BSL BANK

ANNUAL REPORT 2018

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BSL BANK

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We are more than a bank.
We see ourselves as a social player
in difficult times.

CHAIRMAN'S LETTER

Looking back over the past two years, the Bank has faced and overcome a series of challenges. These include regional instabilities, a sluggish economy and the enormous changes that the banking sector has faced: the rapid onset of new fintech solutions and the adoption of new methods of working and communications with customers.

One cannot but feel proud of the exceptional staying power, adaptability, sheer hard work and strong performance that hundreds of our dedicated colleagues have managed to deliver throughout a difficult period.

Right across the business, BSL BANK has managed to achieve financial growth through the delivery of an array of new products and services that reflect the fundamental strength of the Bank's approach and its commitment to social role.

Every individual, from Board Room to Cashier Desks, take pride in our shared values: absolute transparency in corporate governance, fairness, confidence and our human approach to product development.

When looking at the Bank's newly designed website – a key interface with customers - one can see products designed to groom a growing customer base of young people.

We have created Housing, Business and Personal loans products, for all generations, including Millennials, the Starter families, SMEs and hard working professionals all of whom give hope and optimism to this country.

Their success is Lebanon's success - and the Bank's success.

To serve those needs, the Bank has developed an array of Housing Loans, each offering competitive rates and a variety of affordable structures. BSL BANK has launched a zero percent (0%) interest Car Loan, and Industry specific SME banking products for growing businesses.

SME Commercial Loans, ranging from USD 400k to USD 600k, were launched in 2018. These carefully developed new products aim to help young business leaders and their families get onto the housing ladder and provide them with mobility and ability they need to invest in their growing enterprises. This is why we consider ourselves, in the present difficult economic times, a bank with a social mission: "We are more than a bank".

Financials

With an Asset Growth of 12.6%, BSL BANK ranked ninth in the Banking sector in 2018. Our assets stood at USD 1.4 Billion at year's end.

The main activity driver - Customer Deposits – grew by 7.3% in 2018, achieved through an exceptional customer service standard, hard-won reputation of financial strength and stability and not through participation in a price war. The Bank has maintained a healthy level of interest rates while reducing large deposits concentration. In parallel, private sector loans rose by 11%, with Retail Loans registering an increase of 17.8%.

Throughout a period of change and CAPEX, we are pleased to inform you that BSL BANK has retained a strong liquid position, a good asset quality, adequate capitalization and a satisfactory level of profitability. The net primary liquidity in US Dollars, as a percentage of Deposits, stood at 13% at the end of December 2018.

BSL BANK's low Loan to Deposits ratio of 23.5% continues to demonstrate the Bank's strong financial flexibility and its ability to expand its lending activities.

Despite the challenging operating conditions, lending quality reported relative stability over the past year. The Ratio of Net Doubtful Loans to Gross Loans stood at 2.5%. The Coverage of Doubtful Loans by Loan Loss Provisions remained adequate at 82%.

BSL BANK reported a further re-enforcement of its Capitalization Status. The regulatory capital grew by 5% over the past year reaching USD 110m by the end of 2018.

The total Basel II Capital Adequacy Ratio reported 17.28% as at the end of December 2018, compared to 16.18% in the previous year, well exceeding requirements and reflecting an adequate coverage of the aggregation of Credit, Market and Operational Risks.

Moving to profitability, BSL BANK ranked fourth in terms of profit growth between 2017 and 2018, growing by 20% to reach USD 10m. Subsequently, the Bank's return on assets remained steady at 0.7% in 2018. This is the same as in 2017. Return on Equity, on the other hand, rose to 8.3% from 7.4% in 2017.

2019

BSL BANK has entered 2019 with determination, focusing on well-articulated goals and resources to meet them. Knowing that the macroeconomic picture requires flexibility, BSL BANK is well prepared to face a range of operating environments, whilst remaining true to its mission of enabling growth and progress, and true to its values while serving its Clients.

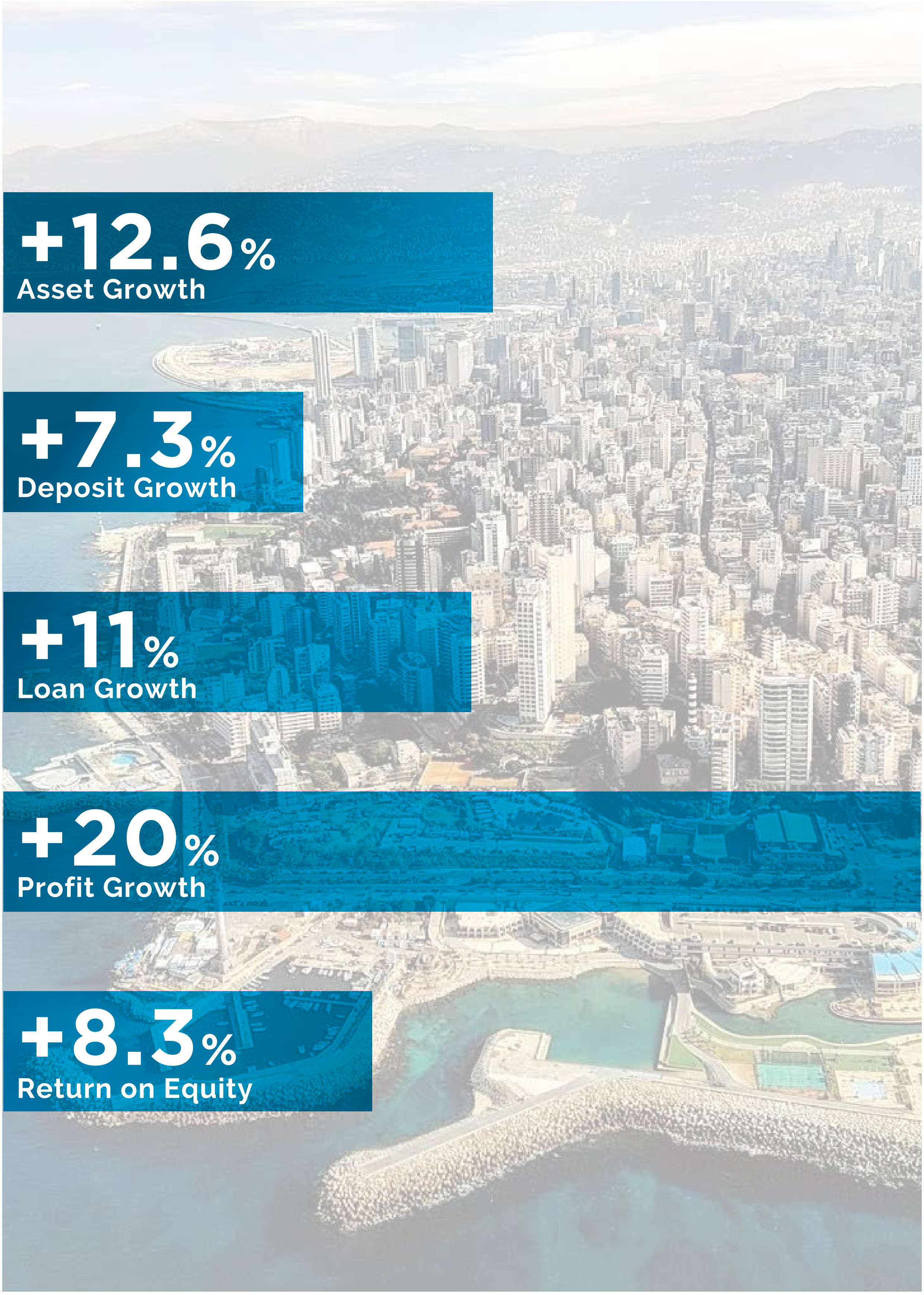
BSL BANK owes its success to the shared sense of its mission, characterized by the joint effort of Shareholders, the Board of Directors, the Management team and all other Staff.

My deep gratitude and appreciation goes to all, particularly BSL BANK Staff, whose dedication, expertise and sense of belonging are an important pillar in accomplishing the Bank's strategy and implementing its vision.

I very much look forward to 2019 with all of its challenges and opportunities,

On behalf of the Board

Ramsay A. El-Khoury
Chairman



+12.6%
Asset Growth

+7.3%
Deposit Growth

+11%
Loan Growth

+20%
Profit Growth

+8.3%
Return on Equity

December 2017-December 2018

About the Bank | 01

OVER 155 YEARS OF BANKING HISTORY

BSL BANK's commitment to responsible banking has been instrumental in its ability to maintain its hard-won reputation as a highly trusted bank.

BSL BANK is a mid-sized Lebanese bank operating in towns and cities across Lebanon. The Bank provides a full range of financial services for individuals and businesses, placing the development of innovative products and financial solutions at the heart of its customer services.

BSL BANK places great importance on fiscal responsibility, long-term planning and a balanced approach to borrowing.

The Bank is committed to assisting clients in their personal financial growth, placing great importance on fiscal responsibility, long-term planning and a balanced approach to borrowing. This strategy has helped BSL BANK to build a strong reputation as a highly trusted and customer-conscious bank with a disciplined lending policy and conservative risk appetite.

Through a network of 18 branches covering Beirut and many other major cities in Lebanon, BSL BANK provides its individual customers with local, experienced banking officers who are able to understand their personal finance needs, as well as local and national socio-economic conditions and the nuances of the financial services markets.

The Bank also serves a diverse range of commercial customers, including SME's, large corporates and multinational companies. In addition, its dedicated treasury and capital markets team works with individuals and investors on a real-time, daily basis, to make sound investment decisions and generate sustainable wealth.

CONSUMER BANKING

BSL BANK provides individual clients with customer-focused, needs-based financial services through a network of 18 branches across major cities in the country. Experienced banking officers offer trusted financial advice to customers, caring for their long-term finances. In addition to standard banking products, the Bank has proven its ability over the past period to design new retail products with a truly innovative edge. Despite market adversity, BSL BANK developed a unique housing loan with competitive interest rates starting at 4.58%, and a car loan at 0% interest rate. The hard work that has gone in to developing these products will help young families make a home and get mobile. This is core to the Bank's ethos of its social role.

BSL BANK prides itself for its exceptional customer relationship.

BSL BANK prides itself for its exceptional customer relationship, and for its unique loyalty program "Moment" that does not only depend on spending. Almost every transaction done through the Bank earns customers Moment points which can be redeemed through a large catalogue of more than 5,000 items, in miles on 800 airline companies, booking in 300,000 hotels across the world, car rental with major outlets, or even redeemed in cash. Moment points do not expire, and they can be shared with friends and family, or donated to charity.

COMMERCIAL BANKING

The Bank offers a wide array of credit extension, commercial loans, incentive loans, energy loans and project financing, as well as trade facility services to commercial customers ranging from domestic middle market businesses, to large corporates that have greater volumes and often operate across borders.

Relationship managers ensure that customers' financial arrangements are expertly managed.

Dedicated relationship managers enable the Bank to create ever-greater levels of trust and provide commercial customers with a personal touch point, ensuring that their short, medium and long-term financial arrangements are expertly managed. Through the adoption of a nuanced approach to commercial relationship management, the provision of professional advisory services, and the delivery of adapted financial solutions to each and every company within its core activity, BSL BANK has strengthened its ability to focus on its commitment to developing long-term relationships, placing business customers' objectives at the heart of its operations.

TREASURY AND CAPITAL MARKETS

A dedicated team of professionals helps customers make clear decisions and sound investments.

To help customers make clear decisions and sound investments, BSL BANK has a dedicated team of professionals that provide customers with up-to-date, clear, concise and experienced advice.

For private banking customers, BSL BANK advises on capital markets, including brokerage and securities trading on both the local and international stock exchanges. Expert counsel is also available to customers seeking advice on stocks, bonds and derivatives; ensuring that private customers benefit from a comprehensive suite of advisory services as they seek to build wealth for the long-term. In addition, the Bank's commercial relationship managers work on an ongoing basis to ensure that business customers receive personalized treasury and cash management services. Continuous coordination means that businesses are able to optimize currency conversions, whilst also achieving a low risk exposure.

SUCCESS DRIVEN BY A PURPOSEFUL CULTURE

BSL BANK's overriding purpose is to make a meaningful, lasting contribution to the country's socio-economic development, and to the lives and livelihoods of the people it touches.

The Bank achieves this umbrella mission by focusing on the delivery of customer satisfaction and financial wellbeing, ensuring that customers - be they private individuals or businesses – are always set on the right course for success. Their success is the Bank's success. Therefore BSL BANK measures and rewards its people, not just on results, but on how they live the purpose and bring the Bank's values to life in their daily work.

VALUES

BSL BANK's values are the cornerstone of its dealings with customers and stakeholders.

Drawn from the Bank's history and banking acumen, all of its dearly held values are built around the importance of Ethics, Professionalism, Care and Transparency. BSL BANK's faith in traditional values and its track record of exceptional banking services give it durability, strength and progressive evolution. They are values shared by all of the Bank's employees and form the very fabric of its DNA.

Ethics
Dealing with customers and stakeholders in a moral and rightful way.

Care
Caring for its customers' financial well-being, consulting in a way that serves their long-term interests.

Professionalism
Courtesy, swift actions and highly efficient service.

Transparency
All parties are best served through a meaningful, long-term relationship with total openness and frank communications.

STRATEGY

BSL BANK long-term strategy rests on a bankers' responsibility for assisting clients in their financial decisions.

The Bank's strategy focuses on the needs of its customers, which are central to the development of products and financial solutions. Its long-term strategy however, rests on a bankers' responsibility for assisting clients in their financial decisions, helping them to avoid over-indebtedness and driving productive investments. This strategy embraces a basic belief in maintaining a conservative risk appetite and disciplined policy.

CORE BANKING INNOVATION

BSL BANK is unafraid to revisit old models to maximize efficiency and facilitate better customer services.

When placing the customer at the heart of the decision-making process, innovation takes many forms, not only through the application of new technologies, but also through the creation of new financial models to design banking products for specific needs. The ability to evolve, build, develop and adapt ultimately stems from a leadership style that is open to ideas and willing to be challenged. Underpinning all of the Bank's operations is a keen sense of renewal – unafraid to revisit old models to maximize efficiency and facilitate better customer services.

MEASURING SUCCESS

Values
Drawn from the Bank's history and banking acumen, our values are built around the importance of Ethics, Professionalism, Care and Transparency.

Purpose
Make a meaningful, lasting contribution to the country's socio-economic development, and to the lives and livelihoods of the people it touches.

Strategy
Our strategy focuses on the needs of our customers, which are central to the development of products and financial solutions.

Success: The Bank measures success holistically, from top to bottom and against strategic goals.

Corporate Governance Framework

02

CORPORATE GOVERNANCE FRAMEWORK

At BSL BANK, robust corporate governance, risk management and internal controls are key to business success.

BSL BANK defines corporate governance as the relationship between shareholders, executive management, employees and all of the other organizations and individuals that the Bank impacts. At BSL BANK, robust corporate governance, risk management and internal controls are key to business success and, most importantly, to maintaining trust among customers, shareholders, authorities and all other stakeholders.

The overriding responsibility for corporate governance at the Bank rests with the Board of Directors. In order to discharge its stewardship and fiduciary responsibilities effectively, the Board of Directors delegates authority to four Board Committees to oversee specific responsibilities.

BOARD OF DIRECTORS

The Board of Directors primary responsibilities are to supervise management and to exercise its business judgment to act in good faith and in what each director responsibly believes to be in the best interests of the various stakeholders in optimizing long-term value by providing guidance and strategic oversight on their behalf.

Moreover, identifying the right director candidates cannot be accomplished without careful consideration and planning. Accordingly, the Board of Directors has developed a detailed and carefully crafted Board Members Succession Plan. The purpose is to establish basic principles and procedures that would guarantee the formation of professional and efficient membership of the Bank's Board of Directors that is expected to be capable of making independent and unbiased judgments and decisions.

The members of the Board of Directors serving throughout the year of 2018 were elected by a resolution of the Ordinary General Assembly of shareholders held on May 31, 2018 for a three-year term expiring on the date of the annual Ordinary General Assembly meeting that will examine the accounts and activity of the year 2020. In addition to the Chairman, the Board of BSL BANK currently comprises eight independent and non-executive directors. In 2018 the Board of Directors held 4 meetings.

The names of Directors serving during 2018 are the following:

Director's Name	Director Since	Independant
Mr. Ramsay El Khoury – Chairman	1995	-
Mrs. Mia El Khoury Ayoub	1987	Yes
Me. Michel Tueini	2000	Yes
Mr. Riad Mansour	2009	Yes
S.E Joseph Chaoul	2012	Yes
Mr. Youssef Ghosn	2012	Yes
Mr. Elie Chartouni	2015	Yes
Dr. Habib Abou Sakr	2018	Yes
Dr. Antoine Papadopoulo	2018	Yes

FOUR BOARD COMMITTEES

The Board of Directors has formed Board Committees to assist in discharging its required duties based on clearly defined terms stated in the charter of each committee, detailing its role, responsibility, composition and membership requirements.

Committee	Composition	Responsibility	Required Meeting Frequency	2018 Actual Meetings
Board Audit Committee	At least 3 non-executive Directors	Compliance with financial reporting and regulatory requirements; Integrity of financial statements and reports; External and internal audit functions	At least 4 times per year in scheduled meetings	7 meetings
Board Risk Committee	At least 3 non-executive Directors	Compliance with Basel requirements and Internal Capital Adequacy Assessment Process (ICAAP) document; Evaluation and management of all key business risks by administering policies and procedures	At least 4 times per year in scheduled meetings	4 meetings
Board Compliance Committee	At least 3 non-executive Directors	Identifying all potential risks related to anti-money laundering, counter financing of terrorism and legal compliance; Assisting the Board to meet its obligations in assuring that the Bank operates in a safe and sound manner and in accordance with international banking practices as well as with the regulations and policies of the Central Bank and the Banking Control Commission in Lebanon	At least 4 times per year in scheduled meetings	4 meetings
Board Remuneration Committee	At least 3 non-executive Directors	Maintaining a set of values and incentives for all staff that are focused on performance; Promote integrity, fairness and loyalty	At least 2 times per year in scheduled meetings	

LEGAL COUNSEL

Legal counseling has been ensured in 2018 by **Me. Sami Sader.**

DAY-TO-DAY: MANAGEMENT COMMITTEES

Management Committees have been established to follow the day-to-day operations of the Bank. Each committee's responsibilities are stated in its charter.

1	Management Committee	6	Anti-Money Laundering and Compliance Committee
2	Assets and Liabilities Management Committee	7	Operational Risk Management Committee
3	Human Resources Committee	8	Information Security Committee
4	Information Technology Committee	9	Loan Recovery Committee
5	Credit Committee	10	Retail Credit Committee

MANAGEMENT TEAM

BSL BANK management team serving during 2018 is the following:

Manager’s Name	Title
Mr. Elias Alouf	General Manager
Mr. Nicolas Salibi	Deputy General Manager
Mr. Najib Kassis	Chief Administrative Officer
Mr. Fady Abou Diwan	Head of Risk Management
Mrs. Maya Azzi	Head of Treasury and Capital Markets
Mr. Ibrahim Bassil	Head of Operations
Mr. Nabil Choueiry	Head of Consumer Banking
Mr. Ziad Bejjani	Head of Internal Audit
Mr. Charbel Watfa	Head of Finance
Mr. Antoine Daoud	Chief Accountant
Mrs. Nadine Azar	Head of Credit
Mr. Alain Maalouf	Head of Compliance
Mr. Constantin Razzouk	Head of Procedures and Control

BSL BANK corporate governance guidelines are published at:
http://www.bslbank.com/corporate-governance-guidelines

Strategic Overview | 03

RISK MANAGEMENT

A conservative approach to risk management is central to the Bank's ability to not only succeed in its objectives but to survive in times of financial stress. This approach ensures that the outcomes of risk-taking activities are consistent with the Bank's strategy for sustainable growth that delivers for its customers and the wider community for the long-term.

The development and sustenance of a disciplined risk management culture is an important tenet of the Bank's approach to stable, sustainable and responsible fiscal growth. It is a responsibility shared by all the Bank's employees and across every aspect of its operations. It manages credit risk at the transactional level by using practices, processes and tools that identify and measure risks before and after accepting individual credit exposures.

The Bank is exposed to a number of types of financial and non-financial risks. The tables below detail each of these risks and the requisite preventative processes that the Bank has put in place.

FINANCIAL RISKS

Type of Risk	Risk Definition	How BSL BANK Prevents the Risk
Credit Risk	Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non-performance by a contracting party.	BSL BANK manages credit risk at both transactional and portfolio level. Managing the credit risk at portfolio level covers periodic measuring and analysing of risk embedded in the consolidated loan and investment portfolios, and reporting on it, monitoring limits and conducting stress tests under several scenarios.
Market Risk	Market risk is the risk of loss from changes in market prices and rates, the correlations among them and their levels of volatility. The principal market risks the Bank manages are foreign currency risk and interest rate risk.	BSL BANK's foreign currency exposure to its net investments in foreign currency is controlled through the regulatory limits set by the Central Bank. Interest rate risk is managed in accordance with Board-approved policies and limits, which are designed to control the risk related to the effect of a specified change in interest rates on the Bank's net interest income and economic value of equity. Gap analysis and sensitivity analysis are used to assess such exposures.
Liquidity Risk	Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices.	BSL BANK liquidity risk is managed within the policies and limits that are approved by the Board of Directors. The liquidity risk framework consists of daily monitoring of immediate liquidity ratios in local and foreign currencies, performing stress tests under multiple scenarios that cover the effect of both industry and Bank-specific disruptions on its liquidity position, and maintaining a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The Bank holds a pool of highly liquid unencumbered assets, consisting mainly of governmental bonds that can be readily sold or pledged to secure borrowings under stressed market conditions or due to the Bank's specific events.

NON-FINANCIAL RISKS

Type of Risk	Risk Definition	How BSL BANK Prevents the Risk
Operational Risk	Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequate or failed internal processes or systems, human error, or external events.	BSL BANK's centralized operational loss event database, which is managed and maintained by the Risk Management Department, captures key information on operational losses. This data is analyzed, and then reported to the management and the Board of Directors to provide insight into operational risk exposures, appetites and trends.
Legal Risk	Legal risk is the risk of loss caused by penalties or sanctions due to breach of contractual and legal obligations and by penalties and sanctions pronounced by the regulatory body.	BSL BANK abides by all Lebanese rules and laws, is compliant with local regulations, and honors its contractual obligations.
Reputational Risk	Reputational risk is the risk that negative publicity regarding the Bank's conduct, business practices, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.	BSL BANK's reputational risk is managed and controlled by codes of conduct, governance practices, and recently through the change of its name to BSL BANK sal.

NEW MEASURES

New policies and procedures reinforced the Bank's risk systems.

In 2018, the Risk Management Department set out a series of new policies and procedures, regulatory requirements and internal improvements to further strengthen BSL BANK's risk systems.

The Bank's Liquidity Policy and the IFRS9 policies have both been updated, whilst the Risk Management Department has worked on and applied a new Risk Appetite framework, the Internal Capital Adequacy Assessment Process (ICAAP), the Recovery Plan and the Liquidity Coverage Ratio (LCR). It has also implemented the infrastructure of IFRS9 provisioning requirements such as the ECL model and all applicable policies and procedures.

Moreover, the Risk Management Department has implemented the S&P Generic Corporate Scorecard in order to improve credit committee decisions and to quantify the credit risk inherent in the commercial files.

COMPLIANCE

BSL BANK's Compliance and AML Department operates as an independent function within the Bank.

It has the authority and autonomy required to ensure that the Bank complies with all relevant laws, rules and regulations. This includes adherence to specific areas such as the prevention of money laundering and terrorism financing.

For this reason, BSL BANK has established and adheres to its own Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) and Compliance Program, which is designed to ensure that the Bank and all its branches are in full compliance with applicable laws, rules and regulations.

STRICT CUSTOMER ACCEPTANCE POLICY

The following two categories detail organizations and individuals that are earmarked for attention:

BANNED

- Individuals and entities blocked by the BDL/SIC
- UN/OFAC/EU Specially Designated Nationals, UN/OFAC/EU Sanctionned countries, USA Patriot Act - Section 311 (Jurisdictions of Primary Money Laundring Concern) and State Sponsors of Terrorism
- Non face-to-face customers
- Shell banks
- Companies with Bearer shares
- Individual and Corporate Clients where their Source of funds and/or business address are from/in Sanctioned Countries
- Money Service Businesses - MSBs
- Shipping Companies

HIGH-RISK

- FATF - Non-cooperative Jurisdictions
- Used-car dealers
- PEPs/RCAs
- Non Profit Organizations
- Jewelers
- Cash generating businesses: restaurants, supermarkets, petrol stations, in addition to others

TRANSACTION MONITORING

Transaction monitoring is a central foundation for a strong AML/CFT Program. The Bank's policy is to strictly adhere to regulations pertaining to money laundering in a manner that is accountable and transparent, through the monitoring of all of its operations.

The AML unit monitors all account activity to identify any transaction that does not conform to normal / expected transaction patterns for that specific customer or account. The Bank uses automated scenario-based profiling and monitoring software, which is linked to the client's declaration in KYC and to account statements. An RBA matrix is embedded within the software in order to determine the level of risk and enhanced due diligence (EDD) required for each detection.

ENHANCED DUE DILIGENCE (EDD) MEASURES

The Bank's EDD policies are applied over high and medium risk clients. Measures include:

- Increased levels of KYC and enhanced due diligence at account opening and throughout the customer relationship
- Escalation of approvals for the establishment of an account or relationship to the Compliance Committee
- Transactions are strictly monitored, a process that requires the provision of adequate supporting documentation for each transaction
- Field visit for the client's premises, followed by report preparation and submission to the AML Department
- Focused and strict account monitoring on daily basis.

COMPLIANCE AWARENESS AND TRAINING

Training has long been recognized as a key element of an effective AML/CFT Program. There is a commitment within BSL BANK to train all personnel on the issues surrounding money laundering, the financing of terrorism and the policies and strategies that are in place to fight against them. Well-trained, vigilant employees are the Bank's first line of defence in monitoring transactions and identifying suspicious activities.

This is why targeted AML training programs have been developed, which aim to educate staff on the latest developments in AML/CFT. These include practical methods and trends used by criminals.

The Bank provides training in the following:

Training Topic	Objectives
Legalities	Employees to have a broad understanding of how money laundering works, its impact and the legal ramifications.
Policy	Employees to be informed on internal policies and procedures.
Types of Risk	Employees to be more aware of how money laundering (were it to occur) would affect the Bank.
Identification	Employees to be equipped with a comprehensive set of tools to help them identify risk, handle suspicion of risk and how to report and escalate such matters.

Initial and ongoing training is tailored to each employee's function. Refresher training courses are provided regularly to make sure that all personnel are aware of their responsibilities and kept informed of new regulatory and practical developments. Newly hired personnel are trained on all aspects of AML/CFT procedures during their orientation. In addition, compliance staff attend external AML/CFT training programs that are organized by the SIC, the Association of Banks in Lebanon and others.

REPORTING OF SUSPICIOUS ACTIVITY/TRANSACTIONS

Under Law 44, it is an offense for any person who acquires knowledge or reasonable suspicion that another person is engaged in money laundering or terrorist financing to not report it to the SIC, as soon it comes to their attention.

BSL BANK adheres to this legal obligation by ensuring that any suspicious transaction immediately prompts further investigation. The Bank operates under a policy that suspicion itself is a valid reason for requests for additional information and/or explanations as to the source and origin of funds; the nature and business/commercial purpose of the underlying transaction; and the circumstances surrounding the stated activity.

When cases are referred to the Anti-Money Laundering and Compliance Committee, it discusses the case based on a report that has been produced by the AML Department investigation and branch. If serious suspicions persist, then the case is immediately reported by the Head of Compliance to the Special Investigating Commission via E-STR.

SOCIAL RESPONSIBILITY

BSL BANK supports cultural and creative sectors in recognition of their transformative potential in society.

BSL BANK supports numerous causes in Lebanon, including annual contributions to the country's cultural and creative sectors in recognition of their transformative potential in society. The Bank supports events including Lebanon's major Al Bustan International Festival of Music and Performing Arts, which it has sponsored since 1996. In addition, the Bank helps talented artists to realize their aspirations in a range of cultural and professional fields.

With BSL BANK support, DSC was able to reinforce its core capabilities and serve more people in need of blood.

BSL BANK is also a proud partner to the voluntary non-governmental blood donor organization, Donner Sang Compter Lebanon. Through this partnership, which began in 2017, DSC was able to reinforce its core capabilities, including the transformation of its contact center, enabling it to continue in its ongoing search for new blood donors. The Bank renewed its partnership as a sign of its ongoing commitment to forging an impactful relationship with the organization.

BSL BANK's commitment to working as an active member of the cultural, artistic and volunteering initiatives is embedded in its corporate culture and business practices. The Bank aims to transform the prospects open to independent artists across the country by adopting a policy of work commissioning to local and young talents. The Bank is also positively committed to supporting SMEs in Lebanon by always engaging local suppliers and start-ups wherever possible when goods and services are required.

The Bank also actively encourages its employees to make their own contributions to society by participating in good causes and charitable events, whilst also providing the requisite support to accommodate employees' volunteering activities.

HUMAN RESOURCES

BSL BANK increased its ability to attract and retain the best talents.

In 2018, the Human Resources Department took advantage of a number of opportunities to create and deploy new processes and policies designed to enhance the Bank's ability to attract and retain the very best talents available.

The Bank placed particular focus on reviewing and redesigning how management interacts with employees across the business, with new processes such as an open-door policy and differentiated performance metrics.

In line with a commitment to nurturing talent and building a highly capable workforce, the Bank onboarded a large number of newly hired skilled and highly talented professionals, boosting the overall workforce by a net of 4.4%. The Bank's digital transformation has enabled the Department to manage talent acquisition processes in a way that makes talent mapping and forecasting significantly more efficient.

Other activities focused on employee engagement, talent retention and career development. Internal mobility has been promoted to employees through new internal recruitment policies enabling transfers, promotions, on the job training and rotation programs. Staff turnover fell by 5 points over the year.

BSL BANK combined all of its talent management processes into one fully integrated process, which captures employees' skills, experience, competencies, potential, and development needs.

Eleven internal training sessions were held with a focus on driving and taking responsibility in BSL BANK's policies and business strategies. Furthermore, employees attended more than 60 external training sessions organized by national and international training organizers and institutions aimed at enhancing customer service skills across the business.

Workforce Growth	Internal Trainings	External Trainings
+4.4%	11 Sessions	60 Sessions

INFORMATION TECHNOLOGY

Technology is fundamental to the Bank's ability to provide its staff and its customers with a seamless, responsive and efficient service.

Information Technology is a major focus operationally, strategically and in terms of CAPEX. Investing in IT infrastructure is of paramount importance. It enables the Bank to equip its employees with the very best tools for the job and provides its customers with the most secure and enjoyable financial technology solutions available.

A number of strategic IT investments were made in 2018, including:

Project	Details
Core Banking	BSL BANK implemented new developments and features on its core system which served to broaden the Bank's products and services offering to its customers, and to improve the quality of service.
ATM and Switch	BSL BANK signed an agreement with QuanTech to revamp its ATM and Cards services, leading to the introduction of smart ATMs in selected branches. In addition, the Bank upgraded the security of its existing ATMs to further reduce the risk of ATM fraud.
MIS	BSL BANK acquired the license for Tableau – a leader in data visualization tools. The first phase of its implementation will enable our financial team to understand customer data in much greater detail, empowering them with a highly accurate and efficient decision tool. After the first phase, it will be rolled out to the wider Bank community, which will allow timely and quality access to decision making information.
Loyalty Program	BSL BANK acquired a points-based loyalty solution, which has been branded as Moment Loyalty Program. The solution has been integrated across the Bank's systems to deliver upon the Program promise "Every Moment Counts", therefore rewarding customers for almost every transaction done through the Bank, and not only on credit cards.

INFORMATION TECHNOLOGY (Continued)

Project	Details
SharePoint	BSL BANK acquired and installed a portal based on the SharePoint platform to improve internal collaboration. Phase 1 of the project covered knowledge management, most critical workflows, and an intranet system. Looking ahead to 2019, the project will be complemented by a number of modules such as an IT Helpdesk and a Committees' Management Portal.
Regulatory Reporting	BSL BANK acquired a new automation solution that provides faster generation of regulatory reports.
Compliance	A number of IT audit missions were carried out by external parties including the Bank's Control Commission and external IT Auditors.

CONSUMER BANKING

The Bank offered new innovative products and increased its customers' base.

Despite operating in an increasingly competitive and challenging market, BSL BANK continued to expand its service offering through the development and roll out of innovative new products, which enabled the acquisition of new customers and increased existing customers' life-time value.

LOANS

BSL BANK launched a new car loan allowing individuals to purchase a new car at 0% interest rate over five years with a 25% down payment and an upfront fee.

Similarly, the "Home Now" housing loan offered competitive interest rates in USD for primary or secondary homes, payable over 10, 15 or 20 years with a 25% down payment and upfront fee of 17%.

GROUP OFFERING

BSL BANK group offering attracted many corporates, universities and schools. The offer included special rates on personal loans (USD and LBP) as well as on banking transactions, salary domiciliation and a bouquet of benefits to employees.

CREDIT CARDS

BSL BANK saw continued growth of its credit cards portfolio, with the introduction of cards in different currencies, which has led to an increased penetration rate among existing customers.

“MOMENT” LOYALTY PROGRAM

In 2018, BSL BANK launched a first-of-its-kind loyalty program “Moment”, revealed through the motto “Every Moment Counts.”

This unique program does not only depend on spending. Almost every transaction done through the Bank earns customers Moment points which can be redeemed through: a large catalogue of more than 5,000 items, in miles on 800 airline companies, booking in 300,000 hotels across the world, car rental with major outlets, or even redeemed in cash. Moment points do not expire, and they can be shared with friends and family, or donated to charity. More information at **bslmoment.com.**

5,000 Gift Items	300.000 Hotels	800 Airlines	Car Rental	Cash Back

COMMERCIAL BANKING

BSL BANK continued to support its growing customer base in 2018 during a period of slow economic growth and relative instability. The Bank has worked with a growing number of newly acquired customers - SME's and larger organizations - through the provision of a full suite of bespoke commercial banking solutions. These have provided existing and new customers with a wide choice of competitive products and services.

During the year, the Commercial Division closely monitored customer portfolios, providing day-to-day advice on issues related to cash flow, investments, borrowing and business expansion.

The focus has and will continue to be to develop and assist the Bank's long-term relationships, in addition to securing new clients in strategically targeted markets.

In what remain very challenging times nationally and regionally, the Bank will continue to focus on maintaining strong customer relationships and building a diverse client portfolio in strategically targeted markets.

TREASURY AND CAPITAL MARKETS

The year 2018 was marked by a continued period of political and economic instability, which has impacted market conditions and risk appetite across sectors. BSL BANK has maintained a low-risk appetite with a focus on securing higher and more diverse liquidity levels in LBP and foreign currencies.

Throughout the year the Bank has grown on the basis of strong customer deposits and liquid assets.

This discipline provided the Bank with dexterity and a very robust fiscal outlook. BSL BANK's core business strategy is to continue to offer existing customers the very highest levels of service, highly competitive products and a strong and stable approach to investment. This strategy has served the Bank extremely well over recent years and across economic cycles.

Management Discussion and Analysis | 04

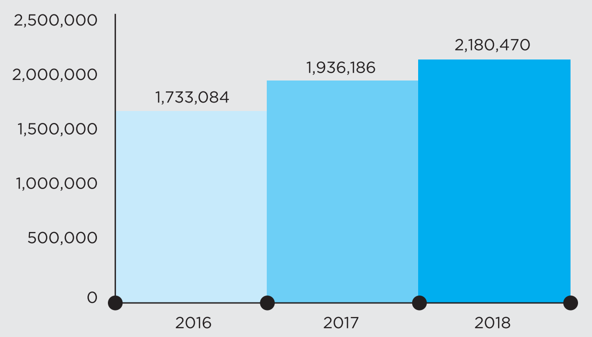
ASSETS

a. ASSETS GROWTH

The Bank's total assets increased by 12.62% during 2018 to reach LBP 2,180,470 million at 31st December 2018. This is higher than the YOY asset growth in 2017 of 11.72% and 3.10% in 2016.

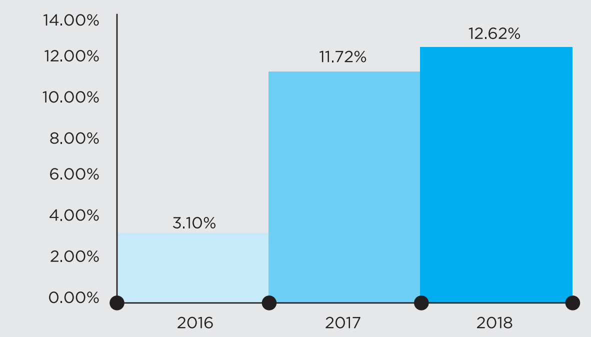
Graphs 1 and 2 below show the evolution of total assets during the last three years.

EVOLUTION OF TOTAL ASSETS OVER THE LAST THREE YEARS



Graph 1: Total assets 2016-2018 (LBP milllion)

PERCENTAGE EVOLUTION OF TOTAL ASSETS OVER THE LAST THREE YEARS



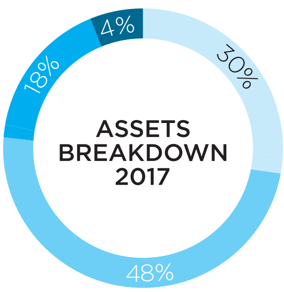
Graph 2: Assets evolution 2016-2018 (%)

b. ASSETS BREAKDOWN

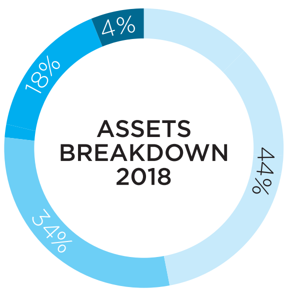
The table and graphs below show the composition of the Bank's total assets at the end of December 2017 and 2018 respectively.

Categories	2017		2018		Growth
Placements with banks	578,587	29.88%	970,040	44.49%	67.66%
Debt securities	926,704	47.86%	733,138	33.62%	-20.89%
Net loans	355,099	18.34%	393,797	18.06%	10.90%
Other assets	75,796	3.91%	83,495	3.83%	10.16%
TOTAL	**1,936,186**	**100.00%**	**2,180,470**	**100.00%**	**12.62%**

Table 1: Total assets 2017-2018 (LBP million)



Graph 3: Assets breakdown 2017



Graph 4: Assets breakdown 2018

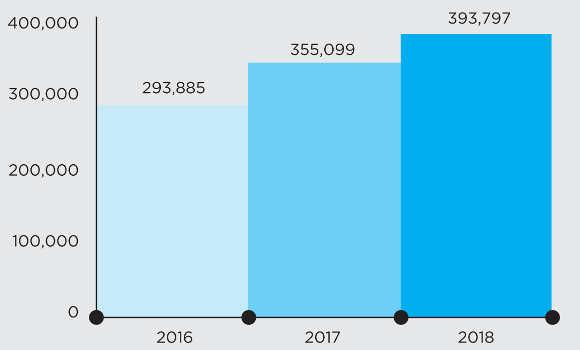
As depicted in graphs 3 and 4, the Bank invested newly acquired funds in three main assets: liquid placements with banks, medium term placements with BDL and newly introduced retail and commercial loans. These are in line with the Bank's strategy of boosting commercial activity and enhancing the resilience of the Bank through diverse asset classes with higher liquidity levels.

Placement with banks | Net loans | Debt securities | Other assests

c. CUSTOMERS' LOANS GROWTH

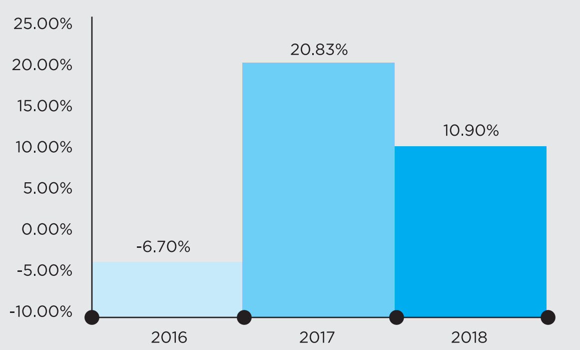
The net loans and advances to customers and related parties increased by 10.90% in 2018 to reach LBP 393,797 million. As a result, the Bank's loans to deposits ratio increased from 22.73% in 2017 to 23.49% in 2018.

EVOLUTION OF CUSTOMERS' LOANS OVER THE LAST THREE YEARS



Graph 5: Customers' loans 2016-2018 (LBP million)

PERCENTAGE EVOLUTION OF CUSTOMERS' LOANS OVER THE LAST THREE YEARS



Graph 6: Evolution of customers' loans 2016-2018 (%)

d. CUSTOMERS' LOANS BREAKDOWN

i. Loans Breakdown by Economic Sector

Economic Sector	2017		2018		Growth
Trading	99,610	28.05%	110,075	27.95%	10.51%
Construction	18,526	5.22%	17,982	4.57%	-2.94%
Industrial	14,823	4.17%	26,369	6.70%	77.89%
Agriculture	2,555	0.72%	2,820	0.72%	10.37%
Consumer loans	153,335	43.18%	169,970	43.16%	10.85%
Other	66,250	18.66%	66,581	16.91%	0.50%
TOTAL	**355,099**	**100.00%**	**393,797**	**100.00%**	**10.90%**

Table 2: Net loans breakdown by economic sector (LBP million)

In line with its risk appetite, the Bank has pursued multiple sectors in order to achieve a diverse penetration of markets and reduce its vulnerability to global shocks. As shown in the table above, the consumer loans segment grew by 10.85%, which represents 43.16% of total loans. In addition, loans in the trading sector increased by 10.51%, representing 28% of total loans.

ii. Loans Breakdown by Currency

Currency	2017		2018		Growth
LBP	148,354	41.78%	160,909	40.86%	8.46%
USD	189,861	53.47%	210,817	53.53%	11.04%
EUR	16,869	4.75%	19,909	5.06%	18.02%
GBP	15	0.00%	17	0.00%	13.33%
Other	-	0.00%	2,145	0.54%	0.00%
TOTAL NET LOANS	**355,099**	**100.00%**	**393,797**	**100.00%**	**10.90%**

Table 3: Loans breakdown by currency 2016-2017 (LBP million)

In the year 2018, the loan portfolio was largely concentrated between two currencies, LBP and USD, which combined represent around 94% of the Bank's total loans.

Loans granted in LBP grew by only 8.46% due to the postponement by the Central Bank of the subsidized housing loan (Home Initiative) in the local currency. Loans granted in USD grew by 11.04%, largely due to the launch of the new housing loan (Home Now).

iii. Loans Quality

During 2018, BSL BANK pursued a healthy, risk-appropriate increase in its loan portfolio as part of its strategy to grow sustainably during a time of uncertain global economics and regional events.

Throughout the year, this strategy was guided by a commitment to maintaining the quality of the Bank's portfolio.

The tables below show the evolution of the Non-Performing Loans.

Gross Loans	2017		2018	
TOTAL GROSS LOANS	**406,429**	**100.00%**	**452,402**	**100.00%**
of which substandard	8,850	2.18%	9,964	2.20%
of which doubtful	18,615	4.58%	20,334	4.49%
of which bad debt	32,285	7.94%	35,749	7.90%

Table 4: Evolution of Non-Performing Loans (Gross) 2017-2018 (LBP million)

Net Loans	2017		2018	
TOTAL NET LOANS	**355,099**	**100.00%**	**393,797**	**100.00%**
of which substandard	7,590	2.14%	8,186	2.08%
of which doubtful	3,739	1.05%	3,401	0.86%
of which bad debt	41	0.01%	42	0.01%

Table 5: Evolution of Non-Performing Loans (Net) 2017-2018 (LBP million)

As shown, the quality of loans slightly increased from 2017 to 2018. Substandard loans as a percentage of total gross loans increased from 2.18% to 2.20%, whilst the portion of doubtful debt out of total gross loans fell to 4.49%. Bad debts represented 7.90% out of gross loans during 2018 compared to 7.94% during 2017.

e. SECURITIES PORTFOLIO

The Bank's investment portfolio includes Lebanese treasury Bills/Bonds, Eurobonds and certificate of deposits issued by the Central Bank of Lebanon in addition to other debt securities.
The securities portfolio constitutes a major part of the Bank's total profit in term of revenues derived from contractual cash flows.

The below table summarizes the evolution of BSL BANK's financial portfolio between December 2017 and December 2018.

Investment Securities	Amortized Cost		Fair Value through P/L	
	2017	2018	2017	2018
Lebanese government treasury bills/bonds	618,294	357,189	1,334	-
Certificate of deposits	278,930	365,200	10,359	-
Other debt securities	5,082	4,241	-	-
Expected Credit loss allowance	-	(4,248)	-	-
Interest receivables	12,499	10,756	206	-
TOTAL	**914,805**	**733,138**	**11,899**	**-**

Table 6: Evolution of portfolio securities 2017-2018 (LBP million)

As illustrated in Table 6, the portion of Lebanese Treasury Bills/Bonds held at amortized cost from the total debt securities portfolio was 67% in 2017, falling to 49% in 2018. Moreover, the share of Treasury Bills/Bonds held at fair value decreased from 0.14% in 2017 to 0% in 2018. CDs held at amortized cost represented 50% of the portfolio as at 31st December 2018, compared to 30% at the end of 2017.

In addition, investment securities fell by 19.86% in 2018, compared to a growth of 12.62% in total assets in 2017. The decrease in the investment securities shows that BSL BANK has chosen to invest with the Central Bank during a difficult economic climate.

LIABILITIES

a. LIABILITIES BREAKDOWN

Customers' deposits represent the major source of funds available to the Bank for the conduct of its commercial and financial activities.

Table 7 below reflects the respective shares of different sources of funds available.

Categories	2015	2016	2017	2018
Due to banks	41,445	88,433	159,192	282,080
Deposits from customers and related parties	1,474,969	1,448,854	1,562,294	1,676,330
Other liabilities	10,948	33,396	39,841	38,815
Equity	153,546	162,401	174,859	183,245
TOTAL	**1,680,908**	**1,733,084**	**1,936,186**	**2,180,470**

Table 7: Sources of funds 2015-2018 (LBP million)

Graph 7: Liabilities breakdown 2017

Graph 8: Liabilities breakdown 2018

Due to banks

Deposits from customers and related parties

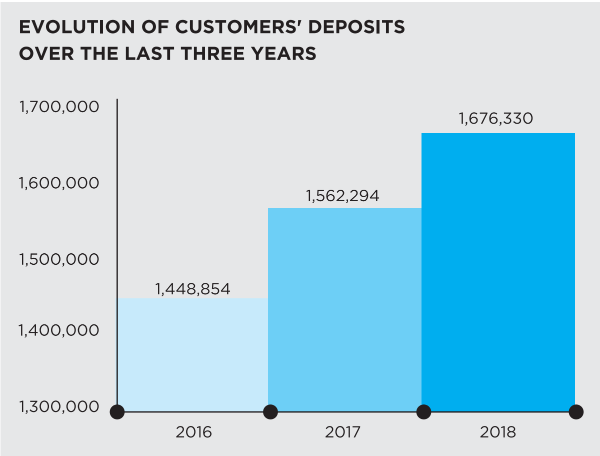
Other liabilities

Equity

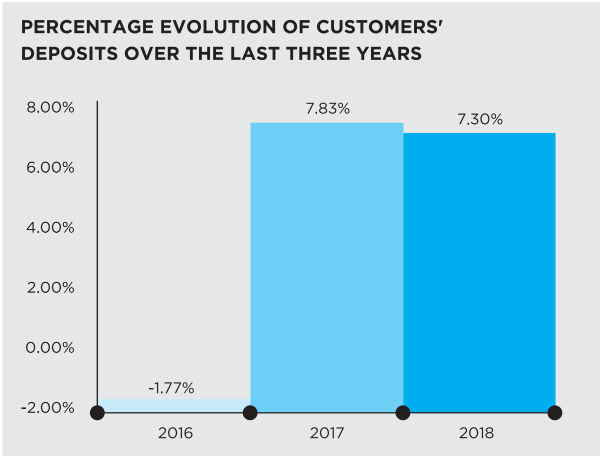
b. CUSTOMERS' DEPOSITS EVOLUTION

Customers' deposits increased from LBP 1,562,294 million at end of December 2017, to LBP 1,676,330 million as of end of December 2018. However, it is interesting to note that customer concentration has declined, with large client withdrawals being replaced by several medium size deposits. The top ten depositors represent around 8.61% of the total deposits in the year 2018 as compared to 8.2% in the year 2017 and 10.33% in the year 2016.

Graph 9 below illustrates the customers' deposits evolution over the last three years.



Graph 9: Customers' deposits 2016-2018 (LBP million)



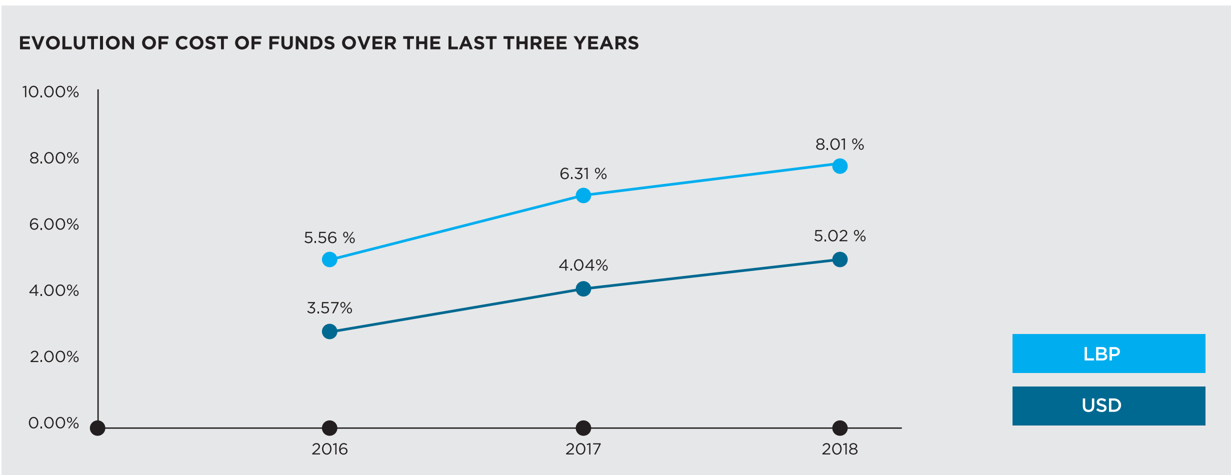
Graph 10: Evolution of customers' deposits 2016-2018 (%)

c. COST OF FUNDS EVOLUTION

Interest rates increased significantly in 2018 due to the economic and political situation within the country. The cost of funds in both currencies witnessed a major increase of 170 Basis point in LBP and 98 Basis point in USD between 2017 and 2018.

Cost of Funds	2016	2017	2018
LBP	5.56%	6.31%	8.01%
USD	3.57%	4.04%	5.02%

Table 8: Cost of funds 2016-2018



Graph 11: Evolution of cost of funds 2016-2018 (%)

PROFITABILITY

Categories	2017	2018	Growth
Interest and similar income	98,669	121,659	23.30%
Interest and similar expense	(68,455)	(86,635)	26.56%
NET INTEREST INCOME	**30,214**	**35,024**	**15.92%**
Fee and commission income	4,682	4,658	-0.51%
Fee and commission expense	(409)	(445)	8.80%
NET FEE AND COMMISSION INCOME	**4,273**	**4,213**	**-1.40%**
Operating income	50,745	46,178	-9.00%
Operating expenses	(35,217)	(30,005)	-14.80%
Income tax expense	(2,817)	(971)	-65.53%
NET INCOME	**12,711**	**15,202**	**19.60%**

Table 9: Recurring income and expenses 2017-2018 (LBP million)

During 2018, BSL BANK launched new products and services which boosted the banking activity. This was reflected in significant growth in Net interest income from LBP 30,214 million in 2017 to LBP 35,024 million in 2018, despite the interest expense evolution during 2018. Commission income remained stable in 2018 at LBP 4,213 million.

In line with the Bank's overall strategy of achieving efficiencies, operating expenses fell by around 15% YOY.

Despite challenging economic conditions, BSL BANK achieved 20% growth in its net income, rising from LBP 12,711 million in 2017 to LBP 15,202 million in 2018.

LIQUIDITY

The Bank's objective is to maintain liquidity at a safe, conservative level according to the Bank's corporate strategy, and to ensure that adequate funds are available to meet business development needs and short-term obligations, whether under normal business conditions or under stress.

The liquidity profile of the Bank is monitored on a static and on a dynamic basis by using key liquidity ratios and conducting liquidity stress testing.

The Bank has prepared a liquidity risk policy in line with regulations and the asset-liability management strategy. Periodic liquidity positions and liquidity stress results are reviewed by the Bank's ALCO.

The Bank's liquidity position as at 31st December 2018 are shown in the tables 10 and 11.

Liquid Assets to Total Assets	2017		2018	
Cash and central banks	479,389	19.14%	849,539	38.96%
Net due from banks	890	1.40%	96,096	4.41%
Financial instruments	926,704	53.26%	733,138	33.62%
TOTAL LIQUIDITY	**1,406,983**	**73.80%**	**1,678,773**	**76.99%**

Table 10: Liquid assets to total assets 2017-2018 (LBP million)

Liquid Assets to Total Deposits	2017		2018	
Cash and central banks	479,389	22.90%	849,539	50.68%
Net due from banks	890	1.66%	96,096	5.73%
Financial instruments	926,704	63.70%	733,138	43.73%
TOTAL LIQUIDITY	**1,406,983**	**88.27%**	**1,678,773**	**100.15%**

Table 11: Liquid assets to total deposits 2017-2018 (LBP million)

CAPITAL MANAGEMENT

The Bank is committed to achieving higher capital ratios through the full incorporation of profits and an optimal mix of assets.

The Bank has implemented the Basel III capital regulations and the Banking Control Commission of Lebanon (BCCL) requirements on the minimum capital that reaches 15% at the end of 2018.

Accordingly, the Bank has computed its Capital Adequacy Ratio (CAR) as of 31st December 2018 in terms of Basel and BCCL regulatory guidelines, wherein the capital charge for operational risk is computed under the Basic Indicator Approach. The capital charge for credit and market risk is computed under the Standardized Approach.

As of 31st December 2018, the Bank's CAR was 17.28% (excluding the profit for the year) against the minimum regulatory requirement of 15%. Of this, the Common Equity Tier I (CET I) ratio and Tier I ratio were both 13.92% against the minimum regulatory requirement of 10% and 13% respectively.

BSL BANK adheres to all laws and regulations related to the Capital Adequacy Ratio either issued by the Basel committee or amended by the Central Bank of Lebanon and BCCL. Basel has set a reference timetable for the Capital Adequacy Ratio that was modified by the BCCL in order to hedge, in terms of capital, for the insecurity and instability of the Lebanese markets.

BASEL III Minimum CAR Ratio	2013	2014	2015	2016	2017	2018
Common Tier 1 (CET 1) ratio	6.00%	7.00%	8.00%	8.50%	9.00%	10.00%
Tier 1 ratio	8.50%	9.50%	10.00%	11.00%	12.00%	13.00%
Total capital ratio	10.50%	11.50%	12.00%	14.00%	14.50%	15.00%

Table 12: CAR timetable set by the BCCL (including capital conservation buffer)

BASEL III Capital Adequacy Ratios	2013	2014	2015	2016	2017	2018
Tier 1 capital	96,948	101,837	110,695	119,329	128,220	133,997
Tier 2 capital	15,435	15,463	15,435	30,247	30,148	32,330
TOTAL CAPITAL	**112,383**	**117,300**	**126,130**	**149,576**	**158,368**	**166,327**
RWA	**871,186**	**864,820**	**903,039**	**868,327**	**978,588**	**962,739**
Common Equity Tier 1 ratio	11.58%	11.78%	12.26%	13.74%	13.10%	13.92%
Tier 1 ratio	11.58%	11.78%	12.26%	13.74%	13.10%	13.92%
TOTAL CAPITAL RATIO	**13.53%**	**13.56%**	**13.97%**	**17.23%**	**16.18%**	**17.28%**

Table 13: Capital Adequacy Ratios 2013-2018 (LBP million)

Independent Auditor's Report

05

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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.

Basis for qualified opinion (continued)

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *"Auditors' responsibilities for the audit of the consolidated financial statements"* section of our report. We are independent of the Group in accordance with the *International Ethics Standards Board for Accountants*' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2018. We have determined the matter described below to be the key audit matter to be communicated in our report. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the 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 this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

Allowances for expected credit losses

Refer to Note 2 of the consolidated financial statements for a description of the accounting policy and Note 3 (b) 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. Categorization of financial assets in stages 1, 2 or 3 based on identification of:
   a- exposures with a significant increase in credit risk since their origination;
   b- individually impaired

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.

Key audit matters (continued)

Allowances for expected credit losses (continued)

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 the audit committee for the consolidated financial statements

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

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

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

EY
Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BSL BANK SAL

Qualified opinion

We have audited the consolidated financial statements of BSL Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for qualified opinion

As disclosed in note 20 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried excess deferred liabilities and provision for risks and charges of LBP 19,341 million (the "excess provisions") and deferred tax assets of LBP 2,219 million 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.

During 2018, the Group wrote-back to the consolidated statement of profit or loss and other comprehensive income, deferred liabilities and provision for risks and charges totalling to LBP 10,195 million and deferred tax assets of LBP 847 million. In addition, provision for risks and charges of LBP 270 million were transferred to loans and advances to customers and to investment securities at amortized cost.

Had the Group properly accounted for these transactions, events and conditions, in accordance with International Financial Reporting Standards, the effects on the consolidated financial statements would have been as follows:

- Net income for the year ended 31 December 2018 would have decreased by LBP 9,078 million (2017: increased by LBP 287 million);
- Other liabilities as at 31 December 2018 would have decreased by LBP 9,146 million (2017: decreased by LBP 19,341 million);
- Other assets as at 31 December 2018 would have decreased by LBP 1,372 million (2017: decreased by LBP 2,219 million); and
- Equity as at 31 December 2018 would have increased by LBP 16,852 million (2017: increased by LBP 16,835 million).

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

The partners in charge of the audit resulting in this independent auditors' report are Ramzi Ackawi for Ernst & Young and Bilal Marroush for KPMG.

Ernst & Young

20 May 2019
Beirut, Lebanon

KPMG

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018	2017
		LBP million	LBP million
ASSETS			
Cash and balances with the Central Bank	6	835,905	464,089
Loans under reverse repurchase agreements	7	13,634	15,300
Due from banks and financial institutions	8	120,501	99,198
Loans and advances to customers at amortized cost	9	392,535	353,766
Loans and advances to related parties at amortized cost	9, 35	1,262	1,333
Investment securities at fair value through profit or loss	10	-	11,899
Investment securities at amortized cost	11	733,138	914,805
Investment securities at fair value through other comprehensive income	12	1,746	1,836
Debtors by acceptances		17,723	6,881
Investment properties	13	18,936	19,356
Property and equipment	14	37,827	37,971
Intangible assets		2	4
Non-current assets classified as held for sale	15	2,119	2,120
Other assets	16	5,142	7,628
TOTAL ASSETS		**2,180,470**	**1,936,186**
LIABILITIES AND EQUITY			
Liabilities			
Due to the Central Bank	17	257,675	60,884
Due to banks and financial institutions	18	24,405	98,308
Deposits from customers at amortized cost	19	1,615,842	1,504,087
Deposits from related parties at amortized cost	35	60,488	58,207
Engagement by acceptances		17,723	6,881
Current tax liabilities	20	3,769	3,864
Other liabilities	21	12,515	24,307
Employee benefit obligations	22	4,808	4,789
TOTAL LIABILITIES		1,997,225	1,761,327
Equity			
Share capital	23	54,165	54,165
Non distributable reserves	24	70,630	72,948
Distributable reserves	24	37,584	29,287
Cumulative change in fair value of securities at fair value through other comprehensive income		206	315
Retained earnings		1,487	1,496
Profit for the year		15,166	12,677
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		179,238	170,888
Non-controlling interests		4,007	3,971
TOTAL EQUITY		183,245	174,859
TOTAL LIABILITIES AND EQUITY		**2,180,470**	**1,936,186**

These consolidated financial statements were authorized for issuance by the Chairman of the Board of Directors on 20 May 2019.

Ramsay El Khoury
Chairman

The attached notes 1 to 36 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		LBP million	LBP million
Interest and similar income, net of tax	25	121,659	98,669
Interest and similar expense	25	(86,635)	(68,455)
Net interest and similar income		35,024	30,214
Fee and commission income	26	4,658	4,682
Fee and commission expense		(445)	(409)
Net fee and commission income		4,213	4,273
Net gain from investment securities at fair value through profit or loss	27	4,537	5,125
Revenues from investment securities at fair value through other comprehensive income	12	216	285
Net (loss) gain from investment securities at amortized cost	11	(97)	8,833
Net release of expected credit loss allowance (2017: impairment) on loans and advances to customers	9	685	604
Other operating income	28	1,600	1,411
Net operating income		46,178	50,745
Personnel expenses	29	(19,752)	(18,566)
Depreciation and amortization charges	30	(3,395)	(3,117)
Other operating expenses	31	(12,154)	(11,620)
Write back of provisions (provision) for risks and charges		5,296	(1,914)
Total operating expenses		**(30,005)**	**(35,217)**
Profit before tax		**16,173**	**15,528**
Income tax expense	32	(971)	(2,817)
PROFIT FOR THE YEAR		**15,202**	**12,711**
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Net unrealized loss on investment securities at fair value through other comprehensive income	12	(109)	(253)
TOTAL OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(109)**	**(253)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**15,093**	**12,458**
Profit attributable to:			
Equity holders of the Bank		15,166	12,677
Non-controlling interests		36	34
		15,202	**12,711**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Bank		**15,057**	**12,424**
Non-controlling interests		**36**	**34**
		15,093	**12,458**

The attached notes 1 to 36 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018		
	Share capital	Non distributable reserves	Distributable reserves
	LBP million	LBP million	LBP million
Balance at 1 January 2018	54,165	72,948	29,287
Impact of IFRS 9 at 1 January	-	(6,707)	-
Restated balance at 1 January 2018	54,165	66,241	29,287
Profit for the year	-	-	-
Other comprehensive loss	-	-	-
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**-**
Transfer to retained earnings	-	-	-
Transfer from retained earnings	-	4,389	8,297
BALANCE AT 31 DECEMBER 2018	**54,165**	**70,630**	**37,584**

	2017		
	Share capital	Non distributable reserves	Distributable reserves
	LBP million	LBP million	LBP million
Balance at 1 January 2017	54,165	65,560	26,009
Profit for the year	-	-	-
Other comprehensive loss	-	-	-
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**-**
Transfer to retained earnings	-	-	-
Transfer from retained earnings	-	7,388	3,278
	-	-	-
BALANCE AT 31 DECEMBER 2017	**54,165**	**72,948**	**29,287**

The attached notes 1 to 38 form part of these consolidated financial statements

2018					
Cumulative change in fair value of securities at fair value through other comprehensive income	Retained earnings	Profit for the year	Total	Non-controlling interests	TOTAL EQUITY
LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
315	1,496	12,677	170,888	3,971	174,859
-	-	-	(6,707)	-	(6,707)
315	1,496	12,677	164,181	3,971	168,152
-	-	15,166	15,166	36	15,202
(109)	-	-	(109)	-	(109)
(109)	-	15,166	15,057	36	15,093
-	12,677	(12,677)	-	-	-
-	(12,686)	-	-	-	-
206	1,487	15,166	179,238	4,007	183,245

2017					
Cumulative change in fair value of securities at fair value through other comprehensive income	Retained earnings	Profit for the year	Total	Non-controlling interests	TOTAL EQUITY
LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
568	3,235	8,927	158,464	3,937	162,401
-	-	12,677	12,677	34	12,711
(253)	-	-	(253)	-	(253)
(253)	-	12,677	12,424	34	12,458
-	8,927	(8,927)	-	-	-
-	(10,666)	-	-	-	-
-	-	-	-	-	-
315	1,496	12,677	170,888	3,971	174,859

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 LBP million	2017 LBP million
OPERATING ACTIVITIES			
Profit for the year before tax		16,173	15,528
Adjustment for:			
Depreciation and amortization	30	3,395	3,117
Net release of expected credit loss allowance (2017: impairment) on loans and advances to customers		(685)	(604)
Net loss (gain) on sale of investment securities at amortized cost	11	2,123	(8,833)
Net gain on sale of investment securities at fair value through profit or loss	27	(145)	(846)
Net gain on sale investment securities at FVTOCI	12	(216)	(285)
Net loss on sale of property and equipment		-	2
Net gain on sale of non-current assets classified as held for sale	15	-	(53)
(Write-back) Provision for risks and charges	21	(5,296)	1,914
Provision for employees benefit obligations, net	22	371	762
Net interest and similar income	25, 27	(35,248)	(31,733)
Impairment provision on receivables from NSSF	31	43	44
		(19,485)	(20,987)
Change in:			
Balances with the Central Bank		(400,187)	(104,133)
Due from banks and financial institutions		1,400	28,915
Loans and advances to customers and related parties		(39,395)	(60,616)
Investment securities		185,588	3,259
Other assets		2,443	1,320
Due to the Central Bank		196,791	60,884
Due to banks and financial institutions		(12,841)	19,450
Deposits from customers and related parties		112,240	112,645
Other liabilities		(5,848)	(4,817)
Cash from operations		20,706	35,920
Interest received		116,468	100,484
Interest paid		(84,839)	(67,660)
Employee benefits obligations paid	22	(352)	(97)
Income tax paid		(1,066)	(612)
NET CASH FROM OPERATING ACTIVITIES		**50,917**	**70,035**
INVESTING ACTIVITIES			
Acquisition of property and equipment	14	(2,829)	(2,292)
Proceeds from sale of non-current assets classified as held for sale		-	62
NET USED IN INVESTING ACTIVITIES		**(2,829)**	**(2,230)**
INCREASE IN CASH AND CASH EQUIVALENTS		48,088	67,805
Cash and cash equivalents at 1 January		115,633	47,828
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	33	**163,721**	**115,633**

The attached notes 1 to 36 form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

1. CORPORATE INFORMATION

BSL Bank SAL ("the Bank") is established in 1962 and domiciled in Lebanon. It is registered under No. 12510 in the Lebanese Commercial Register and listed under No. 68 at the Central Bank. The Bank is involved in corporate and retail Banking services through its head office located in the Bank's street in Downtown Beirut and its network of 18 branches across Lebanon. The consolidated financial statements of the Bank comprise of the Bank and its subsidiaries (together referred to as "the Group"). The Group is involved in corporate and retail Banking services and real estate investment.

2. ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for the following:
- Land and buildings acquired prior to 1993 are measured at their revalued amounts based on market prices prevailing during 1996, to compensate for the effect of the hyper-inflationary economy prevailing in the earlier years;
- Financial assets and liabilities at fair value through profit or loss are measured at fair value;
- Equity securities at fair value through other comprehensive income are measured at fair value.

The consolidated financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest million unless 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 Banking Control Commission (BCC).

Presentation of consolidated financial statements

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

2. ACCOUNTING POLICIES (CONTINUED)

2.2. 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:

Name	Country of incorporation	Activities	2018	2017
			% Equity interest	
Societe Immobiliere Al Solh SAL	Lebanon	Real Estate	100	100
Societe Nouvelle Immobiliere SAL (owned by Societe Immobiliere Al Solh SAL)	Lebanon	Real Estate	65.625	65.625

2.3 Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

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:

Going concern

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

Business model

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.

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.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Use of estimates and judgements (Continued)

Estimates and assumptions (Continued)

Fair value of financial instruments (Continued)

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.

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.

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).

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 recognized by the Group.

2.4 Changes in accounting policies and disclosures

Except for the changes below, the Group has consistently applied the accounting policies as set out above to all periods presented in these consolidated financial statements.

The Group has initially adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

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 recognized directly in retained earnings or reserves (as applicable) as of 1 January 2018.

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 amortized 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.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Changes in accounting policies and disclosures (Continued)

IFRS 9 Financial Instruments (Continued)

I. Classification and measurement (Continued)

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.

II. Expected Credit Losses

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

III. IFRS 7 disclosures

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

IV. Hedge accounting

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

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

V. Transition

In accordance with the transition provisions of IFRS 9 (2014), the Group applied this standard retrospectively. The following tables set out the impact of adopting IFRS 9 (2014) on the consolidated statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs. 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-mea-rurement		Classification under IFRS 9 (2014) (1 January 2018)	
	Category	Amount LBP million	Reclassi-fication LBP million	ECL LBP million	Category	Amount LBP million
Financial assets						
Cash and balances with the Central Bank	Amortized cost	464,089	-	(1,001)	Amortized cost	463,088
Loans under reverse repurchase agreements	Amortized cost	15,300	-	(151)	Amortized cost	15,149
Due from banks and financial institutions	Amortized cost	99,198	-	(449)	Amortized cost	98,749
Loans and advances to customers at amortized cost	Amortized cost	353,766	-	(1,505)	Amortized cost	352,261
Investment securities at fair value through profit or loss	FVTPL	11,899	(3,427)	-	FVTPL	8,472
Investment securities at amortized cost	Amortized cost	914,805	3,427	(4,248)	Amortized cost	913,984
			-	(7,354)		
Provision for risks and charges used for ECL			-	270		
Other liabilities used for ECL			-	377		
Net impact on equity			-	(6,707)		

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 LBP 7,354 million as at 1 January 2018.

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.

	Impairment Allowance under IAS 39/IAS 37 at 31 December 2017	Re-measurement	ECLs under IFRS 9 at 1 January 2018
	LBP million	LBP million	LBP million
Impairment allowance for			
Cash and balances with the Central Bank	-	1,001	1,001
Loans under reverse repurchase agreements	-	151	151
Due from banks and financial institutions	-	449	449
Loans and advances to customers at amortized cost	51,330	1,505	52,835
Investment securities at amortized cost	-	4,248	4,248
	51,330	7,354	58,684

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized in 2.6 below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.
The Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Changes in accounting policies and disclosures (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

The Group earns fee and commission income mainly on retail and corporate banking and financial guarantees. IFRS 15 did not to have a material impact on the timing of recognition or measurement of fees and commission income.

2.5 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier adoption is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements. The new standard listed below is the standard that could potentially have an impact on the Group's performance, financial position or disclosures.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance and operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases- Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

2.6 Significant accounting policies

(a) 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 recognized 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 recognized in other comprehensive income or profit or loss are also recognized 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 recognized in OCI. On disposal of a foreign entity, the deferred cumulative amount recognized in OCI relating to that particular foreign operation is reclassified to the consolidated income statement.

(b) Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortized cost of the 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.

However, for financial assets that have become credit-impaired subsequent to initial recognition. Interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Significant accounting policies (continued)

(b) Interest (Continued)

Calculation of interest income and expense (Continued)

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see note 2.6 (h) (vii).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortized cost;
- interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortized cost.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see note 2.6 (d)).

Policy applicable before 1 January 2018

Interest income and expense were recognized in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(c) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate (see Note 2.6 (b)).

Other fees and commission income – including account servicing fees, investment management fees, sales commission and placement fees, are recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Net gain (loss) from investment securities at fair value through profit or loss

Results arising from financial instruments at fair value through profit or loss, include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss.

(e) Dividends

Dividend income is recognized when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities.

From 1 January 2018, dividends on equity instruments designated at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

(f) 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 fulfilment 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 income statement on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which it is incurred.

Group as a lessor

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

(g) Income tax

Income tax comprises current tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable on the taxable income for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

The Group's taxable profit is subject to income tax at the rate of 15% for the period ending 26 October 2017 inclusive and 17% applicable starting 27 October 2017.

Interest earned is subject to a withholding tax at the rate of 5% according to article 51 of law number 497 dated 30 January 2003. This rate has been increased to 7% up from 5% in conformity with article 17 of law number 64 dated 20 October 2017.

Subsequent to this amendment, the tax on interest earned for the year 2017 has been calculated at the following rates:
• For the period from 1st January until 26 October 2017: 5%
• For the period from 27 October until 31 December 2017: 7%
The tax withheld on interest earned after 26 October 2017 is no longer accepted as advance payment for the tax on profits.

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Significant accounting policies (continued)

(g) Income tax (Continued)

(ii) Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made. The Group's books and records have not been reviewed by the Department of Income Tax for the years 2014, 2015, 2016, 2017 and 2018. Management believes that the outcome of any review that may take place will not have a material effect on its consolidated financial statements.

(h) Financial assets and financial liabilities

(i) Recognition

The Group initially recognizes loans and advances and deposits on the date on which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Group commits to purchase or sell the assets. All other financial instruments are recognized on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Group classifies its financial assets as measured at amortized cost or fair value. A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

• the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at a portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective 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 or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Financial liabilities

The Group classifies its financial liabilities other than financial guarantees and loan commitments, as measured at amortized cost.

(iii) De-recognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that has been recognized in other comprehensive income is recognized in profit or loss. Any interest in such transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognized as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such case, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the de-recognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(v) Amortized cost measurement

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

(vi) Fair value measurement (Continued)

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vii) Identification and measurement of impairment

Policy applicable from 1 January 2018

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a 'forward-looking credit loss' model.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

• financial assets that are debt instruments, and

• loan commitments and financial guarantee contracts issued (previously impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group will recognize loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognized will be 12-month ECLs:
• other financial instruments for which credit risk has not increased significantly since initial recognition.
The impairment requirements of IFRS 9 are complex and require management judgements estimates and assumptions, particularly in the following areas which are discussed in detail below:
• assessing whether the credit risk of an instrument has increased significantly since initial recognition;
• incorporating forward-looking information into the measurement of ECLs.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability weighted estimate of credit losses and will be measured as follows:
• financial assets that are not credit-impaired at the reporting date: 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: the difference between the gross carrying amount and the present value of estimated future cash flows;
• undrawn loan commitments: 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 present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Credit impaired financial assets

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39 (Referred to as 'Stage 3 financial assets').

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
• significant financial difficulty of the borrower or issuer;
• a breach of contract such as a default or past due event;
• the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise,
• it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
• the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Significant accounting policies (continued)

(h) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (Continued)

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that the loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortized costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortized cost are assessed for specific impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortized cost that are not individually significant are collectively assessed for impairment by grouping loans and advances and investment securities measured at amortized cost with similar risk characteristics.

In assessing collective impairment, the Group uses statistical analysis of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, and makes judgment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends.
Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount of the financial amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances or investment securities at amortized cost. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Group writes off certain loans and advances and investment securities either partially or in full, and any related allowance for impairment losses when Bank Non-Performing Loans Committee and ALCO determine that there is no realistic prospect of recovery after obtaining the necessary legal advice.

(viii) Designation at fair value through profit of loss
The Group has designated financial assets at fair value through profit or loss in either of the following circumstances:
• The assets are managed, evaluated and reported internally on a fair value basis.
• The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has made an election to present in other comprehensive income changes in the fair value of certain investments in equity instruments that are not held for trading – see accounting policies 5(I).

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

Note 5 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset class.

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with Central Bank and highly liquid financial assets and liabilities with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Significant accounting policies (continued)

(j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss in "net gain from investment securities at fair value through profit or loss".

(k) Loans and advances

Loans and advances captions in the statement of financial position include:

• loans and advances measured at amortized cost (see (h) (ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;

• loans and advances mandatorily measured at FVTPL or designated as at FVTPL (see (h) (ii)); these are measured at fair value with changes recognized immediately in profit or loss; and

• finance lease receivables (see (f)).

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Group's financial statements.

(l) Investment securities

The investment securities caption in the statement of financial position includes:

- debt investment securities measured at amortized cost (see h (ii)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL (see h (ii)); these are at fair value with changes recognized immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss (see (h) (ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

(m) Investment properties

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are initially measured at cost, including transaction costs.

Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits in excess of the originally assessed standard of performance will flow to the Group. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the statement of comprehensive income in the period in which it is incurred.

Subsequently, investment properties are measured at cost less any accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives. All subsequent additions are depreciated over the remaining useful lives of investment properties. Land is not depreciated.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of comprehensive income in the year of retirement or disposal.

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other operating income / other operating expenses in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognized in profit or loss. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

• Buildings	50 years
• Leasehold improvements	12.5 - 16.5 years
• Computer equipment	5 years
• Office equipment	12.5 years
• Furniture and fixtures	12.5 years; and
• Vehicles	10 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Significant accounting policies (continued)

(o) Intangible assets

Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods is five years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(p) Assets classified as held for sale

Properties acquired through the enforcement of security over loans and advances to customers are accounted for in accordance with the directives issued by the Banking Regulators.

These assets are initially measured at fair value at the date of enforcement of the security. A reserve is constituted for assets not disposed of within two years of the date of enforcement at a rate of 20% or 5%, depending on the date the related loan was granted. Reserves ratio for assets acquired in connection with loans granted before 30 June 2003 and in accordance with the Central Bank intermediary circular No. 41 and its amendments is 20%, whereas reserves ratio for assets acquired in connection with loans after 30 June 2003 is 5%.

The accumulated reserve is classified under "Non-distributable reserves" in equity.

(q) Impairment of non- financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the 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 multiple, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. 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 income statement.

(r) Deposits

Deposits are the Group's sources of debt funding.

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(s) Provision

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provision is determined using management's best estimates to the risk specific to the liability.

(t) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

• from 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 (see i (vii)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and

• before 1 January 2018: at the higher of the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

• from 1 January 2018: the Group recognises a loss allowance (see i (vii));

• before 1 January 2018: the Group recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(u) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are declared by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

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

(v) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ("repos") are derecognized from the consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognized on the consolidated statement of financial position reflecting its economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified 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 reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income in the consolidated statement of profit or loss and is accrued over the life of the agreement using the effective interest rate method.

3. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

The Group has exposure to the following risks:

- credit risk
- liquidity risk
- market risk and
- Operational risks

This note presents information about the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Board Risk Committee and the Asset and Liability committee (ALCO) and the Credit committee which are directly responsible for developing and monitoring Group risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit and Risk Committees oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit and Risk Committees are assisted in their oversight role by Internal Audit and risk management. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, the Central Bank, other Banks, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

(i) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. "Settlement risk" is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(ii) Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Board Risk Committee as well as to the Bank Credit Committee. The Bank Credit Committee is responsible for managing the Bank's credit risk, including the following:

• Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
• Establishing the authorisation structure for the approval and renewal of credit facilities.
• Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
• Limiting concentrations of exposure to counterparties, geographies and sectors. The Group's approach to controlling this concentration of exposure is by the diversification of its commitments and by setting limits at level of aggregate of products, economic sectors, region and segments.
• Developing and maintaining the Group's risk grading to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Credit Committee and is subject to regular reviews.
• Reviewing compliance with agreed exposure limits, including those for selected industries, country risks and product types. Regular reports are provided to Bank Credit Committee on the credit quality of local portfolios and appropriate corrective action is taken.
• Providing advice, guidance and specialised skills to promote best practice throughout the Group in the management of credit risk.

Each Branch Manager and Credit Officer are required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank Credit Committee. Each Branch Manager and Credit Officer report on all credit related matters to management and the Credit department. Each Branch Manager and Credit officer are responsible for the quality and performance of his/her credit portfolio and for monitoring and controlling all credit risks in his/her portfolios, including those subject to central approval.

Regular audits of Bank credit processes are undertaken by the Internal Audit Department.

(iii) Impairment assessment

The references below show where the Bank'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 realizing security (if any is held);
• the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
• it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(iii) Impairment assessment (Continued)

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Group's criterion for 'cure' for ECL purposes is less stringent than the 12 months requirement for forbearance, which is explained in the Summary of significant accounting policies.

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

The Group's independent Credit Risk Department operates its internal rating models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behavior. These information sources are first used to determine the PDs which are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

The following are additional considerations for each type of portfolio held by the Group:

Treasury, trading and interbank relationships

The Group's treasury, trading and interbank relationships and counterparties comprise Lebanese and other sovereign institutions, financial services institutions, banks, exchanges and clearing-houses. For these relationships, the Group's credit risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Moody's and S&P Rating Agencies, and assigns the internal rating. The PD's associated with each grade are determined based on realized default rates over the prior 12-month period as published by the rating agency.

Corporate lending

For corporate loans, the borrowers are assessed by specialized credit risk employees of the Group. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information. This assessment will determine the internal credit rating and PD.

Retail loans

Retail lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are used which impact their credit worthiness such as: unemployment and previous delinquencies in client history. This score is mapped to a PD.

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 amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques. As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

EAD for credit cards and other revolving facilities is set out in Summary of significant accounting policies.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default

LGD is the magnitude of the likely loss if there is a default.

The Group estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. It considers the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD rates are recalibrated for different economic scenarios.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk by comparing:

• the remaining lifetime probability of default (PD) as at the reporting date; with

• the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

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

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

When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

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

Grouping financial assets measured on a collective basis

As explained in the Summary of significant accounting policies dependent on the factors below, the Group calculates ECLs either on a collective or an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

• All Stage 3 assets, regardless of the class of financial assets

• The Corporate lending portfolio

• The large and unique exposures of the Small business lending portfolio

• The treasury, trading and interbank relationships (such as Cash and Balances with Central Banks, Due from Banks and Financial Institutions, Loans to Banks and Financial Institutions and Reverse Repurchase Agreements, and Financial Assets at Amortized Cost)

• Exposures that have been classified as POCI when the original loan was derecognized and a new loan was recognized as a result of a credit driven debt restructuring

Asset classes where the Group calculates ECL on a collective basis include:

• Stage 1 and 2 Retail and Consumer lending

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(iii) Impairment assessment (Continued)

The Group groups these exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans such as: product type, internal grade, geographic location and exposure value.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Analysis of inputs to the ECL model under multiple economic scenarios

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. Key economic variables include, but not limited to, gross domestic product and inflation rate. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers three scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The ECL estimates have been assessed for sensitivity changes to forecasts of macro-variables and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

(iv) Credit risk analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent carrying amounts.

For lending commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: “Stage 1”, “Stage 2” and “Stage 3” is included in Note 2.6.

	2018				2017
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million
Balances with the Central Bank					
Grade 1-2: Low-fair risk	824,832	-	-	824,832	455,465
Less allowance	(1,001)	-	-	(1,001)	-
CARRYING AMOUNT	823,831	-	-	823,831	455,465
Loans under reverse repurchase agreements					
Grade 1-2-3: Low-fair risk	13,785	-	-	13,785	15,300
Less allowance	(151)	-	-	(151)	-
CARRYING AMOUNT	13,634	-	-	13,634	15,300
Due from banks and financial institutions					
Grade 1-2: Low-fair risk	120,950	-	-	120,950	99,198
Less allowance	(449)	-	-	(449)	-
CARRYING AMOUNT	120,501	-	-	120,501	99,198
Loans and advances to customers and related parties at amortized cost					
Grade 1-2: Low-fair risk	341,453	27,575	-	369,028	324,479
Grade 3: Low-fair risk	4,918	12,409	-	17,327	22,200
Grade 4: Substandard	-	-	9,964	9,964	8,850
Grade 5: Impaired	-	-	20,334	20,334	18,615
Grade 6: Impaired	-	-	35,749	35,749	32,285
	346,371	39,984	66,047	452,402	406,429
Less allowance	(1,181)	(3,004)	(54,420)	(58,605)	(51,330)
CARRYING AMOUNT	345,190	36,980	11,627	393,797	355,099
Investment securities at amortized cost					
Grade 1-2: Low-fair risk	737,386	-	-	737,386	914,805
Less allowance	(4,248)	-	-	(4,248)	-
CARRYING AMOUNT	733,138	-	-	733,138	914,805

The following table shows the movement of gross loans and advances to customers by type.

	2018			
	Stage 1	Stage 2	Stage 3	TOTAL
	LBP million	LBP million	LBP million	LBP million
Loans and advances to customers at amortized cost – retail customers				
Balance at 1 January	165,963	25	9,354	175,342
New assets originated or purchased	44,102	166	(1,190)	43,078
Change in exposure	(28,625)	720	(1,373)	(29,278)
BALANCE AT 31 DECEMBER	181,440	911	6,791	189,142
Loans and advances to customers at amortized cost – corporate customers				
Balance at 1 January	158,515	22,175	50,397	231,087
New assets originated or purchased	50,525	3,461	4,175	58,161
Change in exposure	(17,619)	(13,054)	4,685	(25,988)
BALANCE AT 31 DECEMBER	191,421	12,582	59,257	263,260

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(iv) Credit risk analysis (continued)

Amounts arising from ECL

Loss allowance

There was no impairment booked during 2017 for the below captions nor movements performed during the year:

- Cash and balances with the Central Bank
- Loans under reverse repurchase agreements
- Due from banks and financial institutions

The following table shows a reconciliation from the opening to the closing balance of the loss allowance of investment securities at amortized cost noting that there was no impairment booked during 2017 on investments securities at amortized cost.

	2018				2017
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million
Investment securities at amortized cost					
Balance at 1 January	4,248	-	-	4,248	-
Balance at 31 December	4,248	-	-	4,248	-

The following table shows a reconciliation from the opening to the closing balance of the loss allowance of loans and advances to customers. Comparative amounts for 2017 represent impairment allowance for credit losses and unrealised interest and reflect measurement basis under IAS 39.

	2018				2017		
	Stage 1	Stage 2	Stage 3	TOTAL	Individual	Collective	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Loans and advances to customers at amortized cost							
Balance at 1 January	1,181	3,004	48,650	52,835	47,620	2,941	50,561
Net remeasurement of loss allowance	-	-	370	370	295	11	306
Unrealized interest for the year	-	-	6,751	6,751	6,270	-	6,270
Recoveries of unrealized interest for the year	-	-	(235)	(235)	(297)	-	(297)
Write-offs	-	-	(119)	(119)	(5,048)	-	(5,048)
Recoveries of amounts previously written off	-	-	(820)	(820)	(462)	-	(462)
Foreign exchange and other movements	-	-	(177)	(177)	-	-	-
Balance at 31 December	1,181	3,004	54,420	58,605	48,378	2,952	51,330

	2018			
	Stage 1	Stage 2	Stage 3	TOTAL
	LL million	LL million	LL million	LL million
Loans and advances to customers at amortized cost-retail customers*				
Balance at 1 January	330	289	6,592	**7,211**
Net remeasurement of loss allowance	-	-	244	**244**
Unrealized interest for the year	-	-	(1,592)	**(1,592)**
Recoveries of unrealized interest during the year	-	-	(109)	**(109)**
Write-offs	-	-	(59)	**(59)**
Recoveries of amounts previously written off	-	-	(542)	**(542)**
Balance at 31 December	330	289	4,534	**5,153**
Loans and advances to customers at amortized cost-retail customers*				
Balance at 1 January	851	2,715	42,058	**45,624**
Net remeasurement of loss allowance	-	-	126	**126**
Unrealized interest for the year	-	-	8,343	**8,343**
Recoveries of unrealized interest during the year	-	-	(126)	**(126)**
Write-offs	-	-	(60)	**(60)**
Recoveries of amounts previously written off	-	-	(278)	**(278)**
Foreign exchange and other movements	-	-	(177)	**(177)**
Balance at 31 December	851	2,715	49,886	**53,452**

* Movement of loss allowance by type of customer is above.

Impaired financial assets – Comparative information under IAS 39

	2017	
	Note	LL million
Loans and advances to customers		
Neither past due nor impaired		
Grade 1-3: Low-fair risk		345,729
		345,729
Past due but not impaired		
30-60 days		341
61-90 days		30
91-180 days		123
>180 days		456
		950
Individually impaired		
Grade 4: Impaired – Substandard		8,850
Grade 5: Impaired – Doubtful		18,615
Grade 6: Impaired – Bad Debts		32,285
		59,750
Allowance for impairment		
Individual		48,378
Collective		2,952
Total allowance for impairment	9	**51,330**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(iv) Credit risk analysis (continued)

Impaired financial assets – Comparative information under IAS 39 (continued)

Loans that were past due but not impaired

Loans and that were past due but not impaired are those for which contractual interest or principal payments were past due but the Group believed that impairment was not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

Loans and advances to customers classified as Stage 3 (2017: individually impaired) by product

The breakdown of the gross amount of loans classified as Stage 3 (2017: individually impaired loans and advances to customers) by product, along with the fair value of related collateral held by the Group as a security, are as follows:

	2018						
	Individual (retail customers)				Corporate entities		TOTAL
	Overdrafts	Credit card	Mortgages	Other	SMEs	Kafalat	
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Gross amount	815	123	2,645	3,208	59,039	217	66,047
Carrying amount of individually impaired loans	25	-	2,231	-	9,211	160	11,627
Fair value of collateral	23	-	1,926	160	11,469	70	13,648

	2017						
	Individual (retail customers)				Corporate entities		TOTAL
	Overdrafts	Credit card	Mortgages	Other	SMEs	Kafalat	
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Gross amount	2,665	125	3,325	3,250	50,294	91	59,750
Carrying amount of individually impaired loans	22	-	3,022	-	8,287	41	11,372
Fair value of collateral	68	-	2,421	331	14,745	90	17,655

Loans and advances to customers classified as Stage 1 and 2 (2017: neither past due nor impaired)

The credit quality of the portfolio of loans and advances to customers classified as Stage 1 and 2 (2017: neither past due nor impaired) can be assessed by reference to the internal rating system adopted by the Group.

	2018					2017			
	Normal	Special mention	Special mention & regular-ization	Expected credit loss provisions	TOTAL	Normal	Special mention	Special mention & regular-ization	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Individual (retail customers)									
Overdraft	23,206	5,990	-	(33)	29,163	24,280	5,909	25	30,214
Credit cards	1,270	-	-	-	1,270	683	-	-	683
Mortgages	120,530	844	960	-	122,334	105,990	890	-	106,880
Other	29,532	8	12	(586)	28,966	27,775	-	58	27,833
TOTAL	174,538	6,842	972	(619)	181,733	158,728	6,799	83	165,610
Corporate entities									
Large corporate customers	46,048	25,157	1,521	(573)	72,153	40,827	26,178	4,977	71,982
SMEs	92,345	19,880	14,771	(2,993)	124,003	59,573	26,522	14,539	100,634
Kafalat	3,354	864	63	-	4,281	4,667	820	2,015	7,502
TOTAL	141,747	45,901	16,355	(3,566)	200,437	105,067	53,520	21,531	180,118
GRAND TOTAL	316,285	52,743	17,327	(4,185)	382,170	263,795	60,319	21,614	345,728

(v) Collateral held and other credit enhancements, and their financial effect

The Group holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

	2018	2017	
	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
Loans and advances to Banks	0.00%	0.00%	
Loans and advances to customers:			
Loan and advances to individuals:			
Overdrafts	98.84%	100.00%	Cash / marketable securities
Credit Cards	0.00%	0.00%	None
Mortgages	100%	100.00%	Residential and commercial property
Other	40.45%	24.39%	Cash
Loans and advances to corporate entities:			
Large corporate customers	0.10%	15.54%	Cash / marketable securities / property
SMEs	65.78%	34.67%	Cash / marketable securities / property
Kafalat	100.00%	100.00%	Bank guarantees

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated on a regular basis and when a loan is individually assessed as impaired.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(v) Collateral held and other credit enhancements, and their financial effect (Continued)

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below:

	2018	2017
	LBP million	LBP million
Against impaired		
Mortgaged property	6,833	6,235
Against substandard		
Mortgaged property	610	504
Against regular loans and advances		
Mortgaged property	158,714	165,863
Debt securities	1,793	1,599
Other	16,800	24,956
TOTAL	**184,750**	**199,157**

Residential mortgage lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan - to - value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in market value.

	2018	2017
	LBP million	LBP million
Less than 50%		
51% to 70%	3,444	306
71% to 90%	8,411	359
91% to 100%	9,121	2,268
More than 100%	7,516	3,175
	141,410	96,976
	169,902	**103,084**

Loans and advance to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Besides the Group's focus on corporate customer's creditworthiness, the Group does also routinely update the valuation of the collateral held against all loans to corporate customers. Valuation of collateral is also updated when the credit risk of a loan deteriorates significantly, as the loan is monitored more closely. For impaired loans, the Group obtains appraisals of collateral because current value of the collateral is an input to the impairment measurement.

(vi) Concentration with credit risk – Industry sector

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk loans and advances, lending commitments, financial guarantees and investment securities is shown below:

	31 December 2018							
	Banks and financial institutions	Trading	Construc-tion	Industrial	Agriculture	Consumer loans	Other	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Financial assets								
Balances with the Central Bank	823,831	-	-	-	-	-	-	**823,831**
Loans under reverse repurchase agreements	13,634	-	-	-	-	-	-	**13,634**
Due from banks and financial institutions	120,501	-	-	-	-	-	-	**120,501**
Loans and advance to individuals:								
Overdrafts	-	3,121	-	119	204	5,703	20,042	**29,189**
Credit cards	-	39	12	73	3	1,072	72	**1,271**
Mortgages	-	1,713	179	43	-	121,079	1,551	**124,565**
Other	-	1,919	129	254	1,083	23,006	2,574	**28,965**
Loans and advances to corporate entities:								
Large corporate customers	-	39,907	41	9,455	-	634	22,116	**72,153**
SMEs	-	62,535	17,581	14,207	439	18,349	20,101	**133,212**
Kafalat	-	841	40	2,218	1,091	127	125	**4,442**
Investment securities – at FVTPL and amortized cost	733,138	-	-	-	-	-	-	**733,138**
	1,691,104	110,075	17,982	26,369	2,820	169,970	66,581	**2,084,901**
Financial guarantees	-	8,854	977	803	-	784	4,234	**15,652**
Loan commitments and other credit related obligations	-	45,228	4,958	9,992	957	12,752	15,306	**89,193**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(vi) Concentration with credit risk – Industry sector (Continued)

	31 December 2017							
	Banks and financial institutions	Trading	Construction	Industrial	Agriculture	Consumer loans	Other	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Financial assets								
Balances with the Central Bank	455,465	-	-	-	-	-	-	**455,465**
Loans under reverse repurchase agreements	15,300	-	-	-	-	-	-	**15,300**
Due from banks and financial institutions	99,198	-	-	-	-	-	-	**99,198**
Loans and advance to individuals:								
Overdrafts	-	2,780	14	82	19	6,834	20,487	**30,216**
Credit cards	-	-	-	-	-	682	1	**683**
Mortgages	-	171	-	65	-	109,685	-	**109,921**
Other	-	1,185	126	379	771	22,581	1,700	**26,742**
Loans and advances to corporate entities:								
Large corporate customers	-	39,224	-	1,774	-	240	31,331	**72,569**
SMEs	-	55,473	18,223	7,690	424	13,097	12,517	**107,424**
Kafalat	-	777	163	4,833	1,341	216	214	**7,544**
Investment securities – at FVTPL and amortized cost	926,704	-	-	-	-	-	-	**926,704**
	1,496,667	99,610	18,526	14,823	2,555	153,335	66,250	**1,851,766**
Financial guarantees	-	3,952	1,690	849	-	909	4,622	**12,022**
Loan commitments and other credit related obligations	-	53,956	6,630	8,167	831	18,220	15,946	**103,750**

(vii) Concentration with credit risk – Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region as of 31 December 2018 based on the country of domicile of its counterparties.

	31 December 2018		
	Lebanon	Other countries	TOTAL
	LBP million	LBP million	LBP million
Balances with the Central Bank	823,831	-	**823,831**
Loans under reverse repurchase agreements	13,634	-	**13,634**
Due from banks and financial institutions	47,850	72,651	**120,501**
Loans and advance to individuals:			
Overdrafts	29,189	-	**29,189**
Credit cards	1,271	-	**1,271**
Mortgages	124,565	-	**124,565**
Other	28,965	-	**28,965**
Loans and advances to corporate entities:			
Large corporate customers	72,153	-	**72,153**
SMEs	133,212	-	**133,212**
Kafalat	4,442	-	**4,442**
Investment securities – at FVTPL and amortized cost	733,138	-	**733,138**
TOTAL FINANCIAL ASSETS	**2,012,250**	**72,651**	**2,084,901**
Financial guarantees	15,652	-	**15,652**
Loan commitments and other credit related obligations	89,193	-	**89,193**

	31 December 2017		
	Lebanon	Other countries	TOTAL
	LBP million	LBP million	LBP million
Balances with the Central Bank	455,465	-	**455,465**
Loans under reverse repurchase agreements	15,300	-	**15,300**
Due from banks and financial institutions	27,860	71,338	**99,198**
Loans and advance to individuals:			
Overdrafts	30,216	-	**30,216**
Credit cards	683	-	**683**
Mortgages	109,921	-	**109,921**
Other	26,742	-	**26,742**
Loans and advances to corporate entities:			
Large corporate customers	72,569	-	**72,569**
SMEs	107,424	-	**107,424**
Kafalat	7,544	-	**7,544**
Investment securities – at FVTPL and amortized cost	926,704	-	**926,704**
TOTAL FINANCIAL ASSETS	**1,780,428**	**71,338**	**1,851,766**
Financial guarantees	12,022	-	**12,022**
Loan commitments and other credit related obligations	103,750	-	**103,750**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(viii) Lending commitments and other credit related obligations classified by type

Lending commitments and other related obligations are classified as follows:

	2018	2017
	LBP million	LBP million
Loans and advances to individuals:		
Overdrafts	3,137	8,321
Credit cards	557	5,742
Mortgages	6,269	6,128
Other	3,215	2,453
TOTAL INDIVIDUAL LOANS	**13,178**	**22,644**
Loans and advances to corporate entities:		
Large corporate customers	29,980	41,115
SMEs	43,800	37,862
Kafalat	2,235	2,129
TOTAL CORPORATE LOANS	**76,015**	**81,106**
	89,193	**103,750**

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

The Group's Board of Directors sets the Group's strategy for managing liquidity risk and delegates the responsibility for oversight of the implementation of this policy to the Board Risk Committee and ALCO. ALCO approves the Group's liquidity policies and procedures. Central Treasury manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and maintaining contingency facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Group's financial assets and financial liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding;
- Carrying out stress testing of the Group's liquidity position.

(c) Liquidity risk (Continued)

(i) Management of liquidity risk (Continued)

In addition, the Group maintains statutory deposits with Central Banks. As per Lebanese Banking regulations, the Group must retain non-interest-bearing balances with the Central Bank of Lebanon equivalent to 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds. As for foreign currencies, the Group must retain with the Central Bank of Lebanon interest bearing statutory investments equivalent to 15% of all deposits regardless of their nature.

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. The net liquid assets consist of cash and all 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 deposits and acceptances and other debt instruments issued by the Group and loans from the public sector that mature within one year.

(ii) Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, "net liquid assets" includes cash and cash equivalents and investment securities at fair value through profit or loss for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Central Bank of Lebanon and the Banking Control Commission.

The tables below set out the cash flows of the Group's financial assets and financial liabilities on the basis of their earliest possible contractual maturity.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) Exposure to liquidity risk (Continued)

	31 December 2018						
	Carrying amount	Gross nominal inflow / outflow	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Financial Assets							
Cash and balances with the Central Bank	835,905	1,246,258	152,868	-	-	137,769	955,621
Loans under reverse repurchase agreements	13,634	13,634	13,634	-	-	-	-
Due from banks and financial institutions	120,501	121,080	108,732	7,273	-	5,075	-
Loans and advances to customers and related parties	393,797	488,459	124,798	19,734	46,511	78,707	218,709
Investment securities at amortized cost	733,138	1,229,501	125	-	7751	192,279	1,029,346
Investment securities at fair value through other comprehensive income	1,746	1,746	-	-	-	-	1,746
Debtors by acceptances	17,723	17,723	15	3,732	6,843	7,133	-
TOTAL FINANCIAL ASSETS	**2,116,444**	**3,118,401**	**400,172**	**30,739**	**61,105**	**420,963**	**2,205,422**
Financial Liabilities							
Due to Central Bank	(257,675)	(302,106)	-	(35,009)	-	(1,691)	(265,406)
Due to banks and financial institutions	(24,405)	(24,405)	(7,325)	-	(17,080)	-	-
Deposits from customers at amortized cost	(1,615,842)	(1,646,604)	(1,122,013)	(177,745)	(276,114)	(68,805)	(1,927)
Deposits from related parties at amortized cost	(60,488)	(60,488)	(60,488)	-	-	-	-
Engagement by acceptances	(17,723)	(17,723)	(15)	(3,732)	(6,843)	(7,133)	-
TOTAL FINANCIAL LIABILITIES	**(1,976,133)**	**(2,051,326)**	**(1,189,841)**	**(216,486)**	**(300,037)**	**(77,629)**	**(267,333)**
NET FINANCIAL ASSETS / (FINANCIAL LIABILITIES)	**140,311**	**1,067,075**	**(789,669)**	**(185,747)**	**(238,932)**	**343,334**	**1,938,089**

	31 December 2017						
	Carrying amount	Gross nominal inflow / outflow	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Financial Assets							
Cash and balances with the Central Bank	464,089	656,055	165,535	3,778	7,576	120,710	358,456
Loans under reverse repurchase agreements	15,300	15,300	15,300	-	-	-	-
Due from banks and financial institutions	99,198	99,198	77,500	15,149	-	6,549	-
Loans and advances to customers and related parties	355,099	411,119	145,425	25,408	76,915	38,974	124,397
Investment securities at fair value through profit or loss	11,899	16,511	-	-	-	10,094	6,417
IInvestment securities at amortized cost	914,805	1,367,906	-	19,172	140,392	248,616	959,726
Investment securities at fair value through other comprehensive income	1,836	1,836	-	-	-	-	1,836
Debtors by acceptances	6,881	6,881	451	1,994	4,436	-	-
TOTAL FINANCIAL ASSETS	**1,869,107**	**2,574,806**	**404,211**	**65,501**	**229,319**	**424,943**	**1,450,832**
Financial Liabilities							
Due to Central Bank	(60,884)	(64,354)	(36,890)	-	-	(1,681)	(25,783)
Due to banks and financial institutions	(98,308)	(98,308)	(64,829)	(3,532)	(29,947)	-	-
Deposits from customers at amortized cost	(1,504,087)	(1,513,401)	(1,276,836)	(157,288)	(79,277)	-	-
Deposits from related parties at amortized cost	(58,207)	(58,446)	(58,446)	-	-	-	-
Engagement by acceptances	(6,881)	(6,881)	(451)	(1,994)	(4,436)	-	-
TOTAL FINANCIAL LIABILITIES	**(1,728,367)**	**(1,741,390)**	**(1,437,452)**	**(162,814)**	**(113,660)**	**(1,681)**	**(25,783)**
NET FINANCIAL ASSETS / (FINANCIAL LIABILITIES)	**140,740**	**833,416**	**(1,033,241)**	**(97,313)**	**115,659**	**423,262**	**1,425,049**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Maturity analysis for financial assets and financial liabilities

The tables below set out the maturities of the Group's assets and liabilities.

	31 December 2018						
	Up to 1 month	1 to 3 months	3 month to 1 year	1 to 5 years	Over 5 years	No Maturity	Carrying amount
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Assets							
Cash and balances with the Central Bank	151,937	-	-	116,379	567,589	-	835,905
Loans under reverse repurchase agreements	13,634	-	-	-	-	-	13,634
Due from banks and financial institutions	108,419	7,249	-	4,833	-	-	120,501
Loans and advance to customers at amortized cost	362,225	2,636	10,431	16,160	1,083	-	392,535
Loans and advances to related parties at amortized cost	-	1,262	-	-	-	-	1,262
Investment securities at amortized cost	124	-	7,303	159,634	566,077	-	733,138
Investment securities at fair value through other comprehensive income	-	-	-	-	1,746	-	1,746
Debtors by acceptances	15	3,732	6,843	7,133	-	-	17,723
Investment property	-	-	-	-	-	18,936	18,936
Property and equipment	-	-	-	-	-	37,827	37,827
Intangible assets	-	-	-	-	-	2	2
Non-current assets classified as held for sale	-	-	-	-	-	2,119	2,119
Other assets	418	44	4,629	-	51	-	5,142
TOTAL ASSETS	**636,772**	**14,923**	**29,206**	**304,139**	**1,136,546**	**58,884**	**2,180,470**
Liabilities							
Due to the Central Bank	-	(34,893)	-	(1,610)	(221,172)	-	(257,675)
Due to banks and financial institutions	(7,325)	-	(17,080)	-	-	-	(24,405)
Deposits from customers at amortized cost	(1,116,051)	(175,866)	(263,449)	(59,302)	(1,174)	-	(1,615,842)
Deposits from related parties at amortized cost	(49,294)	(11,194)	-	-	-	-	(60,488)
Engagement by acceptances	(15)	(3,732)	(6,843)	(7,133)	-	-	(17,723)
Current tax liabilities	(3,769)	-	-	-	-	-	(3,769)
Other liabilities	(3,103)	-	(8,933)	(189)	(290)	-	(12,515)
Employee benefit obligations	-	-	-	-	(4,808)	-	(4,808)
TOTAL LIABILITIES	**(1,179,557)**	**(225,685)**	**(296,305)**	**(68,234)**	**(227,444)**	**-**	**(1,997,225)**
DIFFERENCE	**(542,785)**	**(210,762)**	**(267,099)**	**235,905**	**909,102**	**58,884**	**183,245**

	31 December 2017						
	Up to 1 month	1 to 3 months	3 month to 1 year	1 to 5 years	Over 5 years	No Maturity	Carrying amount
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Assets							
Cash and balances with the Central Bank	165,535	3,778	7,576	98,539	188,661	-	464,089
Loans under reverse repurchase agreements	15,300	-	-	-	-	-	15,300
Due from banks and financial institutions	77,500	15,149	-	6,549	-	-	99,198
Loans and advance to customers at amortized cost	144,701	25,156	72,270	33,890	77,749	-	353,766
Loans and advances to related parties at amortized cost	-	-	1,333	-	-	-	1,333
Investment securities at fair value through profit or loss	-	-	-	8,375	3,524	-	11,899
Investment securities at amortized cost	-	18,940	133,048	209,980	552,837	-	914,805
Investment securities at fair value through other comprehensive income	-	-	-	-	1,836	-	1,836
Debtors by acceptances	451	1,994	4,436	-	-	-	6,881
Investment property	-	-	-	-	-	13,103	13,103
Property and equipment	-	-	-	-	-	29,247	29,247
Intangible assets	-	-	-	-	-	4	4
Non-current assets classified as held for sale	-	-	-	-	-	2,120	2,120
Other assets	1,501	50	4,383	1,576	49	-	7,559
TOTAL ASSETS	**404,988**	**65,067**	**223,046**	**358,909**	**824,656**	**44,474**	**1,921,140**
Liabilities							
Due to the Central Bank	(36,844)	-	-	(1,620)	(22,420)	-	(60,884)
Due to banks and financial institutions	(64,829)	(3,532)	(29,947)	-	-	-	(98,308)
Deposits from customers at amortized cost	(1,271,622)	(156,009)	(76,456)	-	-	-	(1,504,087)
Deposits from related parties at amortized cost	(58,207)	-	-	-	-	-	(58,207)
Engagement by acceptances	(451)	(1,994)	(4,436)	-	-	-	(6,881)
Current tax liabilities	(3,787)	-	-	-	-	-	(3,787)
Other liabilities	(1,926)	-	(16,719)	(839)	(4,825)	-	(24,309)
Employee benefit obligations	-	-	-	-	(4,737)	-	(4,737)
TOTAL LIABILITIES	**(1,437,666)**	**(161,535)**	**(127,558)**	**(2,459)**	**(31,982)**	**-**	**(1,761,200)**
DIFFERENCE	**(1,032,678)**	**(96,468)**	**95,488**	**356,450**	**792,674**	**44,474**	**159,940**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Maturity analysis for financial assets and financial liabilities

The Group's expected cash flows on some assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

As part of the management of its liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investment securities at fair value through profit or loss for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Group's solvency while optimising the return on risk.

(i) Management of market risks

The Group separates its exposure to market risks between trading and non- trading portfolios. Trading portfolios are managed on a fair value basis.

Overall authority for market risk is vested in Board Risk Committee and ALCO. Both set up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Group Risk Management is responsible for the development of detailed risk management policies (subject to review and approval by ALCO and the Board Risk Committee) and for the day-to-day review of their implementation.

The Group employs a range of tools to monitor and limit market risk exposures.

(ii) Market risk measurement techniques

Effective identification and monitoring of market risk is essential for maintaining stable profit. This is called out by the Group's Risk Management Unit. The Group's risk management, ALCO and Treasury are responsible for managing the Group's exposure within the risk exposure limits set out in the policies as approved by the Assets and Liabilities Committee and the Board of Directors. These policies set out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk. The basic techniques used by the Risk Management Unit to assess and monitor market risk are set out below:

(a) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Group's Risk Management Unit include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by the Board Risk Committee, the Group Management and Assets and Liabilities Committee. The stress testing is tailored to the business and typically uses scenario analysis.

(b) Sensitivity analysis

Sensitivity analysis is a technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price. Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different compared to the key predictions.

The Group performs this analysis for each type of market risk to which the Group is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

(iii) Exposure to market risks – non – trading portfolios

The principal risk to which non – trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having limits and is assisted by the Risk Management, ALCO and Treasury in its day-to-day monitoring activities.

The Group complies with the requirements of the Central Bank of Lebanon in respect of the management of interest rate risk. The Risk Management and Assets and Liabilities Committee monitor these risks which are measured using the gap analysis. Gap analysis depends on the earnings approach and the economic value of equity approach which measures the effect of interest rate reprising of assets and liabilities on the income.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

(iv) Exposure to interest rate risks – non- trading portfolios

The tables below summarise the Group's exposure to interest rate risk. This table includes the assets and liabilities categorized by the earlier of contractual re-pricing:

	31 December 2018	
	Up to 1 month	**1 to 3 months**
	LBP million	LBP million
Financial assets		
Cash and balances with the Central Bank	94,596	220,096
Loans under reserve repurchase agreements	13,634	-
Due from banks and financial institutions	55,781	8,636
Loans and advances to customers and related parties	345,701	3,898
Financial assets at fair value through other comprehensive income	-	-
Investment securities at amortized cost	121	-
Debtors by acceptances	-	-
TOTAL FINANCIAL ASSETS	**509,833**	**232,630**
Financial liabilities		
Due to the Central Bank	(34,174)	-
Due to banks and financial institutions	(1,543)	(3,500)
Deposits from customers and related parties at amortized cost	(1,058,075)	(185,130)
Engagement by acceptances	-	-
TOTAL FINANCIAL LIABILITIES	**(1,093,792)**	**(188,630)**
TOTAL INTEREST RE-PRICING GAP	**(583,959)**	**44,000**

	31 December 2017	
	Up to 1 month	**1 to 3 months**
	LBP million	LBP million
Financial assets		
Cash and balances with the Central Bank	64,986	118,791
Loans under reserve repurchase agreements	15,300	-
Due from banks and financial institutions	48,903	17,239
Loans and advances to customers and related parties	295,118	4,131
Investment securities at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Investment securities at amortized cost	-	18,502
Debtors by acceptances	-	-
TOTAL FINANCIAL ASSETS	**424,307**	**158,663**
Financial liabilities		
Due to the Central Bank	(36,844)	-
Due to banks and financial institutions	(56,798)	(23,170)
Deposits from customers and related parties at amortized cost	(1,216,673)	(157,196)
Engagement by acceptances	-	-
TOTAL FINANCIAL LIABILITIES	**(1,310,315)**	**(180,366)**
TOTAL INTEREST RE-PRICING GAP	**(886,008)**	**(21,703)**

31 December 2018					
3 to 12 months	1 to 5 years	Over 5 years	Total interest bearing	Non-interest bearing	**TOTAL**
LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
409,704	-	-	724,396	111,509	835,905
-	-	-		-	13,634
2,800	-	-	13,634	53,284	120,501
10,431	16,160	1,083	67,217	16,524	393,797
-	-	-	377,273	1,746	1,746
10,742	157,791	554,255	-	10,229	733,138
-	-	-	722,909	17,723	17,723
			-		
433,677	**173,951**	**555,338**	**1,905,429**	**211,015**	**2,116,444**
-	(1,610)	(221,172)	(256,956)	(719)	(257,675)
(17,041)	-	-	(22,084)	(2,321)	(24,405)
(272,918)	(60,663)	(1,174)	(1,577,960)	(98,370)	(1,676,330)
-	-	-	-	(17,723)	(17,723)
(289,959)	**(62,273)**	**(222,346)**	**(1,857,000)**	**(119,133)**	**(1,976,133)**
143,718	**111,678**	**332,992**	**48,429**	**91,882**	**140,311**

31 December 2017					
3 to 12 months	1 to 5 years	Over 5 years	Total interest bearing	Non-interest bearing	**TOTAL**
LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
170,084	-	-	353,861	110,228	464,089
-	-	-	15,300	-	15,300
3,500	-	-	69,642	29,556	99,198
20,455	12,819	1,588	334,111	20,988	355,099
-	8,182	3,511	11,693	206	11,899
-	-	-	-	1,836	1,836
130,857	206,999	545,948	902,306	12,499	914,805
-	-	-	-	6,881	6,881
324,896	**228,000**	**551,047**	**1,686,913**	**182,194**	**1,869,107**
-	(1,620)	(22,291)	(60,755)	(129)	(60,884)
(14,520)	-	-	(94,488)	(3,820)	(98,308)
(86,651)	-	-	(1,460,520)	(101,774)	(1,562,294)
-	-	-	-	(6,881)	(6,881)
(101,171)	**(1,620)**	**(22,291)**	**(1,615,763)**	**(112,604)**	**(1,728,367)**
223,725	**226,380**	**528,756**	**71,150**	**69,590**	**140,740**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

(iv) Exposure to interest rate risks – non- trading portfolios (Continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows:

	1% parallel increase	1% parallel decrease
	LBP million	LBP million
2018		
At 31 December	(5,578)	5,578
2017		
At 31 December	(7,988)	7,988

(v) Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group view itself as a Lebanese entity, with the Lebanese Lira as its functional currency. The Board 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.

The Group is allowed to hold a net trading position not to exceed 1% of its net shareholder's equity, as long as the global foreign position does not exceed, at the same time, 40% of its net shareholders' equity. In addition to regulatory limits, 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 regulatory and established limits.

The tables below summarise the Bank's exposure to foreign currency exchange rate risk at 31 December 2018 and 2017. The table includes the Bank's financial instruments at carrying amounts, categorised by currency.

	31 December 2018					
	LBP	USD	EUR	GBP	Others	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Financial assets						
Cash and balances with the Central Bank	456,143	372,715	477	422	6,148	835,905
Loans under reverse repurchase agreements	-	13,634	-	-	-	13,634
Due from banks and financial institutions	40,877	76,278	2	565	2,779	120,501
Loans and advances to customers and related parties at amortized cost	160,909	210,817	19,909	17	2,145	393,797
Investment securities at amortized cost	397,111	336,027	-	-	-	733,138
Investment securities at fair value through other comprehensive income	883	863	-	-	-	1,746
TOTAL FINANCIAL ASSETS	1,055,923	1,010,334	20,388	1,004	11,072	2,098,721
Financial liabilities						
Due to the Central Bank	(257,675)	-	-	-	-	(257,675)
Due to banks and financial institutions	(3,870)	(20,169)	(92)	(250)	(24)	(24,405)
Deposits from customers and related parties at amortized cost	(644,251)	(1,000,232)	(28,390)	(2,378)	(1,079)	(1,676,330)
TOTAL FINANCIAL LIABILITIES	(905,796)	(1,020,401)	(28,482)	(2,628)	(1,103)	(1,958,410)
Financial guarantees	1,590	13,942	120	-	-	15,652
Loan commitments and other credit related obligations	16,771	69,053	230	-	3,139	89,193

	31 December 2017					
	LBP	USD	EUR	GBP	Others	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Financial assets						
Cash and balances with the Central Bank	256,779	206,403	645	262	–	464,089
Loans under reverse repurchase agreements	–	15,300	–	–	–	15,300
Due from banks and financial institutions	7,921	85,371	2,666	2,249	991	99,198
Loans and advances to customers and related parties at amortized cost	148,354	189,861	16,869	15	–	355,099
Investment securities at fair value through profit or loss	4,090	7,809	–	–	–	11,899
Investment securities at amortized cost	451,550	444,155	19,100	–	–	914,805
Investment securities at fair value through other comprehensive income	865	971	–	–	–	1,836
TOTAL FINANCIAL ASSETS	869,559	949,870	39,280	2,526	991	1,862,226
Financial liabilities						
Due to the Central Bank	60,884	–	–	–	–	60,884
Due to banks and financial institutions	29,234	46,915	22,120	39	–	98,308
Deposits from customers and related parties at amortized cost	649,574	891,351	17,093	2,448	1,828	1,562,294
TOTAL FINANCIAL LIABILITIES	739,692	938,266	39,213	2,487	1,828	1,721,486
Financial guarantees	839	10,925	258	–	–	12,022
Loan commitments and other credit related obligations	16,267	80,927	1,944	–	4,612	103,750

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (Continued)

(v) Exposure to foreign exchange risk (Continued)

The following table shows the exposure to foreign exchange risk in the below currencies:

	2018		2017	
	Short	Long	Short	Long
	LBP million	LBP million	LBP million	LBP million
Position in:				
USD	-	156	-	576
EUR	-	243	-	61
GBP	1,624	-	-	41
CAD	-	26	-	5
CHF	-	42	-	20
Other currencies	-	758	864	-
TOTAL SHORT / LONG POSITION	**1,624**	**1,225**	**864**	**703**
NET FOREIGN EXCHANGE POSITION	**-**	**(399)**	**-**	**(161)**

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risks to management which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Internal Audit department. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

Besides that, the Risk Management Unit analyses all the operational incidents and submits a periodic report to the Management Risk Committee for further discussion.

(f) Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall. Moreover, other 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 profits as not material after taking into account the effect of any prepayment penalties.

(g) Capital management

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.

4. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and required varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation model

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements

• **Level 1:** inputs are quoted market prices (unadjusted) in active markets for identical instruments.

• **Level 2:** inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

• **Level 3:** inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

4. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Valuation model (Continued)

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivations and simple over-the-counter derivatives such as interest rate swaps.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(b) Financial instruments measured at fair value – fair value hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting year, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position.

	31 Decemeber 2018			
	Level 1	Level 2	Level 3	TOTAL
	LBP million	LBP million	LBP million	LBP million
Investment securities at fair value through other comprehensive income	863	-	883	1,746

	31 Decemeber 2017			
	Level 1	Level 2	Level 3	TOTAL
	LBP million	LBP million	LBP million	LBP million
Investment securities at fair value through profit or loss	7,809	4,090	-	11,899
Investment securities at fair value through other comprehensive income	971	-	865	1,836
	8,780	**4,090**	**865**	**13,735**

(c) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in fair value hierarchy into which each fair value measurements is categorized.

	31 December 2018				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	LBP million	LBP million	LBP million	LBP million	LBP million
Assets					
Cash and balances with the Central Bank	12,074	823,831	-	835,905	**835,905**
Loans under reverse repurchase agreements	-	13,634	-	13,634	**13,634**
Due from banks and financial institutions	-	120,501	-	120,501	**120,501**
Loans and advances to customers and related parties at amortized cost	-	-	393,808	393,808	**393,797**
Investment securities at amortized cost:					
Lebanese government bonds	206,064	105,484	-	311,548	**358,059**
Certificates of deposits	-	329,842	-	329,842	**370,853**
Other debt securities	-	4,226		4,226	**4,226**
Liabilities					
Due to the Central Bank	-	(257,675)	-	(257,675)	**(257,675)**
Due to banks and financial institutions	-	(24,405)	-	(24,405)	**(24,405)**
Deposits from customers and related parties at amortized cost	-	(1,675,016)	-	(1,675,016)	**(1,676,330)**

	31 December 2017				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	LBP million	LBP million	LBP million	LBP million	LBP million
Assets					
Cash and balances with the Central Bank	8,624	455,465	-	464,089	**464,089**
Loans under reverse repurchase agreements	-	15,300	-	15,300	**15,300**
Due from banks and financial institutions	-	99,198	-	99,198	**99,198**
Loans and advances to customers and related parties at amortized cost	-	-	355,999	355,999	**355,999**
Investment securities at amortized cost:					
Lebanese government bonds	352,655	265,432	-	618,087	**627,519**
Certificates of deposits	-	306,703	-	306,703	**282,129**
Other debt securities	-	5,157	-	5,157	**5,157**
Liabilities					
Due to the Central Bank	-	(60,884)	-	(60,884)	**(60,884)**
Due to banks and financial institutions	-	(98,308)	-	(98,308)	**(98,308)**
Deposits from customers and related parties at amortized cost	-	(1,562,294)	-	(1,562,294)	**(1,562,294)**

5. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below provides reconciliation between line items in the consolidated statement of financial position and categories of financial instruments:

	31 December 2018			
	Fair value through profit or loss	Fair value through other comp-rehensive income	Amortized cost	TOTAL
	LBP million	LBP million	LBP million	LBP million
Cash and balances with the Central Bank	-	-	835,905	835,905
Loans under reverse repurchase agreements	-	-	13,634	13,634
Due from banks and financial institutions	-	-	120,501	120,501
Loans and advances to customers and related parties	-	-	393,797	393,797
Investment securities	-	1,746	733,138	734,884
	-	1,746	2,096,975	2,098,721
Due to the Central Bank	-	-	(257,675)	(257,675)
Due to banks and financial institutions	-	-	(24,405)	(24,405)
Deposits from customers and related parties	-	-	(1,676,330)	(1,676,330)
	-	-	(1,958,410)	(1,958,410)

	31 December 2017			
	Fair value through profit or loss	Fair value through other comp-rehensive income	Amortized cost	TOTAL
	LBP million	LBP million	LBP million	LBP million
Cash and balances with the Central Bank	-	-	464,089	464,089
Loans under reverse repurchase agreements	-	-	15,300	15,300
Due from banks and financial institutions	-	-	99,198	99,198
Loans and advances to customers and related parties	-	-	355,099	355,099
Investment securities	11,899	1,836	914,805	928,540
	11,899	1,836	1,848,491	1,862,216
Due to the Central Bank	-	-	(60,884)	(60,884)
Due to banks and financial institutions	-	-	(98,308)	(98,308)
Deposits from customers and related parties	-	-	(1,562,294)	(1,562,294)
	-	-	(1,721,486)	(1,721,486)

6. CASH AND BALANCES WITH THE CENTRAL BANK

	2018 LBP million	2017 LBP million
Cash on hand	12,074	8,624
Current accounts	29,258	67,148
Included in cash and cash equivalents (note 33)	41,332	75,772
Terms deposits	587,185	209,141
Expected credit loss allowance	(1,001)	-
Interest receivable	9,231	2,161
Cash and unrestricted balances with the Central Bank	636,747	287,074
Compulsory reserve held with the Central Bank	199,158	177,015
TOTAL CASH AND BALANCES WITH THE CENTRAL BANK	**835,905**	**464,089**

In accordance with the Central Bank's basic circular number 84, the Group is required to constitute a compulsory reserve in Lebanese Pounds calculated on the basis of 15% of the weekly average of term deposits and 25% of the weekly average of current accounts. The Group is also required to constitute a compulsory reserve in foreign currency calculated on the basis of 15% of foreign currency deposits.

Compulsory reserve requirements are not available for use in the Group's day-to-day operations.

The reserves comprise compulsory reserves in Lebanese Pounds amounting to LL 45,090 million (2017: LL 38,304 million) and foreign currencies with a counter value of LL 154,068 million (2017: LL 138,711 million).

Term deposits generate fixed interest. Current accounts with the Central Bank of Lebanon do not generate interest.

Term deposits include placements of LBP 162,811 million blocked to the favor of the Central Bank against loans granted by the latter as at 31 December 2018 (2017: Nil) (Note 17).

7. LOANS UNDER REVERSE PURCHASE AGREEMENTS

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

During the year ended 31 December 2018, the Group bought Certificates of Deposit issued by the Central Bank of Lebanon from a financial institution under the agreements to resell them. Loans and reverse repurchase agreements amounted to LBP 13,634 million, net of expected credit loss allowance of LBP 151 million as at 31 December 2018 (2017: LBP 15,300 million).

Interest income from loans under reverse repurchase agreements amounted to LBP 707 million for the year ended 31 December 2018 (2017: LBP 103 million) (note 25).

8. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2018	2017
	LBP million	LBP million
Current accounts	47,630	18,700
Checks for collection	5,724	10,633
Placements with banks (with original maturities for less than three months)	62,549	63,589
Included in cash and cash equivalents (note 33)	115,903	92,922
Placements with banks (with original maturities for more than three months)	4,800	6,200
Expected credit loss allowance	(449)	-
Interest receivable	247	76
	120,501	**99,198**

9.LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES AT AMORTIZED COST

	2018	2017
	LBP million	LBP million
Gross loans and advances to customers	450,877	404,956
Gross loans and advances to related parties (note 35)	1,262	1,333
Interest receivable	263	140
	452,402	**406,429**
Deduct:		
Individual impairment		
Unrealized interest	-	(42,369)
Specific provision	-	(6,009)
Expected credit loss allowance	(58,605)	-
Provision based on collective assessment	-	(2,952)
IMPAIRMENT ALLOWANCE	**(58,605)**	**(51,330)**
	393,797	**355,099**

Loans and advances to customers and related parties classified by product:

	2018		
	Gross amount	ECL allowance	Carrying amount
	LBP million	LBP million	LBP million
Retail customers:			
Lending secured by mortgage	132,609	(445)	132,164
Lending against cash collateral	39,833	(2)	39,831
Personal loans	14,224	(3,566)	10,658
Other retail lending	2,476	(1,140)	1,336
Collective impairment	-	-	-
	189,142	**(5,153)**	**183,989**
Corporate customers:			
Lending secured by mortgage	45,264	(226)	45,038
Lending against cash collateral	6,948	-	6,948
Other corporate lending	211,048	(53,226)	157,822
Collective impairment	-	-	-
	263,260	**(53,452)**	**209,808**
	452,402	**(58,605)**	**393,797**

	2017		
	Gross amount	ECL allowance	Carrying amount
	LBP million	LBP million	LBP million
Retail customers:			
Lending secured by mortgage	110,384	(462)	109,922
Lending against cash collateral	37,815	(33)	37,782
Personal loans	15,226	(820)	14,406
Other retail lending	11,917	(5,008)	6,909
Collective impairment	-	(1,456)	(1,456)
	175,342	**(7,779)**	**167,563**
Corporate customers:			
Lending secured by mortgage	71,467	(17,981)	53,486
Lending against cash collateral	3,424	-	3,424
Other corporate lending	156,196	(24,074)	132,122
Collective impairment	-	(1,496)	(1,496)
	231,087	**(43,551)**	**187,536**
	406,429	**(51,330)**	**355,099**

9.LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES AT AMORTIZED COST (CONTINUED)

Reconciliation of expected credit loss allowance (2017: impairment allowance including specific, collective and unrealised interests) on loans advances to customers is as follows:

	2018	2017
	LBP million	LBP million
Balance at the beginning of the year	51,330	50,561
Effect of IFRS 9 adoption	1,505	-
Amended balance at beginning of the year	52,835	50,561
Unrealized interest for the year	6,751	6,270
Provision raised during the year	370	306
Provisions written-off	(119)	(5,048)
Recoveries of unrealized interest during the year	(235)	(297)
Recoveries of provisions during the year	(820)	(462)
Amounts transferred to off-balance sheet	(177)	-
Balance at the end of the year	**58,605**	**51,330**

Net release of provisions on loans and advances to customers recognized in the statement of profit or loss and other comprehensive income was as follows during the year:

	2018	2017
	LBP million	LBP million
Provisions raised during the year	370	306
Release of provisions	(820)	(462)
Release of interest on balance sheet items	(235)	(297)
Release of interest on off-balance sheet items	-	(151)
	(685)	**(604)**

10. INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	LBP million	LBP million
Lebanese government treasury bills	-	1,334
Certificates of deposit issued by the Central Bank	-	10,359
Interest receivable	-	206
	-	**11,899**

The Group reclassified certificates of deposit at a nominal value of LBP 2,754 million as at 1 January 2018 from its fair value through profit or loss to its portfolio of investment securities held at amortized cost.

During 2018, the Group sold certificates of deposits and Lebanese Government bonds with a nominal value of LBP 8,413 million (2017: LBP 28,814 million). The Group recorded the net resulting gain on sale amounting to LBP 145 million (2017: LBP 846 million) under "net gain from investment securities at FVTPL" in the consolidated statement of profit or loss and other comprehensive income. The unrealized gain/loss due to the change in fair value of the investment securities at fair value through profit or loss of LBP 695 million as at 31 December 2017 is recorded under "net gain from investment securities at fair value through profit or loss" (note 27) in the consolidated statement of comprehensive income.

During 2018, the Group released an amount from the deferred surplus against revenues from investment securities at fair value through profit or loss for an amount of LBP 3,620 million (2017: LBP 1,227 million).

11. INVESTMENT SECURITIES AT AMORTIZED COST

	2018	2017
	LBP million	LBP million
Lebanese government bonds *	357,189	618,294
Certificates of deposit issued by the Central Bank	365,200	278,930
Other debt securities	4,241	5,082
Expected credit loss allowance	(4,248)	-
Interest receivable	10,756	12,499
	733,138	**914,805**

(*) Lebanese government bonds include Lebanese treasury bills for a nominal amount of LBP 59,971 million (2017: LBP 23,911 million) blocked as collateral against loans obtained from the Central Bank of Lebanon (note 17).

During 2018, the Group sold certificates of deposits, Lebanese government bonds and Eurobonds held at amortized cost recognizing a loss of LBP 2,123 million (2017: gain of LBP 8,146 million) booked under net gain from investment securities at amortized cost in the consolidated statement of profit or loss and other comprehensive income.

The Group derecognized some debt instruments classified at amortized cost due to the following reasons:

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

During 2018, the Group released an amount from the deferred surplus against revenues from investment securities at amortized cost for an amount of LBP 2,026 million (2017: LBP 687 million).

12. INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 LBP million	2017 LBP million
Quoted equity securities	863	971
Unquoted equity securities	883	865
	1,746	**1,836**

Movements in the investment securities at fair value through other comprehensive income recognized in the statement of financial position is as follows:

	2018 LBP million	2017 LBP million
Balance at 1 January	1,836	2,089
Securities acquired	19	-
Change in fair value	(109)	(253)
Balance at 31 December	**1,746**	**1,836**

During 2018, dividend income from investment securities at fair value through other comprehensive income amounted to LBP 216 million (2017: LBP 285 million) recorded under "Revenues from investment securities at FVTOCI" in the consolidated statement of comprehensive income.

13. INVESTMENT PROPERTIES

	Property	
	2018 LBP million	2017 LBP million
Cost:		
Balance at 1 January	26,116	26,116
Balance at 31 December	**26,116**	**26,116**
Depreciation:		
Balance at 1 January	6,760	6,340
Depreciation for the year (note 30)	420	420
Balance at 31 December	**7,180**	**6,760**
Net carrying amount: At 31 December	**18,936**	**19,356**

The fair value of investment properties as determined by a registered independent appraiser having an appropriate recognized professional qualification and recent experience in location and category of the properties being valued amounted to LBP 49,699 million (2017: LBP 49,782 million). Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

14. PROPERTY AND EQUIPMENT

	31 December 2018						
	Land and buildings	Leasehold improve-ments	Computer and office equipment	Furniture and fixtures	Vehicles	Work in progress	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Cost:							
At 1 January 2018	31,756	23,076	13,114	1,961	102	1,292	**71,301**
Additions	-	1,403	69	23	22	1,312	**2,829**
Transfers	-	-	733	-	-	(733)	**-**
At 31 December 2018	**31,756**	**24,479**	**13,916**	**1,984**	**124**	**1,871**	**74,130**
Depreciation:							
At 1 January 2018	6,587	16,550	8,535	1,612	46	-	**33,330**
Depreciation for the year	496	844	1,566	59	8	-	**2,973**
At 31 December 2018	**7,083**	**17,394**	**10,101**	**1,671**	**54**	**-**	**36,303**
Net carrying amount:							
At 31 December 2018	**24,673**	**7,085**	**3,815**	**313**	**70**	**1,871**	**37,827**

	31 December 2017						
	Land and buildings	Leasehold improve-ments	Computer and office equipment	Furniture and fixtures	Vehicles	Work in progress	TOTAL
	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million	LBP million
Cost:							
At 1 January 2017	31,728	22,143	10,898	1,892	102	2,250	**69,013**
Additions	–	883	476	48	–	885	**2,292**
Disposals	–	–	(4)	–	–	–	**(4)**
Transfers	28	50	1,744	21	–	(1,843)	**–**
At 31 December 2017	**31,756**	**23,076**	**13,114**	**1,961**	**102**	**1,292**	**71,301**
Depreciation:							
At 1 January 2017	6,087	15,656	7,320	1,550	37	–	**30,650**
Depreciation for the year	500	894	1,217	62	9	–	**2,682**
Disposals	–	–	(2)	–	–	–	**(2)**
At 31 December 2017	**6,587**	**16,550**	**8,535**	**1,612**	**46**	**–**	**33,330**
Net carrying amount:							
At 31 December 2017	**25,169**	**6,526**	**4,579**	**349**	**56**	**1,292**	**37,971**

14. PROPERTY AND EQUIPMENT (CONTINUED)

During 1995, the Group revalued its land and buildings acquired before 1993 based on an independent expert's evaluation report. In conformity with Law No. 282 dated 30 December 2003, the Group paid 1.5% on the surplus from revaluation that amounted to LBP 15,205 million. An amount of LBP 15,167 million of the revaluation was accepted by the Central Bank of Lebanon and recognized within the property and equipment and under the caption "Revaluation reserve – part of Tier II capital" in equity.

15. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2018	2017
	LBP million	LBP million
Balance at 1 January	2,120	2,128
Additions	-	18
Disposals during the year	-	(26)
Adjustments	(1)	-
Balance at 31 December	**2,119**	**2.120**

During 2017, the Group disposed of assets obtained in settlement of debt held for sale with carrying value of LL 26 million and recognized a gain of LL 53 million (note 28).

16. OTHER ASSETS

	2018	2017
	LBP million	LBP million
Receivable from the ("NSSF") (i)	2,502	2,165
Impairment provision on receivable from NSSF	(686)	(643)
Advances related to property acquired in settlement of debt	-	1,355
Prepaid expenses	1,501	1,847
Deferred tax asset (note 21)	1,372	2,219
Other receivables	453	685
	5,142	**7,628**

(i) Receivable from the ("NSSF")

This amount represents medical expenses reimbursed by the Group to the employees which are recoverable later from NSSF.

17. DUE TO THE CENTRAL BANK

	2018	2017
	LBP million	LBP million
Term soft loan	256,957	60,755
Interest payable	718	129
	257,675	**60,884**

Term soft loans include term loans amounting to LBP 34,175 million as at 31 December 2018 (2017: LBP 30,900 million) which were granted by the Central Bank of Lebanon to subsidize the loans granted to customers under circular 313 of the Central Bank of Lebanon. The term loans are subject to a 1% interest rate payable on a monthly basis.

17. DUE TO THE CENTRAL BANK (CONTINUED)

In addition, term soft loans include term loans amounting to LBP 222,782 million secured by Lebanese treasury bills for a nominal amount of LBP 59,971 million (2017: LBP 23,911 million) included under investment securities at amortized cost as at 31 December 2018 (note 11) and by time deposits held with the Central Bank amounting to LBP 162,811 million included under cash and balances with the Central Bank blocked as collateral as at 31 December 2018 (note 6). The term loans are subject to a 2% interest rate payable on a monthly basis.

18. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2018	2017
	LBP million	LBP million
Current deposits	958	3,080
Outstanding checks	1,297	1,688
Term deposits	22,084	92,901
Interest payable	66	639
	24,405	**98,308**

Due to banks and financial institutions include a balance of LBP 7,299 million (2017: LBP 68,361 million) as current with maturities less than 3 months (note 33).

19. DEPOSITS FROM CUSTOMERS AT AMORTIZED COST

	2018	2017
	LBP million	LBP million
Term deposits	1,431,713	1,326,697
Sight deposits (i)	90,705	98,346
Net credit against debit accounts and margins	87,403	74,819
Interest payable	6,021	4,225
	1,615,842	**1,504,087**

(i) Sight deposits

	2018	2017
	LBP million	LBP million
Checking and current accounts	77,157	77,475
Saving accounts – demand	9,217	11,205
Debtors accidentally creditors	4,169	9,037
Payment orders	162	629
	90,705	**98,346**

20. CURRENT TAX LIABILITIES

	2018	2017
	LBP million	LBP million
Tax on interest	1,113	1,200
Tax on profit	2,171	2,060
Other taxes	485	604
	3,769	**3,864**

21. OTHER LIABILITIES

	2018	2017
	LBP million	LBP million
Deferred surplus*	9,146	14,792
Provision for risks and charges*	-	4,549
Accrued expenses and other payables	1,467	2,330
Withholding taxes and due to NSSF	614	711
Other provisions and regularization accounts**	865	1,053
Other liabilities	423	872
	12,515	**24,307**

(*) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 defining the accounting treatment of the surplus realized by banks from the transactions made with the Central Bank of Lebanon. In accordance with the provision of this circular, banks should recognize in profit or loss, only part of the gain net of tax, capped to the extent of the losses recorded to comply with certain regulatory provisioning requirements, the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements, if any.

As at 31 December 2017, the Group carried under other liabilities an amount of LBP 14,792 million in gains realized from certain financial transactions with the Central Bank of Lebanon and their related deferred taxes under other assets of LBP 2,219 million. These should have been recognized in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2016. During 2018, the Group transferred part of the deferred liabilities of LBP 5,646 million and their related deferred tax assets of LBP 847 million to the consolidated statement of comprehensive income.

During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective provisions equivalent to 2% of consolidated risk weighted loans and advances to customers. As such, provisions for risks and charges as at 31 December 2017 include an amount of LBP 4,549 million in excess of the provisioning requirements of IAS 39.

During 2018, the Group released an amount of LBP 4,279 million from provisions for risks and charges to the consolidated statement of profit or loss and other comprehensive income and transferred the remaining amounts of LBP 150 million to loans and advances to customers and LBP 120 million to Lebanese government bonds classified under investment securities at amortized cost.

(**) During 2018, the Group wrote-back to income an amount of LBP 1,017 million from "other provisions and regularisation accounts".

22. EMPLOYEES BENEFIT OBLIGATIONS

The movement in provision for employee benefit obligations is summarized as follows:

	2018	2017
	LBP million	LBP million
Balance at 1 January	4,789	4,124
Charge for the year (note 29)	585	936
Release of provision (note 29)	(214)	(174)
Payments during the year	(352)	(97)
Balance at 31 December	**4,808**	**4,789**

23. SHARE CAPITAL

At 31 December 2018 and 2017, the authorized and issued share capital comprised 3,450,000 nominal shares with a par value of LL 15,700 each. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time. All shares rank equally with regard to the Group's residual assets.

24. RESERVES

	2018	2017
	LBP million	LBP million
General Banking risk reserve (i)	-	19,814
Legal reserve (ii)	13,806	12,584
Reserve for capital increase	10,295	10,232
Reserve for assets classified as held for sale (iii)	1,097	927
Reserve on retail portfolio	-	711
Revaluation reserve for real estate	-	13,513
General non-distributable reserve	16,752	-
Revaluation reserve accepted as supplementary capital – part of Tier II capital	28,680	15,167
Non-distributable reserves	**70,630**	**72,948**
Free reserve – distributable	**37,584**	**29,287**
TOTAL RESERVE	**108,214**	**102,235**

(i) General Banking risk reserve

In compliance with the requirements of the Central Bank of Lebanon basic circular number 50, the Bank is required to set up a reserve for general banking risks at a minimum rate of 0.2% and a maximum of 0.3% of the risk weighted assets and off-balance sheet financial instruments in local and foreign currencies. This reserve should not be less than 1.25% and 2% by the end of the 10th and the 20th years, respectively. This reserve is not available for distribution.

During 2018, this reserve was transferred to general non-distributable reserve upon the implementation of IFRS 9.

24. RESERVES (CONTINUED)

(ii) Legal reserve

The Lebanese Code of Money and Credit and the Group's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. This reserve is not available for distribution.

(iii) Reserve for asset classified as held for sale

This reserve is related to properties held in settlement of debt and is not available for distribution.

25. NET INTEREST AND SIMILAR INCOME

	2018	2017
	LBP million	LBP million
Interest and similar income		
Loans and advances to customers and related parties	22,300	19,435
Balances with the Central Bank of Lebanon	35,972	13,733
Due from banks and financial institutions	2,724	1,058
Loans under reverse repurchase agreements (note 7)	707	103
Investment securities	64,874	64,340
	126,577	**98,669**
Les: Tax on interest		
Investment securities	2,924	-
Balances with the Central Bank	1,931	-
Due from banks and financial institutions	14	-
Loans under reverse repurchase agreements	49	-
	4,918	**-**
Interest and similar income, net of tax	**121,659**	**98,669**
Interest and similar expense		
Deposits from customers and related parties	(82,880)	(65,819)
Due to banks and financial institutions	(3,755)	(2,636)
Interest and similar expense	**(86,635)**	**(68,455)**
Net interest and similar income	**35,024**	**30,214**

26. FEE AND COMMISSION INCOME

	2018	2017
	LBP million	LBP million
Commissions on banking operations	3,521	3,594
Credit - related fees and commissions	502	515
Brokerage fees	193	240
Commissions on letters of credit and guarantees	442	333
	4,658	**4,682**

27. NET GAIN FROM INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 LBP million	2017 LBP million
Interest income	224	1,519
Gain on exchange	548	838
Net gain on sales	145	846
Release from deferred surplus	3,620	1,227
Change in fair value through profit or loss (note 10)	-	695
	4,537	**5,125**

28. OTHER OPERATING INCOME

	2018 LBP million	2017 LBP million
Rental and related income	1,351	1,223
Gain on sales of non-current assets classified as held for sale (note 15)	-	53
Other operating income	249	135
	1,600	**1,411**

29. PERSONNEL EXPENSES

	2018 LBP million	2017 LBP million
Salaries and related benefits	16,799	15,330
Social security contributions	2,281	2,033
Provision for employee benefit obligations (note 22)	585	936
Release of provision for employee benefit obligations (note 22)	(214)	(174)
Other personnel expenses	301	441
	19,752	**18,566**

30. DEPRECIATION AND AMORTIZATION CHARGES

	2018 LBP million	2017 LBP million
Depreciation charge on investment properties (note 13)	420	420
Depreciation charge on property and equipment (note 14)	2,973	2,682
Amortization charge on intangible assets	2	15
	3,395	**3,117**

31. OTHER OPERATING EXPENSES

	2018	2017
	LBP million	LBP million
Repairs and maintenance	2,570	2,163
Marketing expenses	1,579	1,031
Taxes	1,443	1,959
Insurance expense	1,236	1,166
Professional fees	917	882
Customer deposits insurance	786	729
Subscription fees	548	651
Utilities expense	430	530
Rent	368	395
Office supplies	295	366
Directors' attendance fees (note 35)	228	185
Custody fees	112	122
Impairment loss on receivables from NSSF	43	44
Software costs	19	17
Other expenses	1,580	1,380
	12,154	**11,620**

32. INCOME TAX EXPENSE

		2018		2017
		LBP million		LBP million
Profit before income tax		16,173		15,528
Income tax using domestic corporation tax rate	**(17%)**	2,749	**(15%)-(17%)**	2,401
Effect of other non-deductible expenses		(1,778)		(59)
Withholding tax on interest not reimbursable		-		475
Current income tax expense		**971**		**2,817**
Effective tax rate	**6.00%**		**18.14%**	

During 2017, the Ministry of Finance increased the corporate income tax rate from 15% to 17%, 15% applicable for the period ending 26 October 2017 inclusive, and 17% applicable starting 27 October 2017.

Also during 2017, the Ministry of Finance increased the tax on interest earned from 5% to 7%; 5% applicable for the period ending 26 October 2017 inclusive, and 7% applicable starting 27 October 2017.

33. CASH AND CASH EQUIVALENTS

	2018	2017
	LBP million	LBP million
Cash and balances with the Central Bank (note 6)	41,332	75,772
Loans under reserve repurchase agreements (note 7)	13,785	15,300
Due from banks and financial institutions (note 8)	115,903	92,922
Due to banks and financial institutions (note 18)	(7,299)	(68,361)
	163,721	**115,633**

34. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Legal proceedings

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on advice from legal counsel, management believes that legal claims not provided for will not result in any material financial loss to the Group.

(b) Tax and other obligations

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.

The books and records of the Group have not been reviewed by the Department of Income Tax for the years 2014 to 2018 (inclusive). The ultimate outcome of any review by the Department of Income Tax cannot be currently determined.

The Group's books have not been reviewed by the National Social Security Fund (NSSF) since 2012. The ultimate outcome of any review by the NSSF on the Group's books for the years 2012 to 2018 (inclusive) cannot be currently determined.

35. RELATED PARTIES

(a) Key management compensation

Some of the board members hold positions in the related entities that result in having control over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting year. The terms and conditions of the transactions with the key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

35. RELATED PARTIES (CONTINUED)

(a) Key management compensation (Continued)

	2018	2017
	LBP million	LBP million
Directors' attendances fees (note 31)	228	185
Employees' benefits	1,796	1,462
	2,024	**1,647**

(b) Loans and advances to related parties at amortized cost

	2018	2017
	LBP million	LBP million
Ayoub Lebanese Industrial Company SAL ("ALICO")	688	676
Sleep Comfort Lebanon SAL	77	141
Key management personnel	497	516
	1,262	**1,333**

Sleep Comfort Lebanon SAL and ALICO SAL share Board members with the Group Interest rate charged on loans and advances to related parties average to 7.26% (2017: 6.7%) on USD accounts.

(c) Deposits from related parties at amortized cost

	2018	2017
	LBP million	LBP million
Deposits from related parties	60,488	58,207

Average interest rates granted on deposits from related parties average to 8.82% (2017: 7.84%) on LL accounts and 5.93% (2017: 4.25%) on USD accounts.

(d) Transaction with a related party

	2018	2017
	LBP million	LBP million
Construction and maintenance expenses charged by CAT	(1,309)	(956)
Interest income	96	103
Interest expense	(3,373)	(4,785)

36. OFF BALANCE SHEET ITEMS

	2018 LBP million	2017 LBP million
Financing Commitments		
Financing commitments given to customers	89,193	103,750
Guarantees		
Guarantees given to banks and financial institutions	970	750
Guarantees received from banks and financial institutions	4,190	5,265
Guarantees given to customers	15,652	12,022
Guarantees received from customers	1,004,227	915,609
Operations in foreign currencies		
Foreign currencies to receive	3,283	942
Foreign currencies to deliver	3,269	(915)
Contingencies on legal disputes	**55**	**55**
Bad loans fully provided for	**141,434**	**122,925**
Assets under management	**83,188**	**89,713**

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to comply with the basis of preparation adopted in the current year.

CORRESPONDENT BANKS

CITY	CORRESPONDENT BANK
Bilbao	Banco Bilbao Vizcaya Argentaria SA
Toronto	Bank of Montreal
Dubai City	Blom Bank France
Frankfurt am Main	Commerzbank AG
	The Bank of New York Mellon
Milan	Intesa Sanpaolo SPA
London	The Bank of New York Mellon
New York	The Bank of New York Mellon
	JP Morgan Chase BANK National Association
Oslo	DNB Bank ASA
Paris	Bank Audi France SA
	Blom Bank France
Stockholm	Skandinaviska Enskilda Banken AB
Sydney	Westpac Banking Corporation
Tokyo	The Bank of New York Mellon
Beirut	Qatar National Bank (Q.P.S.C.)

OUR BRANCHES

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Khayat Bldg, Sioufi Street
Tel: 01-200121 / 01-337340
Fax: 01-337340

Burj Hammoud
Jamgotchian Bldg, Armenia Street
Tel: 01-262527 / 01-266992
Fax: 01-262527

Dbayeh
BSL BANK Bldg, Dbayeh Highway
Tel: 04-402420 / 1 / 2 / 04-404560
Fax: 04-415985

Dora
United Court Bldg, Dora Highway
Tel: 01-262090 / 01-264785
Fax: 01-264785 / 01-264656

Hamra
Abu El Hessen Bldg, Makdessi Street
Tel: 01-342750 / 01-349711
Fax: 01-353084

Hazmieh
Mallat Center, Damascus Road
Tel: 05-457640 / 1 / 05-454686
Fax: 05-454686

Mar Elias
Chehadeh Bldg, Mar Elias Street
Tel: 01-818122 / 3
Fax: 01-818122

Riad Solh
BSL BANK Bldg, Banks Street
Tel: 01-980071 / 4 / 5 / 6
Fax: 01-980073

Sami Solh
Joseph Chahine Bldg, Sami Solh Avenue
Tel: 01-387795
Fax: 01-389398

Saint Nicolas
Zen Bldg, Charles Malek Avenue
Tel: 01-200340 / 1
Fax: 01-218751

NORTH LEBANON

Tripoli
BSL BANK Bldg, Tell Square
Tel: 06-430042 / 3 / 5 / 6
Fax: 06-430044

Zgharta
BSL BANK Bldg, Sleiman Frangieh Boulevard
Tel: 06-662667 / 8
Fax: 06-660856

SOUTH LEBANON

Saida
BSL BANK Bldg, Riad Solh Street
Tel: 07-720401 / 2
Fax: 07-720404

Tyr
Assawira Bldg, Main Street
Tel: 07-740294
Fax: 07-740056

JBEIL

13th Street, Nobilis Center
Tel: 09-543091 / 2 / 4
Fax: 09-543093

KESERWAN

Jounieh
Haret Sakher, Athénée Center
Tel: 09-913880 / 09-915517
Fax: 09-913885

BEKAA

Baalbeck
BSL BANK Bldg, Khalil Moutran Square
Tel: 08-370333 / 08-370447
Fax: 08-371876

Zahleh
BSL BANK Bldg, Zahleh Boulevard
Tel: 08-823287 / 08-823033
Fax: 08-823033