for the NSSF EOSI 4% for the WCA EOSI

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 LBP Million	% Decrease LBP Million	% Increase LBP Million	% Decrease LBP Million
Impact on net defined benefit Obligations				
2018	(1,128)	1,217	2,435	(2,284)
2017	(1,126)	1,213	2,325	(2,177)

(ii) On 8 November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute additional collective provisions. As such, provisions

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for risks and charges as at 31 December 2017 and 31 December 2016 include an amount of LL 165,825 million in excess of the provisioning requirements of IAS 39 (note 34). During 2018, the Bank utilized part of this provision to cover an amount of LL 121,585 million resulting from the impact of first-time adoption of IFRS 9 Expected Credit Loss (ECL) model on 1 January 2018. In addition, the Bank released an amount of LL 39,497 million from "Provisions for risks and charges" to "Other operating income". The remaining amount was included under "other liabilities" (note 36),

38 SHARE CAPITAL

a) Common shares

The authorized, issued and fully paid share capital as of 31 December 2018 comprised 56,535 shares of nominal value LL 258,000 each (2017: 56,535 shares of nominal value LL 258,000 each).

b) Preferred shares

- On 28 March 2013, the Bank issued 12,500 preferred shares (Series 2012) for a nominal amount of LL 212,400 each (a total of LL 2,655 million) plus a share premium denominated in US Dollars of US$ 9,859 per share. Accordingly, the total share premium resulting from the issuance amounted to US$ 123,238,806 (or LL 185,782 million) less issuance costs of LL 395 million.

- On 13 September 2013, the Bank issued 15,000 preferred shares (Series 2013) for a nominal amount of LL 212,400 each (a total of LL 3,186 million) plus a share premium denominated in US Dollars of US$ 9,859 per share. Accordingly, the total share premium resulting from the issuance amounted to US$ 147,886,567 (or LL 222,939 million) less issuance costs of LL 385 million.

- On 2 July 2015, the Bank issued 10,000 preferred shares (Series 2015) for a nominal amount of LL 233,000 each (a total of LL 2,330 million) plus a share premium denominated in US Dollars of US$ 9,845 per share. Accordingly, the total share premium resulting from the issuance amounted to US$ 98,454,395 (or LL 148,420 million) less issuance costs of LL 194 million.

The payment of dividends for preferred shareholders is dependent on:

1. The availability of non-consolidated net income for a specific year after appropriation of legal and other regulatory reserves;
2. The continuous compliance with regulations issued by the Central Bank of Lebanon and the Banking Control Commission; and
3. The approval of the ordinary general assembly of shareholders to distribute those dividends.

During 2018, the Bank transferred LL 2,079 million (2017: LL 2,029 million) from "retained earnings" to the "share premium – preferred shares". These represent the appropriation of transaction costs incurred on preferred shares and additional premiums of 1.25% relating to preferred shares – Series 2012, 2% relating to preferred shares – Series 2013 and 1.5% relating to preferred shares – Series 2015.

c) Preferred shares under subsicription and redemption:

On 26 April 2018, the Board of Directors of the Bank resolved to reacquire all the 12,500 Series 2012 preferred shares in order to cancel them and simultaneously replace their nominal value amounting to LL 3,225 million through an increase of the nominal value per share from LL 258,000 to LL 293,000 by a transfer from distributable reserves. The Central Bank of Lebanon approved the reaquisition on 7 September 2018. The Bank settled LL 190,793 million to the holders of these shares on 19 September 2018.

The Extraordinary General Assembly of shareholders held on 2 July 2018 resolved to increase the capital of the Bank from LL 24,261 million to LL 27,486 million through the issuance of 12,500 Series 2018/A preferred shares. The Central Bank of Lebanon approved the increase on 9 September 2018. On 3 September 2018, the Board of Directors of the Bank resolved to open the subscription in the Series 2018/A preferred shares during 18 and 19 September 2018. As at 31 December 2018, the preferred shares were fully subscribed for a total amount of LL 188,438 million.

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The Extraordinary General Assembly of shareholders held on 19 October 2018 resolved the following:

- to issue the Series 2018/A preferred shares.
- to cancel 12,500 Series 2012 preferred shares for a total nominal amount to LL 3,225 million.
- to increase the par value of each share from LL 258,000 to LL 293,000 through transfers from the distributable reserves to share capital.

As at 31 December 2018 the transaction was pending the final approval of the Central Bank of Lebanon, which was received on 12 March 2019, and the release of funds.

d) Cash contribution by shareholders

Cash contribution to capital amounted to US$ 9,855,900 and EUR 46,229,259 as at 31 December 2017 totaling to LL 106,746 million (2016: US$ 9,855,900 and EUR 46,229,259 totaling LL 106,746 million). These contributions were granted by the shareholders of the Bank in order to support and develop the activities of the Bank, in accordance with the following conditions:

- Every shareholder is committed to retain the contributions during the lifetime of the Bank;
- The shareholders commit to cover any loss using their contributions according to the provisions of article 3-8 of circular N° 44 of the of the Central Bank of Lebanon and article 134 of the Money and Credit Act; and
- The shareholders have the right to use or not to use these contributions in case of a capital increase.

Both the Central Council of the Central Bank of Lebanon and the ordinary general assembly of the Bank approved these contributions.

39 NON DISTRIBUTABLE RESERVES

	Legal reserve LL million	Reserve for general banking risks LL million	Reserve against doubtful and impaired loans LL million	Reserve for capital increase LL million	Reserve for non-current assets held for sale LL million	Reserve for retail and corporate loans LL million	General reserve LL million	Total LL million
At 31 December 2016	154,680	154,856	583	488,672	47,696	18,161	-	864,648
Appropriation during the year	28,836	26,945	-	3,005	22,466	16,284	-	97,536
Transfers	-	-	-	371	(371)	-	-	-
Adjsutments	-	-	(499)	-	-	-	-	(499)
At 31 December 2017	183,516	181,801	84	492,048	69,791	34,445	-	961,685
Appropriation during the year	33,152	28,316	-	316	21,344	-	142,743	225,871
Transfers	-	(210,117)	-	866	(866)	(34,445)	236,395	(8,167)
At 31 December 2018	216,668	-	84	493,230	90,269	-	379,138	1,179,389

a) Legal reserve

As required by local regulations where the Group operates, a percentage of the net profit for the year should be transferred to legal reserve. This reserve is not available for dividend distribution.

b) Reserve for capital increase

In compliance with the circular No. 167 issued by the Banking Control Commission, the Bank is required to appropriate the net write-back of provisions for doubtful debts in a particular year to the reserve for capital increase when the net results are positive.

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In compliance with the circular No. 173 issued by the Banking Control Commission, the Bank is required to appropriate the gain realized from the sales of non-current assets held for sale to the reserve for capital increase when the net results are positive.

c) Reserve for non-current assets held for sale
In compliance with pronouncements of the Banking Control Commission, when properties acquired in settlement of debts are not sold within the timeframe required by local regulators, the Bank should appropriate an amount equal to 5% or 20% of the carrying value of such properties. The annual appropriation, which is from the net profit of the respective year after appropriations to legal reserve and reserve for general banking risks, is reported under "reserve for non-current assets held for sale".

The Bank shall make a transfer from this reserve into the "Reserve for capital increase" when:
- The reserve appropriated in prior years related to a property disposed off; or
- The reserve appropriated in prior years (equal or up to) an impairment loss recognized in the income statement against the acquired property.

d) 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.

40 DISTRIBUTABLE RESERVES

	2018 LL million	2017 LL million
Balance at 1 January	29,460	20,532
Appropriation during the year	212	8,928
Transfers	(3,225)	-
Balance at 31 December	26,447	29,460

41 REVALUATION RESERVE OF PROPERTY

	2018 LL million	2017 LL million
Revaluation amount	5,499	5,499
Book value	(945)	(945)
Sale of real estate	(620)	(620)
Revaluation variance	3,934	3,934

The Central Bank of Lebanon and the tax authorities approved on 29 March 1995 and on 18 April 1995 respectively, the revaluation of some of the buildings owned by the Bank and used for operating purposes in accordance with the law no. 282 dated 30 December 1993.

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

	2018 LL million	2017 LL million
Balance at 1 January	(11,678)	(218)
Net realized loss on financial instruments transferred to retained earnings	-	416
Net unrealized loss on financial assets at fair value through other comprehensive income, net of tax	(26,848)	(11,876)
Balance at 31 December	(38,526)	(11,678)

43 DIVIDENDS PAID TO EQUITY HOLDERS OF THE PARENT

According to the resolution of the ordinary general assembly of shareholders held on 26 April 2018 the following dividends were declared and paid:

	2018		
	Number of shares	Dividend per share in LL	Total LL million
Dividends for preferred shares – 2012 issue	12,500	1,060,500	13,256
Dividends for preferred shares – 2013 issue	15,000	1,060,500	15,908
Dividends for preferred shares – 2015 issue	10,000	1,060,500	10,605
Dividends for common shares	56,535	1,339,900	75,751
			115,520

According to the resolution of the ordinary general assembly of shareholders held on 25 April 2017 the following dividends were declared and paid:

	2017		
	Number of shares	Dividend per share in LL	Total LL million
Dividends for preferred shares – 2012 issue	12,500	1,060,325	13,255
Dividends for preferred shares – 2013 issue	15,000	1,060,325	15,905
Dividends for preferred shares – 2015 issue	10,000	1,060,325	10,603
Dividends for common shares	56,535	1,071,700	60,588
			100,351

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44 CASH AND CASH EQUIVALENTS

	2018 LL million	2017 LL million
Cash and balances with the Central Banks	16,615,531	13,259,404
Financial instruments – Certificates of deposits issued by foreign Central Banks	137,095	52,126
Due from banks and financial institutions	1,779,148	854,226
Amounts due from affiliated banks and financial institutions	226,416	590,385
Due to the Central Banks	(3,930,160)	(1,622,207)
Loans and repurchase agreements	(1,461,028)	(1,681,384)
Due to banks and financial institutions	(1,194,562)	(479,217)
Amounts due to affiliated banks and financial institutions	(7,553)	(6,844)
	12,164,887	10,966,489
Less: balances with maturities exceeding 3 months		
Cash and balances with the Central Banks	15,175,444	12,337,843
Due from banks and financial institutions	108,235	46,381
Amounts due from affiliated banks and financial institutions	99,673	66,618
Due to the Central Banks	(3,897,046)	(1,328,664)
Loans and repurchase agreements	(1,461,028)	(1,681,384)
Due to banks and financial institutions	(887,289)	(190,076)
	9,137,989	9,250,718
Cash and cash equivalents at 31 December	3,026,898	1,715,771

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.

A list of the Group's principal subsidiaries is shown in note 2. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's consolidated financial statements.

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 of the Bank and the Officers of the Group.

Entities under common directorships are defined as those entities for which members of the Bank's board also serve as directors.

Terms and conditions of transactions with related parties
The Group enters into transactions with major related parties in the ordinary course of business at normal commercial interest and commission rates. As at 31 December 2018, the Group has made provisions and suspended interest for doubtful debts relating to amounts owed by related parties totaling to LL 25,447 million (2017: LL 19,679 million).

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The following table provides the total amount of transactions and the amount of outstanding balances (including commitments) with related parties for the relevant financial year.

	2018		2017	
	Outstanding balance LL million	Income (expense) LL million	Outstanding balance LL million	Income (expense) LL million
Key management personnel				
Net loans and advances	112,314	4,546	105,116	4,792
Deposits	74,759	(5,905)	109,126	(5,238)
Guarantees given	1,144	-	1,524	-
Commitments	17	-	14	-
Entities under common directorship				
Net loans and advances	11,103	1,086	5,870	904
Deposits	48,111	(2,397)	54,990	(1,788)
Guarantees given	73	-	137	-
Shareholder – Bank				
Net loans and advances	220,417	(95)	588,834	1,211
Deposits	504	(155)	492	(9)
Guarantees given	14,356	-	19,616	-
Guarantees received	423	-	443	-
Commitments	1,291	-	-	-
Associate				
Deposits	1,094	(12)	679	(18)

Technical assistance fees paid to Société Générale – Paris, shareholder, amounted to LL 755 million for the year ended 31 December 2018 (2017: LL 755 million).

The Bank rented offices from board members for LL 516 million for the year ended 31 December 2018 (2017: LL 511 million).

Compensation of the key management personnel is as follows:

	2018 LL million	2017 LL million
Short-term benefits (i)	19,155	19,914
Termination benefits	247	653
	19,402	20,567

(i) Short-term benefits comprise of salaries, bonuses, attendance fees and other short-term benefits to Key Management Personnel.

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46 FIDUCIARY ACCOUNTS

	2018 LL million	2017 LL million
Deposits with banks	222,446	12,960
Loans and advances	4,795	10,703
Bonds	1,079,378	128,138
	1,306,619	151,801

47 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2018 LL million	2017 LL million
Deposits with banks	1,057,613	-
Lebanese treasury bills and Eurobonds	28,284	86,067
Bonds and other debt instruments	315,692	75,093
Equity instruments	1,129,248	298,567
Funds	204,131	27,217
	2,734,968	486,944

48 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 both financial and other guarantees and commitments to extend credit. Even though these obligations may not be recognized on the consolidated 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 LL million	Customers LL million	Total LL million
Guarantee and contingent liabilities			
Financial guarantees	95,669	263,509	359,178
Other guarantees	15,970	321,434	337,404
	111,639	584,943	696,582
Commitments			
Documentary credits	218,604	48,904	267,508
Undrawn credit lines	-	1,279,163	1,279,163
	218,604	1,328,067	1,546,671

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	2017		
	Banks LL million	Customers LL million	Total LL million
Guarantee and contingent liabilities			
Financial guarantees	56,067	109,238	165,305
Other guarantees	10,172	307,811	317,983
	66,239	417,049	483,288
Commitments			
Documentary credits	270,934	11,358	282,292
Undrawn credit lines	-	1,248,497	1,248,497
	270,934	1,259,855	1,530,789

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, tender guarantees, customs guarantees and retention guarantees.

Legal claims

Litigation is a common occurrence in the industries where the Group operates due to the nature of the businesses undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss is 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 the legal counsel, management believes that legal claims not provided for will not result in any financial loss to the Group.

Capital commitments

At 31 December 2018, the Group had capital commitments in respect of premises and equipment purchases amounting to LL 91,577 million (2017: LL 75,122 million).

Operating lease commitments – Group as lessee

The Group enters into commercial leases on premises. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancelable operating leases as at 31 December are as follow:

	2018 LL million	2017 LL million
Within one year	7,886	9,948
After one year but not more than five years	28,004	27,222
More than five years	1,256	1,841
	37,146	39,011

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Other commitments
The Group has commitments relating to future donations to not for profit organizations amounting to LL 4,523 million as at 31 December 2018 (2017: LL 6,030 million).

Other contingencies

a) The Bank's books and records were reviewed by the Department of Income Tax for the years 2012 to 2014. The review resulted in additional taxes and penalties amounting to LL 1,960 million which were paid and accounted for during the year ended 31 December 2018.

b) Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. Fiscal years 2015, 2016 and 2017 are not yet reviewed by the Department of Income Tax as well as the Value Added Tax since inception. Management believes that the effect of any such reviews will not have a material effect on the financial statements.

c) The Bank's contributions to the National Social Security Fund (NSSF) have not been reviewed since May 2004. Management believe that the effect of any such review will not have a material effect on the financial statements.

49 FAIR VALUE MEASUREMENT

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.

The fair value of assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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
Assets and liabilities 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
Assets and liabilities 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
Assets and liabilities 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. An input is deemed significant if it is shown to contribute more than 10% to the valuation of the asset or liability. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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Fair value measurement hierarchy of the Group's 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 measured at fair value:				
Derivative financial instruments:	-	25,541	-	25,541
Financial assets at fair value through profit or loss:				
Lebanese treasury bills (LL)	-	1,084	-	1,084
Lebanese treasury bills (Eurobonds)	19,146	-	-	19,146
Funds	20,962	-	-	20,962
Shares	14,844	10,253	32,873	57,970
Financial assets at fair value through other comprehensive income:				
Shares	189,759	14,027	873	204,659
Governmental debt securities	123,708	-	-	123,708
Debt securities issued by banks	-	31,846	-	31,846
Investment properties	-	-	1,226	1,226
Liabilities measured at fair value:				
Derivative financial instruments:	-	(27,212)	-	(27,212)

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 measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	9,197	-	9,197
Financial assets at fair value through profit or loss:				
Lebanese treasury bills (LL)	-	1,090	-	1,090
Lebanese treasury bills (Eurobonds)	11,418	-	-	11,418
Debt securities issued by banks	-	37,688	-	37,688
Funds	23,720	-	-	23,720
Shares	77,294	10,253	40,224	127,771
Financial assets at fair value through other comprehensive income:				
Shares	148,418	12,223	873	161,514
Investment properties	-	-	1,478	1,478
Liabilities measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	(164)	-	(164)

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

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Assets and liabilities measured 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 deposit and other debt securities
The Group values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities, credit spreads and broker statements.

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

Equity shares of non-listed entities
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.

Investment properties
Investment properties valued using unobservable inputs are generally determined based on observable inputs of a similar nature, historical observations or other techniques. Investment properties are mainly valued by independent qualified valuers on the basis of current market prices of similar properties sold in the same area.

Comparison of carrying amounts 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	
	Carrying value LL million	Fair value LL million	Carrying value LL million	Fair value LL million
Financial assets				
Cash and balances with the Central Banks	16,615,531	16,615,531	13,259,404	13,259,404
Due from banks and financial institutions	1,779,148	1,779,148	854,226	854,226
Amounts due from affiliated banks and financial institutions	226,416	226,416	590,385	590,385
Loans to banks and financial institutions	8,397	8,397	8,397	8,397
Loans and advances to customers at amortized cost	8,635,701	8,635,701	7,344,616	7,344,616
Loans and advances to related parties at amortized cost	123,229	123,229	111,065	111,065
Financial assets at amortized cost	9,172,652	8,421,249	8,642,264	8,377,089
	36,561,074	35,809,671	30,810,357	30,545,182

	2018		2017	
	Carrying value LL million	Fair value LL million	Carrying value LL million	Fair value LL million
Financial liabilities				
Due to the Central Banks	3,930,160	3,930,160	1,622,207	1,622,207
Loans and repurchase agreements	1,461,028	1,461,028	1,681,384	1,681,384
Due to banks and financial institutions	1,194,562	1,194,562	479,217	479,217
Amounts due to affiliated banks and financial Institutions	7,553	7,553	6,844	6,844
Customers' deposits at amortized cost	28,064,058	28,064,058	24,690,508	24,690,508
Related parties' deposits at amortized cost	124,574	124,574	165,282	165,282
	34,781,935	34,781,935	28,645,442	28,645,442

Fair values measurement hierarchy of the Group's financial assets and liabilities for which fair values are disclosed:

	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 the Central Banks	127,677	16,487,854	-	16,615,531
Due from banks and financial institutions	-	1,779,148	-	1,779,148
Amounts due from affiliated banks and financial institutions	-	226,416	-	226,416
Loans to banks and financial institutions	-	8,397	-	8,397
Loans and advances to customers at amortized cost	-	-	8,635,701	8,635,701
Loans and advances to related parties at amortized cost	-	-	123,229	123,229
Financial assets at amortized cost:				
Lebanese treasury bills (LL)	-	2,055,892	-	2,055,892
Lebanese treasury bills (Eurobonds)	2,556,202	-	-	2,556,202
Foreign governmental debt securities	97,763	1,005,649	-	1,103,412
Corporate bonds	41,432	47,277	-	88,709
Certificates of deposit issued by the Central Bank of Lebanon	-	2,472,525	-	2,472,525
Certificates of deposit issued by foreign banks	-	137,094	-	137,094
Debt securities issued by banks	7,415	-	-	7,415
Liabilities for which fair values are disclosed:				
Due to the Central Banks	-	(3,930,160)	-	(3,930,160)
Loans and repurchase agreements	-	(1,461,028)	-	(1,461,028)
Due to banks and financial institutions	-	(1,194,562)	-	(1,194,562)
Amounts due to affiliated banks and financial institutions	-	(7,553)	-	(7,553)
Customers' deposits at amortized cost	-	(28,064,058)	-	(28,064,058)
Related parties' deposits at amortized cost	-	(124,574)	-	(124,574)

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	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 the Central Banks	121,535	13,137,869	-	13,259,404
Due from banks and financial institutions	-	854,226	-	854,226
Amounts due from affiliated banks and financial institutions	-	590,385	-	590,385
Loans to banks and financial institutions	-	8,397	-	8,397
Loans and advances to customers at amortized cost	-	-	7,344,616	7,344,616
Loans and advances to related parties at amortized cost	-	-	111,065	111,065
Financial assets at amortized cost:				
Lebanese treasury bills (LL)	-	1,581,040	-	1,581,040
Lebanese treasury bills (Eurobonds)	2,198,117	-	-	2,198,117
Foreign governmental debt securities	26,249	964,863	-	991,112
Corporate bonds	42,895	20,775	-	63,670
Certificates of deposit issued by the Central Bank of Lebanon	-	3,481,970	-	3,481,970
Certificates of deposit issued by foreign banks	-	52,126	-	52,126
Debt securities issued by banks	9,054	-	-	9,054
Liabilities for which fair values are disclosed:				
Due to the Central Banks	-	(1,597,408)	-	(1,597,408)
Loans and repurchase agreements	-	(1,681,384)	-	(1,681,384)
Due to banks and financial institutions	-	(479,217)	-	(479,217)
Amounts due to affiliated banks and financial institutions	-	(6,844)	-	(6,844)
Customers' deposits at amortized cost	-	(24,690,508)	-	(24,690,508)
Related parties' deposits at amortized cost	-	(165,282)	-	(165,282)

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 Bank values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities, credit spreads and broker statements.

Loans and advances to banks and customers
For the purpose of this disclosure, fair value of loans and advances is estimated using discounted cash flows by applying current rates for new loans granted during the year with similar remaining maturities and to counterparties with similar credit quality.

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

50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

At 31 December 2018	Less than one year LL million	More than one year LL million	Total LL million
ASSETS			
Cash and balances with the Central Banks	2,923,347	13,692,184	16,615,531
Due from banks and financial institutions	1,727,230	51,918	1,779,148
Amounts due from affiliated banks and financial institutions	226,416	-	226,416
Loans to banks and financial institutions	-	8,397	8,397
Derivative financial instruments	25,541	-	25,541
Financial assets at fair value through profit or loss	77,981	21,181	99,162
Loans and advances to customers at amortized cost	3,793,687	4,842,014	8,635,701
Loans and advances to related parties at amortized cost	68,838	54,391	123,229
Debtors by acceptances	746,213	96,999	843,212
Financial assets at amortized cost	1,537,548	7,635,104	9,172,652
Financial assets at fair value through other comprehensive income	175,559	184,654	360,213
Property and equipment	101,950	435,474	537,424
Intangible assets	12,866	49,075	61,941
Investment properties	-	1,226	1,226
Non-current assets held for sale	193,783	9,297	203,080
Other assets	130,386	26,911	157,297
Other intangible assets and goodwill arising on acquisition	-	37,029	37,029
Goodwill	-	3,405	3,405
TOTAL ASSETS	11,741,345	27,149,259	38,890,604
LIABILITIES			
Due to the Central Banks	171,670	3,758,490	3,930,160
Loans and repurchase agreements	360,495	1,100,533	1,461,028
Due to banks and financial institutions	670,481	524,081	1,194,562
Amounts due to affiliated banks and financial institutions	7,164	389	7,553
Derivative financial instruments	27,212	-	27,212
Customers' deposits at amortized cost	26,191,399	1,872,659	28,064,058
Related parties' deposits at amortized cost	124,574	-	124,574
Engagements by acceptances	752,561	96,999	849,560
Other liabilities	169,695	91,927	261,622

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Provision for risks and charges	36,900	40,149	77,049
TOTAL LIABILITIES	28,512,151	7,485,227	35,997,378
NET	(16,770,806)	19,664,032	2,893,226

At 31 December 2017	Less than one year LL million	More than one year LL million	Total LL million
ASSETS			
Cash and balances with the Central Banks	1,463,770	11,795,634	13,259,404
Due from banks and financial institutions	828,784	25,442	854,226
Amounts due from affiliated banks and financial institutions	590,385	-	590,385
Loans to banks and financial institutions	-	8,397	8,397
Derivative financial instruments	9,197	-	9,197
Financial assets at fair value through profit or loss	177,965	23,722	201,687
Loans and advances to customers at amortized cost	4,173,844	3,170,772	7,344,616
Loans and advances to related parties at amortized cost	94,171	16,894	111,065
Debtors by acceptances	348,376	96,999	445,375
Financial assets at amortized cost	318,390	8,323,874	8,642,264
Financial assets at fair value through other comprehensive income	1,109	160,405	161,514
Property and equipment	11,955	473,375	485,330
Intangible assets	3,434	44,585	48,019
Investment properties	-	1,478	1,478
Non-current assets held for sale	177,521	8,983	186,504
Other assets	129,388	4,696	134,084
Goodwill	-	3,405	3,405
TOTAL ASSETS	8,328,289	24,158,661	32,486,950
LIABILITIES			
Due to the Central Banks	31,604	1,590,603	1,622,207
Loans and repurchase agreements	450,974	1,230,410	1,681,384
Due to banks and financial institutions	434,985	44,232	479,217
Amounts due to affiliated banks and financial institutions	6,844	-	6,844
Derivative financial instruments	164	-	164
Customers' deposits at amortized cost	23,029,860	1,660,648	24,690,508
Related parties' deposits at amortized cost	165,282	-	165,282
Engagements by acceptances	348,376	96,999	445,375
Other liabilities	182,520	184,856	367,376
Provision for risks and charges	25,931	222,989	248,920
TOTAL LIABILITIES	24,676,540	5,030,737	29,707,277
NET	(16,348,251)	19,127,924	2,779,673

The attached notes 1 to 52 form part of these consolidated financial statements.

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51 RISK MANAGEMENT

The Group devotes significant resources to the ongoing adaptation of its risk management framework, in order to keep pace with the increasing diversification of its activities. Risk management is implemented in compliance with the two following fundamental principles:
- risk assessment departments are completely independent from the operating divisions
- a consistent approach to risk assessment and monitoring is applied at the Group level

a) Risk management structure
The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors
The Board of Directors is responsible for the overall risk management approach and for approving risk strategies and principles.

Risk Management
The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Group Treasury
Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

b) Risk measurement and reporting systems
The Group is using a RAROC (Risk-Adjusted Return on Capital) approach to quantify its credit risk. One of the main objectives is to establish, using quantitative methods, the level of loss expected on credit transactions over the course of the business cycle.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

c) Risk mitigation
As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

d) Excessive concentration
The Group also attempts to control credit risk by regular monitoring of its credit exposures and continuous assessment of the creditworthiness of counterparties by the credit risk committee.

51.1 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. 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.

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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.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the consolidated statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative.

With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation but the counterparty fails to deliver the counter-value.

Credit-related commitments risk
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks as loans and are mitigated by the same control processes and policies.

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; 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.

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

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

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case by case basis. Once SICR factors are no longer met, a probation period equivalent to three consecutive installments will be applied before moving an account from Stage 2 to Stage 1. If the facility experienced SICR due to a restructuring, it must remain a minimum period equivalent to six successive consecutive monthly installments (or four consecutive quarterly installments) as Stage 2 from the date of restructuring.

The Bank's internal rating and PD estimation process

Treasury, trading and interbank relationships
For non-loan exposures, external credit ratings are used and mapped to the corresponding PDs reported by credit rating agencies. These are continuously monitored and updated.

Non-Retail Loans:
The Risk function, which is independent from business lines, is responsible for the development of internal rating models, and for the estimation of Probability of Default (PD). The Group uses an internal rating scale comprised of 7 performing grades and 4 non-performing grades. The grades generated by internal rating models are mapped to PDs using historical default observations. The mapping of rating to PD, which is done initially on a through-the-cycle basis is then adjusted to a point-in-time basis in line with IFRS 9 requirements.

These internal rating models for the Group's key lending portfolios incorporate both qualitative and quantitative criteria such as:

- Historical and projected financial information including debt service coverage, operations, liquidity and capital structure;
- Account behaviour, payment history in the Group and outside and non-financial information such as management quality, company standing and industry risk;
- Any publicly available information related to the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports and other market disclosures;
- Any other objectively supportable information on the obligor's willingness and capacity of repayment.

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

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

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

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 Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or Lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition, considering reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information. The Group's assessment of significant increase in credit risk is being performed at least quarterly based on the following:

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Non-retail
Migration of obligor risk rating by a certain number of notches from origination to reporting date a key indicator of the change in the risk of default at origination with the risk of default at reporting date

Retail
Thresholds have been based on historical default rates and historical payment behaviour to determine significant increase in credit risk.

Qualitative criteria
For non-retail loans, the Group also considers in its assessment of significant increase in credit risk, various qualitative factors like significant adverse changes in business, extension of terms granted, breach of certain debt covenants, actual and expected forbearance or restructuring, early signs of cash flows and liquidity problems, classification of a loan under the "Follow-up and regularization" supervisory classification. For retail loans, the Group considers specific events that might be indicative of a significant increase in credit risk such as the event of restructuting.

Backstop
A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the instruments is more than 30 days past due on its contractual payments.
Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired at the reporting date.

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 and inflation rate 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. The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material.

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

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

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

	2018 LL million
Amortised cost of financial assets modified during the period	99,022

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, maximize 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
Corporate loans	49,896
Retail loans	14,322
	64,218

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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				
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million	Net Exposure LL million
31 December 2018									
Balances with the Central bank	16,642,778	-	-	16,642,778	(27,247)	-	-	(27,247)	16,615,531
Due from banks and financial institutions	1,752,438	32,560	619	1,785,617	(5,741)	(109)	(619)	(6,469)	1,779,148
Amounts due from affiliated banks and financial Institutions	226,609	-	-	226,609	(193)	-	-	(193)	226,416
Loans to banks and financial institutions	-	-	31,241	31,241	-	-	(22,844)	(22,844)	8,397
Net loans and advances to customers at amortised cost	7,379,853	870,959	1,094,821	9,345,633	(31,340)	(32,734)	(645,858)	(709,932)	8,635,701
Net loans and advances to related parties at amortised cost	118,824	325	29,829	148,978	(434)	(44)	(25,271)	(25,749)	123,229
Financial assets at amortised cost	9,211,338	-	1,083	9,212,421	(38,686)	-	(1,083)	(39,769)	9,172,652
Debtors by acceptance	849,560	-	-	849,560	(6,348)	-	-	(6,348)	843,212
Financial guarantees and other commitments	2,162,807	77,883	2,563	2,243,253	(7,118)	(669)	(968)	(8,755)	2,234,498
Total	38,344,207	981,727	1,160,156	40,486,090	(117,107)	(33,556)	(696,643)	(847,306)	39,638,784

	Gross exposure				Impairment allowance				
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million	Net Exposure LL million
1 January 2018									
Balances with the Central bank	13,259,404	-	-	13,259,404	(30,486)	-	-	(30,486)	13,228,918
Due from banks and financial institutions	854,226	-	711	854,937	(1,923)	(305)	(711)	(2,939)	851,998
Amounts due from affiliated banks and financial Institutions	590,385	-	-	590,385	(161)	-	-	(161)	590,224
Loans to banks and financial institutions	-	-	27,758	27,758	-	-	(19,361)	(19,361)	8,397
Net loans and advances to customers at amortised cost	6,492,975	668,935	762,675	7,924,585	(34,730)	(67,906)	(551,896)	(654,532)	7,270,053
Net loans and advances to related parties at amortised cost	106,438	530	23,776	130,744	(569)	(43)	(19,679)	(20,291)	110,453
Financial assets at amortised cost	8,642,264	-	1,083	8,643,347	(39,118)	-	(1,083)	(40,201)	8,603,146
Debtors by acceptance	445,375	-	-	445,375	(2,052)	-	-	(2,052)	443,323
Financial guarantees and other commitments	1,920,774	83,878	9,425	2,014,077	(4,823)	(533)	-	(5,356)	2,008,721
Total	32,311,841	753,343	825,428	33,890,612	(113,862)	(68,787)	(592,730)	(775,379)	33,115,233

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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
At 1 January 2018	-	-	579,970	579,970
Effect of IFRS 9 adoption (note 2.3)	34,730	67,906	(28,074)	74,562
Amended balance as of 1 January 2018	34,730	67,906	551,896	654,532
Acquisition of NBAD	902	5,653	36,523	43,078
Acquisition of subsidiaries	80	-	3,150	3,230
Net re-measurements and reallocations	(5,001)	(39,072)	65,611	21,538
Recoveries	-	-	(16,838)	(16,838)
Write offs	-	-	(68,672)	(68,672)
Other movements	-	-	80,503	80,503
Foreign exchange difference	629	(1,753)	(6,315)	(7,439)
TOTAL ASSETS	31,340	32,734	645,858	709,932

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was LL 96,279 million at 31 December 2018 (2017: LL 112,290 million). Net re-measurements and reallocations include re-measurements as a result of changes in the size of portfolios, reclassifications between stages and reallocations of provisions.

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.

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31 December 2018	Maximum exposure LL million	Collateral Cash LL million	Collateral Securities LL million	Collateral Real estate LL million	Net credit exposure LL million
Balances with the Central Banks	16,487,854	-	-	-	16,487,854
Due from banks and financial institutions	1,779,148	-	-		1,779,148
Amounts due from affiliated banks and financial institutions	226,416	-	-	-	226,416
Loans to banks and financial institutions	8,397			(8,397)	-
Derivative financial instruments	25,541	-	-	-	25,541
Financial assets at fair value through profit or loss	99,162	-	-	-	99,162
Loans and advances to customers at amortized cost:					
Retail loans	3,834,822	(542,024)	(100,830)	(2,245,660)	946,308
Corporate loans	4,800,879	(549,037)	(25,788)	(1,613,733)	2,612,321
Loans and advances to related parties at amortized cost					
Retail loans	57,045	-	-	(2,523)	54,522
Corporate loans	66,184	(2,227)	(123)	(12,362)	51,472
Debtors by acceptances	843,212	(217,862)	-	(21,444)	603,906
Financial assets at amortized cost	9,172,652	-	-	-	9,172,652
Financial assets at fair value through other comprehensive income	360,213	-	-	-	360,213
	37,761,525	(1,311,150)	(126,741)	(3,904,119)	32,419,515
Financial guarantees	359,178	(67,420)	(59,148)	(15,256)	217,354
Documentary credits	267,508	(33,885)	-	(6,232)	227,391
Loan commitments	1,279,163	(89,327)	(2,806)	(94,226)	1,092,804
	1,905,849	(190,632)	(61,954)	(115,714)	1,537,549
Total	39,667,374	(1,501,782)	(188,695)	(4,019,833)	33,957,064

31 December 2017	Maximum exposure LL million	Collateral Cash LL million	Collateral Securities LL million	Collateral Real estate LL million	Collateral Letters of credit / guarantees LL million	Net credit exposure LL million
Balances with the Central Banks	13,137,869	-	-	-	-	13,137,869
Due from banks and financial institutions	854,226	-	-	-		854,226
Amounts due from affiliated banks and financial institutions	590,385	-	-	-	-	590,385
Loans to banks and financial institutions	8,397	-	-	(8,397)		-
Derivative financial instruments	9,197	-	-	-	-	9,197
Financial assets at fair value through profit or loss	201,687	-	-	-	-	201,687
Loans and advances to customers at amortized cost:					-	
Retail loans	2,890,411	(366,194)	(383)	(1,694,907)		828,927
Corporate loans	4,454,205	(445,335)	(8,938)	(1,631,843)	-	2,368,089
Loans and advances to related parties at amortized cost						
Retail loans	47,176	-	-	(2,523)	-	44,653
Corporate loans	63,889	(2,316)	(76)	(12,362)	-	49,135
Debtors by acceptances	445,375	(121,529)	-	(5,738)	-	318,108
Financial assets at amortized cost	8,642,264	-	-	-	-	8,642,264
Financial assets at fair value through other comprehensive income	161,514	-	-	-		161,514
	31,506,595	(935,374)	(9,397)	(3,355,770)	-	27,206,054
Financial guarantees	165,305	(59,753)	(2)	(21,613)	-	83,937
Documentary credits	282,292	(53,665)	-	(24,722)	-	203,905
Undrawn credit lines	1,248,497	(129,859)	(2,873)	(56,024)	-	1,059,741
	1,696,094	(243,277)	(2,875)	(102,359)	-	1,347,583
	33,202,689	(1,178,651)	(12,272)	(3,458,129)	-	28,553,637

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, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

Securities
The balances shown above 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.

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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 above reflects the fair value of the property limited to the related mortgaged amount.

Other
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 and assignments of insurance proceeds and revenues, which are not reflected in the above table.

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

i. External ratings from approved credit rating agencies for financial institutions and financial assets.

ii. Internal credit ratings: The risk rating system, which is managed by an independent unit, provides a rating based on client and transaction level. The classification system includes ten grades, of which five grades relate to credit facilities which are neither past due nor impaired and credit facilities which are past due but not impaired (risk rating "1", "2", "3", "4", "4b", "5" "6a"), substandard individually impaired loans (risk rating "6b" and "6c") and doubtful individually impaired loans (risk rating "7" and "8").

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 regularization includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilization above limit. (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.

Corporate and Retail Lending

Internal rating grade	Supervisory Rating
Performing	
1	Regular
2	Regular
3	Regular
4	Regular
4b	Follow-up
5	Follow-up and regularization
6a	Follow-up and regularization
Non-performing	
6c	Substandard
6b	Substandard
7	Doubtful
8	Bad

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

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Sovereign and Banks and Financial Institutions
The table below shows the credit quality by class of asset based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances. The table below shows the credit quality by class of asset based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

	Performing		Individually impaired		
	Neither past due nor impaired LL million	Past due but not impaired LL million	Substandard LL million	Doubtful LL million	Total LL million
2018					
Cash and balances with the Central Bank	16,642,778	-	-	-	16,642,778
Due from banks and financial institutions	1,784,998	-	-	619	1,785,617
Loans to banks and financial institutions	-	-	-	31,241	31,241
Amounts due from affiliated banks and financial Institutions	226,609	-	-	-	226,609
Derivative financial instruments	25,541	-	-	-	25,541
Financial assets at fair value through profit or loss		-			
- Funds	20,962		-	-	20,962
- Shares	57,970	-	-	-	57,970
- Lebanese treasury bills	20,230	-	-	-	20,230
Loans and advances to customers at amortized cost					
- Corporate	4,252,643	304,683	72,770	622,100	5,252,196
- Retail	3,512,059	181,427	49,388	350,563	4,093,437
Loans and advances to related parties at amortized cost					
- Corporate	59,058	281	-	29,829	89,168
- Retail	59,810	-	-	-	59,810
Financial assets at amortized cost					
- Lebanese treasury bills	4,900,278		-	-	4,900,278
- Other governmental bonds	1,073,005	-	-	-	1,073,005
- Certificates of deposit	3,111,217	-	-	-	3,111,217
- Other debt securities	126,838	-	-	1,083	127,921
Financial assets at fair value through other comprehensive income					
- Shares	204,659	-	-	15	204,674
- Debt securities	155,554	-	-	-	155,554
	36,235,611	486,391	122,158	1,035,450	37,879,610

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	Performing		Individually impaired		
	Neither past due nor impaired LL million	Past due but not impaired LL million	Substandard LL million	Doubtful LL million	Total LL million
2017					
Cash and balances with the Central Bank	13,259,404	-	-	-	13,259,404
Due from banks and financial institutions	854,226	-	-	711	854,937
Loans to banks and financial institutions	-	-	-	27,758	27,758
Amounts due from affiliated banks and financial Institutions	590,385	-	-	-	590,385
Derivative financial instruments	9,197	-	-	-	9,197
Financial assets at fair value through profit or loss					
- Shares	127,771	-	-	-	127,771
- Funds	23,720	-	-	-	23,720
- Lebanese treasury bills	12,508	-	-	-	12,508
- Debt securities issued by banks	37,688	-	-	-	37,688
Loans and advances to customers at amortized cost					
- Corporate	3,938,080	409,579	74,197	379,063	4,800,919
- Retail	2,605,087	209,164	29,282	280,133	3,123,666
Loans and advances to related parties at amortized cost					
- Corporate	59,792	-	-	23,776	83,568
- Retail	47,176	-	-	-	47,176
Financial assets at amortized cost					
- Lebanese treasury bills	3,852,519	-	-	-	3,852,519
- Other governmental bonds	997,962	-	-	-	997,962
- Certificates of deposit	3,719,678	-	-	-	3,719,678
- Other debt securities	72,105	-	-	1,083	73,188
Financial assets at fair value through other comprehensive income					
- Shares	161,514	-	-	15	161,529
	30,368,812	618,743	103,479	712,539	31,803,573

It is the Group's policy to maintain accurate and consistent risk rating across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk is assessed and updated regularly.

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The classification of loans and advances to customers and related parties at amortized cost in accordance with the ratings of Central Bank of Lebanon circular 58 is as follows:

	2018		
	Gross balance LL million	ECL Stage 3 LL million	Net balance LL million
Regular	7,076,290	-	7,076,290
Follow up	797,786	-	797,786
Follow up and regularization	495,885	-	495,885
Substandard	122,158	(24,684)	97,474
Doubtful	725,486	(374,273)	351,213
Bad	277,006	(272,172)	4,834
	9,494,611	(671,129)	8,823,482
ECL Stages 1 and 2	-	(64,552)	(64,552)
	9,494,611	(735,681)	8,758,930

	2017			
	Gross balance LL million	Unrealized interest LL million	Impairment allowances LL million	Net balance LL million
Regular	6,427,102	-	-	6,427,102
Follow up	513,069	-	-	513,069
Follow-up and regularization	328,707	-	-	328,707
Substandard	103,479	(35,905)	-	67,574
Doubtful	493,980	(195,756)	(151,467)	146,757
Bad	188,992	(120,376)	(65,159)	3,457
	8,055,329	(352,037)	(216,626)	7,486,666
Collective impairment	-	-	(30,985)	(30,985)
	8,055,329	(352,037)	(247,611)	7,455,681

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Group's concentrations of risk are managed by client/counterparty and by geographical region. The maximum credit exposure to any client as at 31 December 2018 was LL 375,998 million (2017: LL 375,597 million) before taking account of collateral or other credit enhancements and LL 134,764 million (2017: LL 134,363 million) net of such protection.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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	2018			2017		
	Lebanon LL million	Outside Lebanon LL million	Total LL million	Lebanon LL million	Outside Lebanon LL million	Total LL million
Financial assets						
Cash and balances with the Central Banks	15,718,006	897,525	16,615,531	12,752,437	506,967	13,259,404
Due from banks and financial institutions	168,024	1,611,124	1,779,148	96,054	758,172	854,226
Amounts due from affiliated banks and financial institutions	916	225,500	226,416	11	590,374	590,385
Loans to banks and financial institutions	-	8,397	8,397	-	8,397	8,397
Derivative financial instruments	1,131	24,410	25,541	-	9,197	9,197
Financial assets at fair value through profit or loss						
- Shares	34,999	22,971	57,970	103,082	24,689	127,771
- Funds	-	20,962	20,962	-	23,720	23,720
- Lebanese treasury bills	20,230	-	20,230	12,508	-	12,508
- Debt securities issued by banks	-	-	-	37,688	-	37,688
Loans and advances to customers at amortized cost	5,206,089	3,429,612	8,635,701	5,126,100	2,218,516	7,344,616
Loans and advances to related parties at amortized cost	77,901	45,328	123,229	79,957	31,108	111,065
Financial assets at amortized cost						
- Lebanese treasury bills	4,861,793	-	4,861,793	3,852,519	-	3,852,519
- Other governmental debt securities	-	1,165,027	1,165,027	-	997,962	997,962
- Certificates of deposit	2,974,122	-	2,974,122	3,667,552	52,126	3,719,678
- Other debt securities	-	171,710	171,710	-	72,105	72,105
Financial assets at fair value through other comprehensive income						
- Shares	139,718	16,381	156,099	147,232	14,282	161,514
- Other debt securities	80,311	123,803	204,114	-	-	-
	29,283,240	7,762,750	37,045,990	25,875,140	5,307,615	31,182,755

51.2 MARKET RISK

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

The Board has set limits on the value of risk that may be accepted. This is monitored on a weekly basis by the Asset and Liability Committee.

51.2.1 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets, liabilities and off-statement of financial position items which will mature or reprice in a particular period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate financial assets and financial liabilities held at 31 December, including the effect of hedging instruments.

	2018		2017	
Currency	Increase/decrease in basis points	Sensitivity of profit or loss LL million	Increase/decrease in basis points	Sensitivity of profit or loss LL million
Lebanese Lira	+ 50	7,568	+ 50	8,791
US Dollars	+ 50	11,781	+ 50	10,493
Euro	+ 50	(732)	+ 50	(246)
Lebanese Lira	- 50	(7,568)	- 50	(8,791)
US Dollars	- 50	(11,781)	- 50	(10,493)
Euro	- 50	732	- 50	246

Interest sensitivity gap
The table below analyses the Group's interest risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

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	2018 (LL million)							
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Non interest bearing	Total
ASSETS								
Cash and balances with the Central Banks	1,885,236	967,815	51,742	-	545,701	11,799,695	1,365,342	16,615,531
Due from banks and financial institutions	1,122,015	10,703	22,425	-	6,301	-	617,704	1,779,148
Amounts due from affiliated banks and financial institutions	61,381	35,869	59,582	324	-	-	69,260	226,416
Loans to banks and financial institutions	8,397	-	-	-	-	-	-	8,397
Derivative financial instruments	-	-	-	-	-	-	25,541	25,541
Financial assets at fair value through profit or loss	-	-	470	-	12,707	6,828	79,157	99,162
Loans and advances to customers at amortized cost	2,531,517	1,696,585	3,523,222	262,040	284,788	357,577	(20,028)	8,635,701
Loans and advances to related parties at amortized cost	60,470	1,448	61,316	-	296	-	(301)	123,229
Financial assets at amortized cost	157,867	-	1,236,456	893,422	2,602,446	4,139,268	143,193	9,172,652
Financial assets at fair value through other comprehensive income	-	-	-	-	31,846	171,528	156,839	360,213
TOTAL ASSETS	5,826,883	2,712,420	4,955,213	1,155,786	3,484,085	16,474,896	2,436,707	37,045,990
LIABILITIES								
Due to the Central Banks	-	128,138	2,483	2,194	250,945	3,514,739	31,661	3,930,160
Loans and repurchase agreements	-	222,214	1,119,333	22,613	83,641	-	13,227	1,461,028
Due to banks and financial institutions	290,136	299,644	448,712	10,331	28,560	104,736	12,443	1,194,562
Amounts due to affiliated banks and financial institutions	(20,969)	15,075	10,648	-	-	-	2,799	7,553
Customers' deposits at amortized cost	13,136,563	3,770,894	6,170,377	977,093	393,320	241,178	3,374,633	28,064,058
Related parties' deposits at amortized cost	59,471	157	52,305	-	-	721	11,920	124,574
Derivative financial instruments	-	-	-	-	-	-	27,212	27,212
TOTAL LIABILITIES	13,465,201	4,436,122	7,803,858	1,012,231	756,466	3,861,374	3,473,895	34,809,147
Total interest sensitivity gap	(7,638,318)	(1,723,702)	(2,848,645)	143,555	2,727,619	12,613,522	(1,037,188)	2,236,843

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	2017 (LL million)							
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Non interest bearing	Total
ASSETS								
Cash and balances with the Central Banks	1,359,190	801,990	54,198	37,688	987,564	9,255,743	763,031	13,259,404
Due from banks and financial institutions	547,284	31,667	34,409	-	-	6,301	234,565	854,226
Amounts due from affiliated banks and financial institutions	57,919	37,920	54,418	-	-	-	440,128	590,385
Loans to banks and financial institutions	8,397	-	-	-	-	-	-	8,397
Derivative financial instruments	-	-	-	-	-	-	9,197	9,197
Financial assets at fair value through profit or loss	-	-	-	483	38,754	10,868	151,582	201,687
Loans and advances to customers at amortized cost	2,019,588	1,211,471	3,170,881	335,725	137,530	458,884	10,537	7,344,616
Loans and advances to related parties at amortized cost	61,362	1,893	47,810	-	-	-	-	111,065
Financial assets at amortized cost	52,126	3,629	146,140	1,210,859	2,735,073	4,377,940	116,497	8,642,264
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	161,514	161,514
TOTAL ASSETS	4,105,866	2,088,570	3,507,856	1,584,755	3,898,921	14,109,736	1,887,051	31,182,755
LIABILITIES								
Due to the Central Banks	128	30	2,042	3,872	247,674	1,340,837	27,624	1,622,207
Loans and repurchase agreements	-	445,768	244,441	874,892	84,081	22,172	10,030	1,681,384
Due to banks and financial institutions	252,812	43,001	108,871	-	9,267	34,965	30,301	479,217
Amounts due to affiliated banks and financial institutions	6,326	-	-	-	-	-	518	6,844
Customers' deposits at amortized cost	12,634,299	3,365,899	4,977,246	1,072,430	405,955	299,509	1,935,170	24,690,508
Related parties' deposits at amortized cost	144,643	288	3,987	-	-	1,135	15,229	165,282
Derivative financial instruments	-	-	-	-	-	-	164	164
TOTAL LIABILITIES	13,038,208	3,854,986	5,336,587	1,951,194	746,977	1,698,618	2,019,036	28,645,606
Total interest sensitivity gap	(8,932,342)	(1,766,416)	(1,828,731)	(366,439)	3,151,944	12,411,118	(131,985)	2,537,149

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51.2.2 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. In accordance with the Group's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Sensitivity to currency exchange rates
The table below indicates the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast 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 consolidated income statement (due to fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Lebanese Lira would have resulted in an equivalent but opposite impact.

	2018		2017	
Currency	Change in currency rate in %	Effect on profit before tax LL million	Change in currency rate in %	Effect on profit before tax LL million
US Dollars	+ 2.5	(6,515)	+ 2.5	1,506
Euro	+ 2.5	(48)	+ 2.5	(70)

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The following consolidated statements of financial position as at 31 December 2018 and 2017 are detailed in Lebanese Lira (LL million) and foreign currencies, primarily US$, translated into LL million:

	31 December 2018			31 December 2017		
	LL million	Foreign currencies in LL million	Total LL million	LL million	Foreign currencies in LL million	Total LL million
ASSETS						
Cash and balances with the Central Banks	9,271,698	7,343,833	16,615,531	6,174,830	7,084,574	13,259,404
Due from banks and financial institutions	95,252	1,683,896	1,779,148	38,573	815,653	854,226
Amounts due from affiliated banks and financial institutions	530	225,886	226,416	11	590,374	590,385
Loans to banks and financial institutions	-	8,397	8,397	-	8,397	8,397
Derivative financial instruments	-	25,541	25,541	-	9,197	9,197
Financial assets at fair value through profit or loss	1,084	98,078	99,162	6,094	195,593	201,687
Loans and advances to customers at amortized cost	1,928,514	6,707,187	8,635,701	2,162,990	5,181,626	7,344,616
Loans and advances to related parties at amortized cost	(9,999)	133,228	123,229	1,702	109,363	111,065
Debtors by acceptances	(6,207)	849,419	843,212	-	445,375	445,375
Financial assets at amortized cost	2,407,045	6,765,607	9,172,652	1,967,097	6,675,167	8,642,264
Financial assets at fair value through other comprehensive income	521	359,692	360,213	521	160,993	161,514
Property and equipment	297,895	239,529	537,424	233,319	252,011	485,330
Intangible assets	16,378	45,563	61,941	45,031	2,988	48,019
Investment properties	-	1,226	1,226	-	1,478	1,478
Non-current assets held for sale	6,405	196,675	203,080	5,958	180,546	186,504
Other assets	69,022	88,275	157,297	75,988	58,096	134,084
Other intangible assets and goodwill arising on acquisition	-	37,029	37,029	-	-	-
Goodwill	(147,836)	151,241	3,405	(33,427)	36,832	3,405
TOTAL ASSETS	13,930,302	24,960,302	38,890,604	10,678,687	21,808,263	32,486,950
LIABILITIES						
Due to the Central Banks	3,751,096	179,064	3,930,160	1,576,640	45,567	1,622,207
Loans and repurchase agreements	-	1,461,028	1,461,028	-	1,681,384	1,681,384
Due to banks and financial institutions	1,392	1,193,170	1,194,562	1,465	477,752	479,217
Amounts due to affiliated banks and financial institutions	126	7,427	7,553	19	6,825	6,844
Derivative financial instruments	-	27,212	27,212	-	164	164
Customers' deposits at amortized cost	8,002,564	20,061,494	28,064,058	7,119,998	17,570,510	24,690,508
Related parties' deposits at amortized cost	2,314	122,260	124,574	5,720	159,562	165,282
Engagements by acceptances	-	849,560	849,560	-	445,375	445,375
Other liabilities	172,798	88,824	261,622	267,096	100,280	367,376
Provision for risks and charges	32,362	44,687	77,049	122,314	126,606	248,920
TOTAL LIABILITIES	11,962,652	24,034,726	35,997,378	9,093,252	20,614,025	29,707,277
NET EXPOSURE	1,967,650	925,576	2,893,226	1,585,435	1,194,238	2,779,673

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51.2.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. 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 10 percent increase in the value of the Group's equities at 31 December 2018 would have increased net income by LL 20,440 million and other comprehensive income by LL 5,797 million (2017: LL 12,777 million and LL 16,151 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

51.2.4 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 than expected, such as fixed rate mortgages when interest rate fall. Market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore the Group considers the effect of prepayment risk on net profit as not material after taking into account the effect of any prepayment penalties.

51.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which would be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Banks on customer deposits. In accordance with the Group's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

Regulatory ratios and limits
In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10%. The net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposit and acceptances and other debt instruments issued by the Group and loans from the public sector that mature within one year.

Besides the regulatory requirements, the liquidity position is also monitored through internal limits, such as the loans-to-deposits ratio.

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Loans to deposits	**2018**	**2017**
Year-end	30.16%	29.63%
Maximum	30.16%	30.79%
Minimum	28.20%	29.55%
Average	28.77%	30.02%

The table below summarizes the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 December. Trading derivatives are shown at fair value in a separate column. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

Repayments which are subject to notice are treated as if notice were being given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

31 December 2018:	**Trading derivative LL million**	**Up to 1 month LL million**	**1 to 3 months LL million**	**3 months to 1 year LL million**	**1 to 5 years LL million**	**Over 5 years LL million**	**Total LL million**
Financial assets							
Cash and balances with the Central Banks	-	1,994,859	251,029	1,638,870	6,470,914	27,815,921	38,171,593
Due from banks and financial institutions	-	1,648,488	60,999	19,521	40,160	20,615	1,789,783
Loans to banks and financial institutions	-	-	-	-	-	8,397	8,397
Amount due from affiliated banks and financial institutions	-	120,947	90,703	17,159	324	-	229,133
Derivative financial instruments	25,541	-	-	-	-	-	25,541
Financial assets at fair value through profit or loss	-	20,965	82	1,899	19,363	66,902	109,211
Loans and advances to customers at amortized cost	-	2,585,971	410,059	1,023,361	2,887,226	2,518,096	9,424,713
Loans and advances to related parties at amortized cost	-	63,822	651	5,284	14,650	45,481	129,888
Financial assets at amortized cost	-	249,549	86,524	1,650,899	4,996,251	6,153,052	13,136,275
Financial assets at fair value through other comprehensive income	-	51,850	612	3,446	48,628	269,848	374,384
Total undiscounted financial assets	25,541	6,736,451	900,659	4,360,439	14,477,516	36,898,312	63,398,918
Financial liabilities							
Due to the Central Banks	-	6,245	137,112	85,638	622,688	3,733,791	4,585,474
Loans and repurchase agreements	-	430	16,653	395,656	533,783	875,197	1,821,719
Due to banks and financial institutions	-	179,375	525,948	101,300	71,723	274,063	1,152,409
Amounts due to affiliated banks and financial institutions	-	7,396	-	-	-	-	7,396
Derivative financial instruments	27,212	-	-	-	-	-	27,212
Customers' deposits at amortized cost	-	13,775,920	5,639,916	8,264,591	2,004,168	6,491	29,691,086
Related parties' deposits at amortized cost	-	128,511	157	4,647	-	-	133,315
Total undiscounted financial liabilities	27,212	14,097,877	6,319,786	8,851,832	3,232,362	4,889,542	37,418,611
Total net financial assets (liabilities)	(1,671)	(7,361,426)	(5,419,127)	(4,491,393)	11,245,154	32,008,770	25,980,307

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31 December 2017:	Trading derivative LL million	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial assets							
Cash and balances with the Central Banks	-	1,250,044	170,427	45,216	2,956,215	25,947,642	30,369,544
Due from banks and financial institutions	-	781,882	20,167	26,844	21,347	7,312	857,552
Loans to banks and financial institutions	-	-	-	-	-	8,397	8,397
Amount due from affiliated banks and financial institutions	-	523,835	12,628	55,185	-	-	591,648
Derivative financial instruments	9,197	-	-	-	-	-	9,197
Financial assets at fair value through profit or loss	-	23,722	670	2,048	52,973	140,486	219,899
Loans and advances to customers at amortized cost	-	2,275,582	163,474	1,926,311	2,290,521	1,486,553	8,142,441
Loans and advances to related parties at amortized cost	-	62,231	222	32,504	6,832	16,419	118,208
Financial assets at amortized cost	-	73,640	99,454	500,110	5,366,963	5,755,789	11,795,956
Financial assets at fair value through other comprehensive income	-	-	-	-	-	161,514	161,514
Total undiscounted financial assets	9,197	4,990,936	467,042	2,588,218	10,694,851	33,524,112	52,274,356
Financial liabilities							
Financial liabilities							
Due to the Central Banks	-	9,532	10,033	40,194	445,190	1,357,678	1,862,627
Loans and repurchase agreements	-	16,969	226,940	273,069	624,261	928,353	2,069,592
Due to banks and financial institutions	-	278,998	47,295	109,825	10,234	45,443	491,795
Amounts due to affiliated banks and financial institutions	-	6,849	-	-	-	-	6,849
Derivative financial instruments	164	-	-	-	-	-	164
Customers' deposits at amortized cost	-	13,084,090	4,385,047	6,425,354	1,758,174	67	25,652,732
Related parties' deposits at amortized cost	-	171,436	288	4,108	-	-	175,832
Total undiscounted financial liabilities	164	13,567,874	4,669,603	6,852,550	2,837,859	2,331,541	30,259,591
Total net financial assets (liabilities)	9,033	(8,576,938)	(4,202,561)	(4,264,332)	7,856,992	31,192,571	22,014,765

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrown commitment is included in the time band containing the earliest date it can be drawn down.

	2018					
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial guarantees	36,240	56,157	75,679	58,409	132,693	359,178
Documentary credit	68,177	124,809	60,653	13,869	-	267,508
Total	104,417	180,966	136,332	72,278	132,693	626,686

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	2017					
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial guarantees	22,809	17,566	67,348	8,479	49,103	165,305
Documentary credit	65,337	131,898	73,902	11,155	-	282,292
Total	88,146	149,464	141,250	19,634	49,103	447,597

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

51.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

52 CAPITAL

The Group maintains an actively managed capital base to cover risks inherent in the business, retain sufficient financial strength and flexibility to support new business growth, and 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 Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Lebanon, which is the lead supervisor of the Group.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
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.

Risk weighted assets
As of 31 December 2016 and 2015, risk weighted assets are as follows:

	2018 LL million	2017 LL million
Risk weighted assets	17,630,737	15,697,204

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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 **LL million**	**2017** **LL million**	**2018** **LL million**	**2017** **LL million**
Common Tier 1 capital	1,776,377	1,712,340	2,043,218	2,003,237
Additional Tier 1 capital	577,905	577,777	577,905	577,777
Tier 2 capital	225,025	191,776	225,025	191,776
Total capital	2,579,307	2,481,893	2,846,148	2,772,790

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 Tier 1 capital	10.08%	10.91%	11.59%	12.76%
Total Tier 1 capital ratio	13.35%	14.59%	14.87%	16.44%
Total capital ratio	14.63%	15.81%	16.14%	17.66%

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.

Group Directory

Yesterday is but today's memory,
tomorrow is today's dream.

Khalil Gibran

Group Directory

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The Network in Lebanon

GREATER BEIRUT

Achrafieh - Hotel Dieu, Facing Hotel Dieu de France, Sehnaoui Bldg., GF	T 01 427 541 - 422 558 / 9	F 01 427 541
Airport Road, Airport Boulevard, Allied Center	T 01 453 000	F 01 451 192
Ashrafieh – Sagesse, Sagesse street, facing Sagesse college	T 01 200528 / 9	F 01 200528/9
Badaro, Main Road, Middle East Bldg., GF	T 01 386 295 - 386 297	F 01 386 296
Barbir, Main Road, Barbir Hospital Bldg.	T 01 630 983 - 659 693	F 01 647 305
Bourj El Barajneh, Ain El Sekke Street	T 01 451 137 / 8	F 01 451 139
Chiah - Al Ariss, Mar Mekhael Church Street	T 01 277 832	F 01 277 835
Chiah - Moucharrafieh, Taleb Bldg.	T 01 277 311 / 2 / 3	F 01 545 993
Ghobeiry, Main Road, Mahdi Nasser Bldg.	T 01 856 116 / 7	F 01 841 431
Hamra, Banque du Liban Street	T 01 350 020 / 1	F 01 751 764
Hamra - Makdessi, Makdessi Street, Serhal and Massabki Bldg.	T 01 346 090	F 01 346 090
Jnah, Khalil Moutran & Ahmad El-Assaad streets, Building no. 4055	T 01 852 811 / 2 / 3 / 4	F 01 852811 / 4
Kafaat, Borj El Barajneh-El Kafaat, El Sayyed Hadi Nasrallah Highway	T 01 465 084 / 5 - 466399	F 01 465 084
Kfarchima, Old Saida Road, Kfarchima bridge	T 05 470 091	F 05 470 091
Khaldeh, Khaldeh highway, Coop Bldg.	T 05 800 184 - 803 990	F 05 803 151
Mar Elias, Mar Elias Street, Hamzeh Sabeh Center	T 01 312 223 / 4	F 01 309 231
Mazraa, El Mama Street, Saeb Salam Corniche	T 01 818 155 / 6	F 01 314 794
Riad El Solh, Banks Street	T 01 980 783 / 4	F 01 980 785
Sadat, Hamra, Lagos Center	T 01 743 075 / 7	F 01 743 076
Sassine, Achrafieh, Sassine Square, Independence Avenue	T 01 200 525 - 215 513	F 01 200 526
Saydeh, Father Youssef Cherfan Street, Debs Bldg.	T 01 219 070 / 1 / 2	F 01 219073
St.Charles - Mina El Hosn, Omar Daouk Street, St. Charles Center	T 01 366 337	F 01 366 337
St. Nicolas, Achrafieh, Wadih Naim Street	T 01 322740 / 1 / 2	F 01 322 740
Unesco, Moussaitbeh, Unesco Intersection, Hamadeh Bldg.	T 01 796 200	F 01 786 056
Verdun, Main road, Debes and Ammar Bldg.	T 01 860 703 / 4	F 01 860 706

MOUNT LEBANON

Ajaltoun, Main Road	T 09 230 683 / 4	F 09 231 065
Antelias, Internal Road, near Saint Elie Church	T 04 410 480 / 1	F 04 402 137
Baabda, Main Road, Bassil building, GF	T 05 468 135 - 468 770	F 05 468 065
Bikfaya, Bikfaya Square, Saint-Coeur Bldg.	T 04 986 271 / 2	F 04 981 392
Bourj Hammoud, Municipality Square	T 01 258 883 / 4 - 255 993 - 259 991	F 01 259 992
Broumana, Main Road, Elias Kenaan Center	T 04 961 538 - 963 652	F 04 961 539
Dbayeh, Road Leading to the Outside Parking of Le Mall Dbayeh from Beirut, Mouawad Bldg., GF	T 04 402 312	F 04 402 312
Dhour Choueir, Dhour El Choueir Square	T 04 390 352 - 391 129	F 04 390 574
Dora, Dora Highway, Ghantous Bldg.	T 01 250 222	F 01 250 222
Furn El Chebbak, Main Road, Gharios Center	T 01 289 143 - 291 992	F 01 293 631
Ghazir, Jounieh Highway, Ghazir Junction, Slaiby Bldg.	T 09 856051 / 2 / 3 / 4	T 09 856051 / 2 / 3 / 4
Horch Tabet, Tayyar Center	T 01 512 550 / 3	F 01 512 552

Jal El Dib, Main road, Oscar Center	T 04 713 000	F 04 713 000
Jbeil - Municipality, Near Municipality	T 09 542 900	F 09 542 900
Jbeil - Souk, Old Souk, Saliba Bldg.	T 09 541 170 - 949 316	F 09 540 877
Jdeideh, Nahr El Mot, Monte Libano Bldg.	T 01 893 555 - 895 044	F 01 884 237
Jounieh -Apôtres, Apôtres school street,Mar Youhanna bldg	T 09 643 510	F 09 643 510
Jounieh - BDL, Haret Sakher, Banque du Liban Street, Stella Maris Bldg.	T 09 936 522 - 936 801	F 09 831 714
Kaslik, Sarba Highway, La Perla Bldg.	T 09 640 037 - 640 716	F 09 831 715
Mansourieh - Boulevard, Main Road	T 04 533 281	F 04 533 281
Mar Takla - Hazmieh, Gardenia Street, GF	T 05 455900 - 455800	F 05 455 900
Mazraat Yachouh, Main road, Karam bldg facing Burger King	T 04 916 551 / 2	F 04 916 553
Saloumeh - Dekwaneh, Saloumeh Roundabout	T 01 483 001 - 499 813	F 01 502 820
Sin El Fil - Boulevard, Horch Tabet Area	T 01 482 430	F 01 482 430
Zouk Mosbeh, Jeita Roundabout, Facing NDU	T 09 226 640	F 09 226 640

SOUTH

Nabatieh - Mahmoud Fakih Street, Daher Center	T 07 760 256	F 07 760 256
Nabatieh - Main Road, Al Biyad Area	T 07 764 204 / 5	F 07 768 288
Saida - Jezzine Street, Golden Tower Bldg.	T 07 725 549 - 724 704	F 07 753 945
Saida - Riad El Solh Street, Riad El Solh Square, Fakhoury Bldg.	T 07 753 001	F 07 753 001
Sour - Al Massaref Street, Banks Street, Maarouf Sahily Bldg.	T 07 343 420	F 07 343 420
Sour - Al Ramel, Al Istiraha Street	T 07 741 702 - 349 437	F 07 740 614

NORTH

Abdeh, Main Road	T 06 471 041 / 3	F 06 471 044
Amioun, Main Road, Obeid Bldg.	T 06 950 962 / 723	F 06 952 762
Batroun, Main Entrance, Najem Bldg.	T 06 744 288	F 06 744 288
Halba, Main Road, Massoud Bldg.	T 06 692 743	F 06 692 743
Kfaraaka, Koura Main Road	T 06 953 535 - 952 900	F 06 952 901
Tripoli - Al Maarad, Mouawad Street, Tripoli Center	T 06 435 222	F 06 435 221
Tripoli - Bechara El Khoury, Boulevard Street, Ghanem Bldg.	T 06 442084 / 5 - 411872	F 06 442 148
Tripoli - Fouad Chehab, Boulevard Street, Facing CNSS	T 06 441 043 - 624 988	F 06 430 321
Tripoli - Mina, El Mina Street, Farah Center	T 06 442 549 - 424 048	F 06 442 594

BEKAA

Chtaura, Main Road, SGBL Bldg.	T 08 540 125 - 542 898	F 08 543 034
Hermel, Main Road, Chahine Center	T 08 200 600	F 08 200 600
Laboueh, Main Road	T 08 230 231	F 08 230 222
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Country	City	Bank
AUSTRALIA	Sydney	Commonwealth Bank of Australia
CANADA	Toronto	Canadian Imperial Bank of Commerce
DENMARK	Copenhagen	Danske Bank A/S
FRANCE	Paris	Societe Generale SA
GERMANY	Frankfurt	Commerzbank AG
	Frankfurt	Deutsche Bank AG
JAPAN	Tokyo	Mizuho Bank Ltd
JORDAN	Amman	Societe Generale de Banque - Jordanie
KUWAIT	Kuwait City	Mashreq Bank PSC
NEW ZEALAND	Wellington	ANZ Bank New Zealand Limited
NORWAY	Oslo	DNB Bank ASA
QATAR	Doha	Al Khaliji Commercial Bank (Al Khaliji QSC)
SAUDI ARABIA	Riyadh	Riyadh Bank
SWEDEN	Stockholm	Skandinaviska Enskilda Banken AB (PUBL)
SWITZERLAND	Zurich	Credit Suisse AG
UNITED ARAB EMIRATES	Abu Dhabi	First Abu Dhabi Bank
	Dubai	Mashreq Bank PSC
UNITED KINGDOM	London	Barclays Bank PLC
UNITED STATES	New York	The Bank of New York Mellon
	New York	JPMorgan Chase Bank NA
	New York	Citibank NA

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