FFA Private Bank

CONSOLIDATED **FINANCIAL** STATEMENTS

FFA PRIVATE BANK SAL

31 DECEMBER 2019

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Building a better
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FFA PRIVATE BANK SAL

Qualified opinion

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

In our opinion, except for the effects of the matters 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 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

1- As disclosed in note 33.3.1 to the consolidated financial statements, the Group holds assets with the Central Bank of Lebanon and Lebanese banks, Lebanese government debt securities, and a mandatory deposit with the Lebanese Treasury representing 20% of total equity. The accompanying consolidated financial statements do not include IFRS 9 adjustments to the carrying amount of these assets and related disclosures that would result from the resolution of the uncertainties disclosed in note 1 and the future effects of the economic crisis and the restructuring plan. In addition, as disclosed in note 31, they do not include IFRS 13 fair value disclosures for these financial assets and other financial instruments concentrated in Lebanon.

2- As disclosed in note 31 to the consolidated financial statements, the Group holds unquoted equity funds measured using unobservable data amounting to LL (000) 1,097,489 representing 1.6% of total equity. It is not possible to determine the future effects that the economic crisis described in note 1, would have on the carrying amount these assets. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts.

3- Our opinion on the prior year's consolidated financial statements was modified due to an overstatement of "net gain from financial assets at fair value through profit or loss" and "write-back of provision for risks and charges" by LL (000) 948,224 and LL (000) 614,185 respectively as a result of an accounting performed on regulatory instructions which departed from IFRS requirements (note 22). Our opinion on the current year's consolidated financial statements is modified due to effect of this matter on the comparability of the current period's consolidated financial statements and the corresponding prior year.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "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.

Emphasis of matters
We draw attention to note 1 of the consolidated financial statements which:

- describes the current economic situation in Lebanon; and
- indicates that the Group did not comply with the requirements of the Central Bank of Lebanon intermediary circular 532.

Our opinion is not modified in respect of these matters.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. Except for the matters described in the *"Basis for qualified opinion"* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of management and the Board of Directors 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 Board of Directors is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

Ernst & Young

BDO, Semaan, Gholam & Co.

3 June 2020
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2019

	Notes	2019 LL (000)	2018 LL (000)
Interest and similar income	3	**9,440,464**	12,444,439
Interest and similar expense	3	**(4,278,854)**	(6,872,473)
NET INTEREST INCOME		**5,161,610**	5,571,966
Fee and commission income	4	**19,781,720**	20,383,861
Fee and commission expense	4	**(5,650,408)**	(5,455,861)
NET FEE AND COMMISSION INCOME		**14,131,312**	14,928,000
Net gain from financial assets at fair value through profit or loss	5	**4,067,573**	2,466,919
Other income		**1,358**	-
TOTAL OPERATING INCOME		**23,361,853**	22,966,885
Net impairment loss on financial assets	6	**(1,256,845)**	(374,523)
Share of loss from an associate	16	**(6,386)**	(3,614)
NET OPERATING INCOME		**22,098,622**	22,588,748
Personnel expenses	7	**(11,406,601)**	(10,498,386)
Depreciation of property and equipment	18	**(1,316,708)**	(1,191,030)
Amortization of intangible assets	19	**(34,787)**	(28,621)
Other operating expenses	8	**(6,046,213)**	(7,021,995)
TOTAL OPERATING EXPENSES		**(18,804,309)**	(18,740,032)
(Provision) write-back of provision for risks and charges		**(301,500)**	614,185
PROFIT BEFORE TAX		**2,992,813**	4,462,901
Income tax expense	9	**(226,701)**	(493,916)
PROFIT FOR THE YEAR		**2,766,112**	3,968,985
Attributable to:			
Equity holders of the parent		**2,766,196**	3,968,964
Non-controlling interests		**(84)**	21
PROFIT FOR THE YEAR		**2,766,112**	3,968,985

The attached notes from 1 to 37 form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	*2018*
	LL (000)	*LL (000)*
PROFIT FOR THE YEAR	**2,766,112**	3,968,985
Other comprehensive income:		
Net loss from financial assets at fair value through other comprehensive income	**-**	(674,104)
Other comprehensive loss for the year	**-**	(674,104)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,766,112**	3,294,881
Attributable to:		
Equity holders of the parent	**2,766,196**	3,294,860
Non-controlling interests	**(84)**	21
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,766,112**	3,294,881

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	*2019* *LL (000)*	*2018* *LL (000)*
ASSETS			
Cash and balances with the central bank	10	**4,639,630**	21,901,312
Due from banks and financial institutions	11	**21,336,663**	38,312,794
Financial assets at fair value through profit or loss	12	**12,414,002**	18,986,528
Financial assets at amortized cost	13	**2,163,378**	13,318,223
Financial assets at fair value through other comprehensive income	14	**1,162,076**	-
Loans and advances to customers at amortized cost	15	**12,342,186**	35,402,049
Loans and advances to related parties at amortized cost	15	**74,363**	15,810
Investment in an associate	16	**-**	6,386
Other assets	17	**5,797,671**	5,935,436
Property, equipment, and right-of-use assets	18	**24,180,382**	23,757,867
Intangible assets	19	**58,209**	89,731
TOTAL ASSETS		**84,168,560**	157,726,136
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and financial institutions	20	**571,754**	31,099,394
Customers' deposits at amortized cost	21	**11,173,900**	55,575,621
Other liabilities	22	**3,249,069**	3,037,099
Provisions for risks and charges		**1,619,359**	1,525,656
Total liabilities		**16,614,082**	91,237,770
Equity			
Share capital – common shares	23	**17,000,000**	17,000,000
Share premium – common shares	23	**19,443,212**	19,443,212
Non-distributable reserves	24	**8,300,485**	6,323,616
Distributable reserve	24	**458,064**	421,696
Revaluation reserve of property	25	**14,328,847**	14,328,847
Retained earnings		**5,934,883**	5,679,156
Changes in fair value of financial assets at fair value through other comprehensive income	14	**(677,600)**	(677,600)
Result of the year - profit		**2,766,196**	3,968,964
		67,554,087	66,487,891
Non-controlling interests		**391**	475
Total equity		**67,554,478**	66,488,366
TOTAL LIABILITIES AND EQUITY		**84,168,560**	157,726,136
OFF – STATEMENT OF FINANCIAL POSITION ACCOUNTS			
Financial instruments under custody	27	**609,376,342**	721,456,256
Fiduciary deposits	27	**311,958,614**	266,047,024
Introducing broker		**191,909,303**	180,731,442

The consolidated financial statements were authorized for issue on behalf of the Board of Directors on 3 June 2020 by:

Jean Riachi
Chairman and General Manager

The attached notes from 1 to 37 form a part of these consolidated financial statements.

FFA PRIVATE BANK SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Bank										
	Share capital common shares LL (000)	*Share premium common shares LL (000)*	*Non-distributable reserves LL (000)*	*Distributable reserve LL (000)*	*Retained earnings LL (000)*	*Changes in fair value of financial assets at fair value through other comprehensive income LL (000)*	*Revaluation reserve of property LL (000)*	*Result of the year - profit LL (000)*	*Total LL (000)*	*Non-controlling interests LL (000)*	*Total equity LL (000)*
Balance at 1 January 2019	17,000,000	19,443,212	6,323,616	421,696	5,679,156	(677,600)	14,328,847	3,968,964	66,487,891	475	66,488,366
Profit for the year – 2019	-	-	-	-	-	-	-	2,766,196	2,766,196	(84)	2,766,112
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-	2,766,196	2,766,196	(84)	2,766,112
Transfer to retained earnings	-	-	-	-	3,968,964	-	-	(3,968,964)	-	-	-
Transfer to reserves (note 24)	-	-	1,976,869	36,368	(2,013,237)	-	-	-	-	-	-
Dividends paid (note 26)	-	-	-	-	(1,700,000)	-	-	-	(1,700,000)	-	(1,700,000)
Balance at 31 December 2019	**17,000,000**	**19,443,212**	**8,300,485**	**458,064**	**5,934,883**	**(677,600)**	**14,328,847**	**2,766,196**	**67,554,087**	**391**	**67,554,478**
Balance at 1 January 2018	17,000,000	19,443,212	3,587,132	539,896	4,791,515	(102,849)	14,328,847	4,505,051	64,092,804	454	64,093,258
Impact of IFRS 9 adoption at 1 January 2018	-	-	-	-	(9,773)	-	-	-	(9,773)	-	(9,773)
Restated balance at 1 January 2018	17,000,000	19,443,212	3,587,132	539,896	4,781,742	(102,849)	14,328,847	4,505,051	64,083,031	454	64,083,485
Profit for the year – 2018	-	-	-	-	-	-	-	3,968,964	3,968,964	21	3,968,985
Other comprehensive loss	-	-	-	-	-	(674,104)	-	-	(674,104)	-	(674,104)
Total comprehensive income	-	-	-	-	-	(674,104)	-	3,968,964	3,294,860	21	3,294,881
Sale of financial assets at fair value through other comprehensive income	-	-	-	-	(99,353)	99,353	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	4,505,051	-	-	(4,505,051)	-	-	-
Transfer to reserves (note 24)	-	-	2,736,484	-	(2,736,484)	-	-	-	-	-	-
Dividends paid (note 26)	-	-	-	(118,200)	(771,800)	-	-	-	(890,000)	-	(890,000)
Balance at 31 December 2018	17,000,000	19,443,212	6,323,616	421,696	5,679,156	(677,600)	14,328,847	3,968,964	66,487,891	475	66,488,366

The attached notes from 1 to 37 form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	*2019* *LL (000)*	*2018* *LL (000)*
OPERATING ACTIVITIES			
Profit before tax		**2,992,813**	4,462,901
Adjustments for:			
Depreciation	18	**1,316,708**	1,191,030
Amortization	19	**34,787**	28,621
Net impairment loss on financial assets	6	**1,256,845**	374,523
Share of loss from an associate		**6,386**	3,614
Provision (write-back of provision) for risks and charges, net		**301,500**	(611,024)
(Gain) loss on disposal of property and equipment		**(15,043)**	3,922
Provision for retirement benefit obligations	7	**272,571**	133,628
		6,166,567	5,587,215
Operating income before working capital changes:			
Balances with the central bank		**12,663,057**	182,077
Due from banks and financial institutions		**(3,553)**	159,065
Financial assets at fair value through profit or loss		**6,572,526**	(402,459)
Financial assets at amortized cost		**11,135,054**	(3,449,929)
Financial assets at fair value through other comprehensive income		**(1,162,076)**	48,054
Loans and advances to customers and related parties at amortized cost		**22,442,557**	29,800,922
Other assets		**194,519**	861,005
Customers' deposits at amortized cost		**(44,401,721)**	(20,687,003)
Other liabilities		**(167,231)**	(1,862,207)
Retirement benefit obligations paid		**(480,366)**	(142,981)
Cash from operations		**12,959,333**	10,093,759
Taxes paid		**(493,916)**	(278,114)
Net cash from operating activities		**12,465,417**	9,815,645
INVESTING ACTIVITIES			
Purchase of property and equipment	18	**(1,095,554)**	(734,042)
Purchase of intangible assets	19	**(3,265)**	(46,708)
Proceeds from disposal of property and equipment		**33,953**	2,107
Net cash used in investing activities		**(1,064,866)**	(778,643)
FINANCING ACTIVITY			
Dividends paid	26	**(1,700,000)**	(890,000)
Net cash used in financing activity		**(1,700,000)**	(890,000)
INCREASE IN CASH AND CASH EQUIVALENTS		**9,700,551**	8,147,002
Cash and cash equivalents at 1 January		**12,837,189**	4,690,187
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	28	**22,537,740**	12,837,189

The attached notes from 1 to 37 form a part of these consolidated financial statements.

1 CORPORATE INFORMATION

FFA Private Bank SAL (the "Bank") is a Lebanese shareholding company and was registered at the commercial registry of Beirut on 7 June 1996 under no. 70256. The Bank started its operations as a financial institution (Financial Funds Advisors SAL) registered at the Bank of Lebanon under no. 18 in the list of financial institutions. On 20 March 2007, the status of the Bank changed from a financial institution to a Private Bank under the name "FFA Private Bank SAL" according to the terms of legislative law no 50 dated 15 July 1983. The Bank is registered at the commercial registry of Beirut under the same number on 2 June 2007 and under the number 129 in the list of Banks at the Central Bank of Lebanon. The Bank, together with its subsidiaries (the "Group"), Financial Funds Advisors (FFA) SARL, FFA Private Bank (Dubai) Limited, FFA Investments (Holding) SAL, FFA Real Estate SAL, FFA Real Estate Limited, FFA Holdings SAL (Holding) and FFA Capital Limited are involved in mainly banking, real estate and financial services activities. The Bank is regulated by the Laws in Lebanon mainly the Code of Commerce, the Money and Credit Act and the circulars issued by the Central Bank of Lebanon and the Banking Control Commission. The Bank's main activity is to provide financial services such as corporate and project finance as well as asset management and brokerage.

The Bank's head office is located at One FFA Gate-Marfaa 128, Foch Street, Beirut, Central District, Lebanon.

1.1 Macroeconomic environment

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

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

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

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

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

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

On 1 May 2020 the Lebanese Prime Minister and the Lebanese Finance Minister signed a request for aid from the International Monetary Fund and round table talks were initiated on 13 May 2020. The Government believes the Plan conveys good faith for negotiations with the International Monetary Fund. Lebanon began detailed discussions with the IMF on 1 May 2020. Multilateral intervention is expected to catalyze additional external support and unlock US$ 11 billion in pledges from international donors made in 2018 in the Conference Economique pour le Development par les Reformes et avec les Entreprises (CEDRE) as well as other external financial support to cover the net external financial needs for a gradual economic recovery and successful restructuring of the Government foreign currency debt.

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

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

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

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

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

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

1.2 Regulatory environment

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

- Intermediary Circular 532 issued on 4 November 2019 requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and to increase the regulatory capital by 20% of the common equity tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020.

- Intermediary Circular 534 issued on 19 November 2019 extending the deadline for reaching the 25% ratio of "net loans granted in LL / net deposits in LL" from 31 December 2019 to 31 December 2020. Banks who believe to be unable to reach said ratio within the set time limit may refer to BDL Central Council before 31 December 2020.

- Intermediary Circular 536 issued on 4 December 2019 stating that the Central Bank of Lebanon will settle the interest on the banks' term deposits and certificates of deposits in US Dollars 50% in US Dollars and 50% in LL. As for the deposits received or renewed after 4 December 2019, banks have to comply with the following interest rates:
  - 5 % for deposits in foreign currencies; and
  - 8.5 % for deposits in LL

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

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

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

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

Type of financial instrument	*Maximum loss rate*
Exposures to Central Bank of Lebanon in foreign currencies	**Up to** 1.89 %
Exposures to Central Bank of Lebanon in Lebanese Pounds	0 %
Lebanese Government securities in foreign currencies	**Up to** 9.45 %
Lebanese Government securities in Lebanese Pounds	0 %

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

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

- Basic Circular 148 issued on 3 April 2020 requesting banks to allow clients with small accounts to withdraw cash paid in LL by first calculating the equivalent of the account balance in US Dollars at the official exchange rate, then paying an amount of cash in LL equal to the counter value of the calculated amount as per the market exchange rate. US Dollars amounts resulting of these operations should be sold to the Central Bank of Lebanon as per the market exchange rate.

- Basic Circular 149 issued on 3 April 2020 announcing the creation of a special unit at the Central Bank of Lebanon to conduct FOREX operations as per the market rate. Money dealers (of "type A") may adhere to this unit, upon Central Bank of Lebanon's discretion. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations. Abrogating the article 18 which was introduced by intermediate circular no. 546 to basic circular no. 3 related to Money Dealers.

- Basic Circular 151 issued on 21 April 2020 concerning the clients that are not tackled in Basic Circular 148 who wish to withdraw amounts of cash from their foreign currencies accounts, banks should settle, with the client's consent, the equivalent of those amounts in LL as per the market exchange rate. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars. Banks should disclose daily their adopted market exchange rate.

- Intermediary Circular 552 issued on 22 April 2020 requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for the clients who are not able to pay their dues, due to current economic situation to as assessed by the bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group

As indicated in note 35B, assets and liabilities in foreign currency as of 31 December 2019 were valued at the official exchange rate of 1,507.5 US$/LL. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official exchange rate: parallel exchange markets with high volatility, recently issued Central Bank of Lebanon circulars, estimation exchange rates detailed in the Plan, in addition to a wide range of exchange rates adopted for commercial transactions currently undertaken in the Lebanese territory. These consolidated financial statements do not include adjustments from any future change in the official exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognized in these consolidated financial statements once the revamping of the peg is implemented by the Lebanese Government.

Loss allowances on assets held at the Central Bank of Lebanon, the portfolio of government securities, assets held with other Lebanese banks, and the mandatory deposit with the Lebanese Treasury, are recorded based on expert's judgement and inputs observed in historical studies performed by credit risk agencies. Accordingly, these consolidated financial statements do not include adjustments to the carrying amount of these assets and related disclosures that would be necessary from the implementation of a plan and the resolution of the related uncertainties. The impact is expected to be significant and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the Government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive.

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

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

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

Once the above uncertainties are resolved, a pro-forma balance sheet of the Group will be prepared which will include the effects of the revaluation of the assets and liabilities in foreign currencies, the effects of the restructuring of the government debt securities, and the effects of the restructuring of the Central Bank of Lebanon.

Despite the above uncertainties, the Group will continue its operations as performed since 17 October 2019 and in accordance with the applicable laws and regulations. The Group's capital adequacy ratio as at 31 December 2019 was calculated based on the recorded figures and does not take into consideration the adjustments that will result from the resolution of the uncertainties reflected above. The Group is currently assessing its capital adequacy based on various available scenarios and considers that it has adequate reserves. Accordingly, the Board of Directors, in its meeting dated 7 April 2020, decided to wait before taking measures regarding increasing its regulatory capital as required by the Central Bank of Lebanon intermediary circular 532.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost convention with the exception of the measurement at fair value of the following:

- Financial assets at fair value through profit or loss;
- Financial assets at fair value through other comprehensive income;
- Certain class of property; and
- Off-statement of financial position equities and other securities.

The consolidated financial statements have been presented in thousands of Lebanese Liras (LL (000)) which is the functional and presentation currency of the Group unless otherwise mentioned. Other currencies are presented in their relating units.

Statement of compliance

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

Presentation of consolidated financial statements

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

The consolidated financial statements include the financial statements of FFA Private Bank SAL and the subsidiaries listed in the following table:

Name	*Date of establishment*	*Country of incorporation*	*Activities*	*% effective equity interest* *31 December 2019* *%*	*31 December 2018* *%*
FFA SARL	1994	Lebanon	Financial Consulting and Brokerage	**99.97**	99.97
FFA Private Bank (Dubai) Limited	2006	UAE	Financial Institution	**100.00**	100.00
FFA Investments (Holding) SAL	2007	Lebanon	Investment	**99.99**	99.99
FFA Real Estate SAL	2008	Lebanon	Real Estate Consulting	**100.00**	100.00
FFA Capital Limited	2009	Cayman Islands	Financial Consulting	**100.00**	100.00
FFA Real Estate Limited	2014	Cayman Islands	Real Estate	**100.00**	100.00
FFA Holdings SAL (Holding)	2017	Lebanon	Investment	**99.99**	99.99

Basis of consolidation

The consolidated financial statements comprise the financial statements of FFA Private Bank SAL and its subsidiaries as at 31 December 2019.

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

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

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.2 New and amended standards and interpretations

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

IFRS 16 Leases

Effective from 1 January 2019, the Group adopted IFRS 16 Leases, which replaces IAS 17 Leases, and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

IFRS 16 introduces a single lessee accounting model and fundamentally changes how the Group accounts for operating leases when acting as a lessee, with a requirement to record a right-of-use asset and lease liability on the balance sheet. The Group is a lessee in a number of leases, primarily of real estate. As permitted by the transitional provisions of IFRS 16, the Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and has not restated comparative figures. Overall, the adoption of IFRS 16 resulted in a LL (000) 635,374 increase in total assets and a LL (000) 635,374 increase in total liabilities (refer to the table below for more information).

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

I. Nature of the effect of adoption of IFRS 16

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of- use assets are subject to impairment. The estimated useful life of right-of-use assets is consistent with useful life of leasehold improvements.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of offices (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of offices equipment that are considered to be low value, when applicable. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Lease liabilities

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

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

2 ACCOUNTING POLICIES (continued)

2.2 New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

I. Nature of the effect of adoption of IFRS 16 (continued)

Significant judgement in determining the lease term of contracts with renewal options
The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

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

	Impact of IFRS 16 ***LL (000)***
Property, equipment and right-of-use assets	**662,579**
Prepayments	**(27,205)**
Lease liabilities	**635,374**
Net impact on equity	-

Based on the above, as at 1 January 2019 the adoption of IFRS 16 resulted in the following:

- Right-of-use assets of LL (000) 662,579 were recognised and presented within "plant, equipment and right-of-use assets" in the consolidated statement of financial position.
- Prepayments of LL (000) 27,205 were derecognised from "other assets" in the consolidated financial position and their balance was included under right of use assets.
- Lease liabilities of LL (000) 635,374 were recognised and presented within "other liabilities" in the consolidated statement of financial position.

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

	LL (000)
Total undiscounted operating lease commitments as at 31 December 2018	**839,010**
Effect of discounting using incremental borrowing rates as at 1 January 2019 (3.18%)	**(26,682)**
Discounted operating lease commitments at 1 January 2019	**812,328**
Less:	
Reduction related to service and utility charges which are not part of the IFRS 16 assessment	**(176,954)**
Lease liabilities as at 1 January 2019	**635,374**

2 ACCOUNTING POLICIES (continued)

2.2 New and amended standards and interpretations (continued)

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

The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight.

With phase one completed, the IASB is now shifting its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project. The IASB tentatively agreed the list of phase two issues and may add to the list of issues and revise the timetable as work on phase two progresses.

The Group has early adopted the amendments in its consolidated financial statements for the year ended 31 December 2019 with no significant effect on the Group's consolidated financial statements.

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

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

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

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

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

2 ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

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

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

2.4 Summary of significant accounting policies

Foreign currency translation
The consolidated financial statements are presented in Lebanese Lira which is the Group's functional and presentation currency.

(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 consolidated statement of financial position. All differences are taken to "net gain from financial assets at fair value through profit or loss" in the consolidated income statement.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on 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 is also recognized in other comprehensive income or profit or loss, respectively).

Financial instruments – initial recognition

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets – classification and measurement (continued)

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

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

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

Financial assets at amortized cost
Balances with the Central Bank, Due from banks and financial institutions, Due from parent, related and subsidiary companies, Loans and advances to customers and related parties – at amortized cost
These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortized cost using the EIR, less expected credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "interest and similar income" in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in "net impairment (loss) gain on financial assets".

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets – classification and measurement (continued)

Financial assets at fair value through other comprehensive income

Equity instruments at fair value through other comprehensive income

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

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

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

Debt instruments at fair value through other comprehensive income

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

Financial liabilities – classification and measurement

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial liabilities – classification and measurement (continued)

Financial liabilities – classification and measurement

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

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

Due to banks and financial institutions, parent, related and subsidiary companies, and customers' and related parties' deposits
After initial measurement, due to banks and financial institutions, parent, related and subsidiary companies, and customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

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

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

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

Derecognition of financial assets and financial liabilities

Financial assets

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial assets (continued)

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

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

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

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

(ii) Derecognition other than for substantial modification

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

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

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

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

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

A transfer only qualifies for derecognition if either:

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

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

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

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

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

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

Financial liabilities

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

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

Impairment of financial assets

(i) Overview of the ECL Principles

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(ii) Measurement of ECLs

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

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

The key inputs into the measurements of ECL are:

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

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

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

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

(iii) Forborne and modified loans

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(iii) Forborne and modified loans (continued)

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

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

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

(iv) Credit-impaired financial assets

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

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

(v) Write offs

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

(vi) Collateral repossessed

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

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

Fair value measurement

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

Leases (Policy applicable from 1 January 2019)
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

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

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

Leases (Policy applicable before 1 January 2019)
The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, , even if that asset is not explicitly specified in an arrangement.

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

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

Revenue recognition
The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest and similar income and expense

The effective interest rate
Interest income and expense are recognized in the income statement applying the EIR method for all financial instruments measured at amortized cost and financial instruments designated at fair value through profit or loss.

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

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

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

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

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

Presentation
Interest income calculated using the effective interest method presented in the consolidated income statement includes interest on financial assets at amortized cost.

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

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

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

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

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

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

(iv) Net gain from financial assets at fair value through profit or loss
Results arising from financial assets at fair value through profit or loss include all gains and losses from changes in fair value in addition to realized gain from sales and related dividends for financial assets at fair value through profit or loss.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Cash and cash equivalents
Cash and cash equivalents consist of those balances whose original maturities are three months or less from the date of acquisition including cash and non-restricted balances with the Central Bank of Lebanon, due from and to banks and other financial institutions and due from and to parent and related companies.

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

Buildings are measured at fair value less accumulated depreciation and any impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in the profit or loss. A revaluation deficit is recognized in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Buildings	50 years
Office supplies and furniture	12.5 years
Office equipment	6.67 years
Computer equipment	5 years
Vehicles	10 years

Any item of property and equipment and any significant part initially recognised are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

Intangible assets
The Group's intangible assets include the value of computer software. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

Software	5 years

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 (CGU) IAS fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples 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 Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement.

Investment in an associate
Investment in an associate is carried at the equity method of accounting. Associates are enterprises in which the Group exercises significant influence, but not control, normally where it holds 20% to 50% of the voting power.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Retirement benefit obligations
Most of the Group's defined plans are the compulsory defined benefit plan of the national social security fund in Lebanon.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation.

The compulsory defined benefit plan varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total monthly contributions paid to National Social Security Fund ("NSSF"), End-of-Service Indemnity contributions paid to NSSF represents 8.5 percent of employee benefits.

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Taxation (continued)

(ii) Deferred tax (continued)

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

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Assets under management
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity or under management are not reported in the consolidated financial statements, as they are not the assets of the Group and reported in its off-statement of financial position.

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

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

2.5 Significant accounting judgements and estimates

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

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

Going concern
The financial statements have been prepared based on the going concern assumption. Notwithstanding, the situation disclosed in note 1, the Board of Directors estimates that the Group has the ability to continue its operations in the foreseeable future.

2 ACCOUNTING POLICIES (continued)

Judgments (continued)

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

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

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

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

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

Impairment losses on financial instruments
The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:
- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;

2 ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (continued)

Estimates and Assumptions (continued)

Impairment losses on financial instruments (continued)

- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

During 2019, the key areas that involved a higher degree of judgement and where significant assumptions were made in the estimation of expected credit losses are described in Note 1.

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

Revaluation of property and equipment
The Group measures buildings at revalued amounts with changes in fair value being recognized in other comprehensive income (OCI). Fair value of the properties was determined by using market comparable method based on proprietary databases of prices of transactions for properties of similar nature, location, and condition.

Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the entity's stand-alone credit rating, or to reflect the terms and conditions of the lease).

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

3 NET INTEREST INCOME

	2019 *LL (000)*	*2018* *LL (000)*
Interest and similar income		
Balances with the central bank	**193,473**	350,085
Due from banks and financial institutions	**4,727,353**	7,905,659
Financial assets at amortized cost	**868,138**	764,163
Loans and advances to customers at amortized cost	**3,646,439**	3,415,532
Loans and advances to related parties at amortized cost	**5,061**	9,000
	9,440,464	12,444,439
Interest and similar expense		
Due to banks and financial institutions	**(1,664,746)**	(2,246,142)
Customers' deposits at amortized cost	**(2,614,108)**	(4,626,331)
	(4,278,854)	(6,872,473)
Net interest income	**5,161,610**	5,571,966

Withholding taxes amounting to LL (000) 228,934 were deducted from interest and similar income (2018: LL (000) 239,101).

4 NET FEE AND COMMISSION INCOME

	2019 *LL (000)*	*2018* *LL (000)*
Fee and commission income		
Brokerage fees on purchase and sale transactions	**10,677,611**	9,789,765
Fiduciary accounts management and related fees	**5,390,447**	5,414,462
Revenue from management and consultancy services	**3,713,662**	5,179,634
	19,781,720	20,383,861
Fee and commission expense		
Brokerage fees paid	**(5,199,735)**	(4,955,664)
Other fees	**(450,673)**	(500,197)
	(5,650,408)	(5,455,861)
Net fee and commission income	**14,131,312**	14,928,000

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

	2019 *LL (000)*	*2018* *LL (000)*
Debt instruments		
Interest and similar income from debt instruments:		
Lebanese government bonds	**25,874**	55,048
Certificates of deposit (Central Bank of Lebanon)	**179,920**	185,222
Other debt securities	**1,212,763**	1,491,777
Gain from sale of debt instruments	**66,580**	1,018,248
Unrealized gain (loss) from revaluation of debt instruments	**2,988,809**	(1,323,777)
Net gain from debt instruments	**4,473,946**	1,426,518

5 NET GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	2019 *LL (000)*	*2018* *LL (000)*
Equity instruments		
Gain from sale of equity instruments	**85,671**	776,439
Unrealized loss from revaluation of equity instruments	**(743,793)**	(23,724)
Dividend income	**35,752**	134,098
Net (loss) gain from equity instruments	**(622,370)**	886,813
Foreign exchange gain	**215,997**	153,588
	4,067,573	2,466,919

6 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2019 *LL (000)*	*2018* *LL (000)*
Increased (decreased) impairment allowances:		
Balances with the central bank	**72,782**	19,621
Due from banks and financial institutions	**674,219**	(58,477)
Financial assets at amortized cost	**38,430**	12,576
Loans and advances to customers at amortized cost	**546,438**	53,220
Loans and advances to related parties at amortized cost	**10,520**	(539)
Other assets	**(85,544)**	348,122
	1,256,845	374,523

7 PERSONNEL EXPENSES

	2019 *LL (000)*	*2018* *LL (000)*
Salaries and wages	**7,289,916**	7,171,609
Directors' remunerations (note 29)	**2,311,961**	1,774,161
National Social Security Fund contributions	**609,178**	598,949
Transportation allowance	**237,620**	237,780
Provision for retirement benefit obligations	**272,571**	133,628
Board members and head of committees' remunerations (note 29)	**103,641**	-
Other employee charges	**581,714**	582,259
	11,406,601	10,498,386

8 OTHER OPERATING EXPENSES

	2019	*2018*
	LL (000)	*LL (000)*
Telecommunications	**860,860**	1,042,135
Taxes and charges	**807,737**	605,935
Travel expenses	**492,466**	602,780
Insurance premiums	**484,867**	461,763
Professional fees	**437,585**	360,791
Maintenance and repairs	**436,040**	454,984
Legal and consulting fees	**356,226**	522,078
Entertainment and congress expenses	**218,336**	271,254
Electricity and fuel	**193,108**	227,455
Subscriptions	**126,754**	120,565
Rent expense	**123,988**	366,447
Advertising expenses	**120,094**	414,862
Printing and stationery	**113,563**	94,873
Transportation	**65,977**	84,998
Other expenses	**1,208,612**	1,391,075
	6,046,213	7,021,995

9 INCOME TAX EXPENSE

Income tax expense for the years ended 31 December 2019 and 2018 was as follows:

	2019	*2018*
	LL (000)	*LL (000)*
Income tax expense	**226,701**	493,916

Income tax expense in the Group's consolidated income statement includes income tax expenses of FFA Private Bank SAL, FFA Real Estate SAL, FFA Holdings SAL and FFA Investments Holding SAL amounting to LL (000) 148,430, LL (000) 68,271, LL (000) 5,000 and LL (000) 5,000 respectively (2018: FFA Private Bank SAL, FFA Holdings SAL, FFA Investments Holding SAL and FFA Real Estate Limited amounting to LL (000) 480,530, LL (000) 5,000, LL (000) 5,000 and LL (000) 3,386 respectively).

9 INCOME TAX EXPENSE (continued)

Reconciliation of the Bank's total tax charge
A reconciliation between the tax expense and the accounting profit for the year ended 31 December 2019 is as follows:

	2019 *LL (000)*	*2018* *LL (000)*
Accounting profit before income tax	**392,188**	4,192,089
Add:		
Provisions not deductible for tax purpose	**1,087,018**	13,393
Other non-tax deductible charges	**844,142**	507,505
Board members and head of committees' remunerations	**103,641**	-
Unrealized losses from financial assets at fair value through profit or loss, net	-	583,598
	2,426,989	5,296,585
Less:		
Income received and previously subject to income tax	**8,319**	1,034,810
Provisions previously subject to income tax	**392,279**	755,132
Unrealized gains from financial assets at fair value through profit or loss, net	**464,114**	-
Tax credits on capital of specialized banks	**680,000**	680,000
Taxable profit	**882,277**	2,826,643
Income tax rate	**17%**	17%
Income tax expense	**149,987**	480,530
Income tax expense in the Bank's income statement	**148,430**	480,530

10 CASH AND BALANCES WITH THE CENTRAL BANK

	2019 *LL (000)*	*2018* *LL (000)*
Cash on hand	**242,425**	101,327
Balances with the Central Bank of Lebanon:		
Current accounts	**752,242**	5,419,183
Time deposits	**3,919,500**	16,582,500
	4,671,742	22,001,683
Less: Allowance for expected credit losses	**(274,537)**	(201,698)
	4,397,205	21,799,985
	4,639,630	21,901,312

Deposits with the Central Bank include mandatory reserve deposits and are not available for use in the Group's day-to-day operations in the amount of US$ 2.6 million as at 31 December 2019 (2018: US$ 11 million).

As stipulated by the Central Bank of Lebanon circulars, the Group is required to hold interest bearing mandatory reserves at the Central Bank of Lebanon on the basis of 15% of the weekly average of deposits denominated in foreign currencies. Mandatory reserves are not available for use in the Group's day to day operations.

10 CASH AND BALANCES WITH THE CENTRAL BANK (continued)

An analysis of ECL allowances in relation to balances with the Central Bank is as follows:

	Current Accounts Stage 1	***Time Deposits Stage 1***	***Total***
	LL (000)	***LL (000)***	***LL (000)***
At 1 January 2019	28,594	173,104	201,698
Net re-measurements	5,983	66,799	72,782
Foreign exchange difference	-	57	57
At 31 December 2019	**34,577**	**239,960**	**274,537**

	Current Accounts Stage 1	*Time Deposits Stage 1*	*Total*
	LL (000)	*LL (000)*	*LL (000)*
At 1 January 2018	11,049	173,104	184,153
Net re-measurements	19,621	-	19,621
Foreign exchange difference	(2,076)	-	(2,076)
At 31 December 2018	28,594	173,104	201,698

11 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2019	*2018*
	LL (000)	*LL (000)*
Current accounts		
Due from banks	**14,710,255**	17,041,079
Due from financial institutions and brokerage companies	**7,404,572**	21,374,994
	22,114,827	38,416,073
Less: Allowance for expected credit losses	**(778,164)**	(103,279)
	21,336,663	38,312,794

An analysis of ECL allowances in relation to balances with banks and financial institutions is as follows:

	Current Accounts Stage 1	
	2019	*2018*
	LL (000)	*LL (000)*
At 1 January	**103,279**	277,386
Net re-measurements	**674,219**	(173,699)
Foreign exchange difference	**666**	(408)
At 31 December	**778,164**	103,279

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 LL (000)	2018 LL (000)
Debt instruments	**6,885,810**	15,464,262
Exchange traded funds	**3,255,531**	-
Equity funds	**1,115,656**	1,439,503
Equity instruments	**780,620**	2,082,763
U.S. Treasury bills	**376,385**	-
	12,414,002	18,986,528

13 FINANCIAL ASSETS AT AMORTIZED COST

	2019 LL (000)	2018 LL (000)
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit	**762,879**	11,821,595
Treasury bills	**217,061**	215,107
	979,940	12,036,702
Private sector and other securities		
Corporate debt instruments	**1,372,469**	1,432,120
	2,352,409	13,468,822
Less: Allowance for expected credit losses	**(189,031)**	(150,599)
	2,163,378	13,318,223

Lebanese sovereign, Central Bank of Lebanon, and private sector and other securities

An analysis of ECL allowances in relation to Lebanese sovereign, Central Bank of Lebanon, and private sector and other securities is, as follows:

	Lebanese sovereign and Central Bank of Lebanon Stage 1 LL (000)	Private sector and other securities Stage 1 LL (000)	Total LL (000)
At 1 January 2019	117,787	32,812	150,599
Net re-measurements	(70,979)	109,409	38,430
Foreign exchange difference	-	2	2
At 31 December 2019	**46,808**	**142,223**	**189,031**

13 FINANCIAL ASSETS AT AMORTIZED COST (continued)

	Lebanese sovereign and Central Bank of Lebanon Stage 1	*Private sector and other securities Stage 1*	*Total*
	LL (000)	*LL (000)*	*LL (000)*
At 1 January 2018	86,902	53,263	140,165
Net re-measurements	32,858	(20,282)	12,576
Foreign exchange difference	(1,973)	(169)	(2,142)
At 31 December 2018	117,787	32,812	150,599

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	*2018*
	LL (000)	*LL (000)*
Debt instruments	**1,126,739**	-
Equity instruments	**35,337**	-
	1,162,076	-

During the year 2018, revaluation loss on financial instruments held at fair value through other comprehensive income amounted to LL (000) 674,104. The loss from the sale of financial assets at fair value through other comprehensive income amounted to LL (000) 99,353 during the year ended 31 December 2018.

Accordingly, accumulated changes in fair value of financial assets at fair value though other comprehensive income (unrealized losses) amounted to LL (000) 677,600 as at 31 December 2018 and 31 December 2019.

15 LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES AT AMORTIZED COST

Loans and advances to customers at amortized cost:

	2019	*2018*
	LL (000)	*LL (000)*
Loans and advances to customers against securities	**6,956,310**	28,838,346
Other loans	**6,097,125**	6,730,417
	13,053,435	35,568,763
Less: Allowance for expected credit losses	**(711,249)**	(166,714)
	12,342,186	35,402,049

Loans and advances to related parties at amortized cost:

	2019	*2018*
	LL (000)	*LL (000)*
Loans and advances to customers against securities	**10,860**	15,847
Other loans	**75,910**	-
	86,770	15,847
Less: Allowance for expected credit losses	**(12,407)**	(37)
	74,363	15,810

15 LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES AT AMORTIZED COST (continued)

An analysis of ECL allowances in relation to loans and advances to customers and related parties at amortized cost is, as follows:

	Stage 1 ***LL (000)***	***Stage 2*** ***LL (000)***	***Stage 3*** ***LL (000)***	***Total*** ***LL (000)***
At 1 January 2019	113,358	53,393	-	166,751
Net re-measurements	(34,577)	(53,356)	644,891	556,958
Foreign exchange difference	(15)	(37)	(1)	(53)
At 31 December 2019	**78,766**	**-**	**644,890**	**723,656**

	Stage 1 *LL (000)*	*Stage 2* *LL (000)*	*Stage 3* *LL (000)*	*Total* *LL (000)*
At 1 January 2018	76,521	38,451	773,963	888,935
Net re-measurements	37,739	14,942	-	52,681
Transferred to off-statement of financial position accounts	-	-	(773,963)	(773,963)
Foreign exchange difference	(902)	-	-	(902)
At 31 December 2018	113,358	53,393	-	166,751

16 INVESTMENT IN AN ASSOCIATE

	Country of incorporation	***Ownership 2019***	*2018*	***Activity***	***2019 LL (000)***	*2018 LL (000)*
CUB Gallery SAL	Lebanon	**33.33%**	33.33%	Retail	**-**	6,386

During the year ended 31 December 2019, the Group's share of CUB Gallery SAL loss amounted to LL (000) 6,386 and was recognized under "share of loss from an associate" in the consolidated income statement.

During the year ended 31 December 2018, the Group's share of CUB Gallery SAL loss amounted to LL (000) 3,614 and was recognized under "share of loss from an associate" in the consolidated income statement.

17 OTHER ASSETS

	2019 ***LL (000)***	*2018* *LL (000)*
Mandatory deposit with the Lebanese Treasury	**2,550,000**	2,550,003
Commission receivable	**992,465**	1,854,850
Fixed deposits and prepayments	**339,744**	350,261
Regularization and other debtor accounts	**178,216**	161,284
Miscellaneous debtors	**2,235,840**	1,603,418
	6,296,265	6,519,816
Less: Allowance for expected credit losses	**(498,594)**	(584,380)
	5,797,671	5,935,436

17 OTHER ASSETS (continued)

	Stage 1	***Stage 2***	***Stage 3***	***Total***
	LL (000)	***LL (000)***	***LL (000)***	***LL (000)***
At 1 January 2019	383,619	-	200,761	584,380
Net re-measurements	(328,538)	-	242,994	(85,544)
Foreign exchange difference	(242)	-	-	(242)
At 31 December 2019	**54,839**	**-**	**443,755**	**498,594**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*	*LL (000)*
At 1 January 2018	28,415	-	200,761	229,176
Net re-measurements	348,122	-	-	348,122
Foreign exchange difference	7,082	-	-	7,082
At 31 December 2018	383,619	-	200,761	584,380

18 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Buildings LL (000)	*Office supplies and furniture LL (000)*	*Office equipment LL (000)*	*Computer equipment LL (000)*	*Motor vehicles LL (000)*	*Advances on purchases of property and equipment LL (000)*	*Right-of-use assets- Office LL (000)*	*Total LL (000)*
Cost or revaluation								
At 1 January 2019	24,558,628	2,070,113	6,935,672	2,619,045	948,157	-	-	37,131,615
Impact of IFRS 16 adoption	-	-	-	-	-	-	662,579	662,579
Additions	-	27,874	87,355	76,774	259,746	643,805	-	1,095,554
Disposals	-	-	-	-	(325,578)	-	-	(325,578)
Write-offs	-	(5,306)	-	-	-	-	-	(5,306)
At 31 December 2019	24,558,628	2,092,681	7,023,027	2,695,819	882,325	643,805	662,579	38,558,864
Depreciation:								
At 1 January 2019	2,781,615	1,412,562	6,142,964	2,361,407	675,200	-	-	13,373,748
Charge for the year	602,936	159,515	155,024	116,290	61,595	-	221,348	1,316,708
Related to disposals	-	-	-	-	(307,587)	-	-	(307,587)
Related to write-offs	-	(4,387)	-	-	-	-	-	(4,387)
At 31 December 2019	3,384,551	1,567,690	6,297,988	2,477,697	429,208	-	221,348	14,378,482
Net carrying value:								
At 31 December 2019	**21,174,077**	**524,991**	**725,039**	**218,122**	**453,117**	**643,805**	**441,231**	**24,180,382**

	Buildings LL (000)	*Office supplies and furniture LL (000)*	*Office equipment LL (000)*	*Computer equipment LL (000)*	*Motor vehicles LL (000)*	*Advances on purchases of property and equipment LL (000)*	*Right-of-use assets- Office LL (000)*	*Total LL (000)*
Cost or revaluation								
At 1 January 2018	22,376,318	2,042,673	6,889,224	2,564,584	948,157	1,610,923	-	36,431,879
Additions	-	42,189	46,448	74,018	-	571,387	-	734,042
Disposals	-	(14,071)	-	-	-	-	-	(14,071)
Write-offs	-	(678)	-	(19,557)	-	-	-	(20,235)
Transfers	2,182,310	-	-	-	-	(2,182,310)	-	-
At 31 December 2018	24,558,628	2,070,113	6,935,672	2,619,045	948,157	-	-	37,131,615
Depreciation:								
At 1 January 2018	2,173,802	1,262,533	5,939,600	2,228,856	606,204	-	-	12,210,995
Charge for the year	607,813	158,749	203,364	152,108	68,996	-	-	1,191,030
Related to disposals	-	(8,042)	-	-	-	-	-	(8,042)
Related to write-offs	-	(678)	-	(19,557)	-	-	-	(20,235)
At 31 December 2018	2,781,615	1,412,562	6,142,964	2,361,407	675,200	-	-	13,373,748
Net carrying value:								
At 31 December 2018	21,777,013	657,551	792,708	257,638	272,957	-		23,757,867

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

During the year ended 31 December 2017, the Group paid an advance of US$ 1,000,000 (equivalent to LL (000) 1,507,500) for the acquisition of section 22 of lot number 128 – Marfaa, for a total consideration of US$ 1,300,000, to expand the Group's head office in addition to related expenses amounting to LL (000) 103,423. During the year ended 31 December 2018, the Group paid the final payment of US$ 300,000 (equivalent to LL (000) 452,250) for the acquisition of section 22 and paid registration expenses amounting LL (000) 119,137. Accordingly, the total advances amounting to LL (000) 2,182,130 were transferred to Buildings.

In December 2013, the Group has changed its accounting policy for the measurement of buildings to the revaluation model.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2019	*2018*
	LL (000)	*LL (000)*
Cost	**10,689,371**	10,689,371
Accumulated depreciation	**(2,029,854)**	(1,816,067)
Net carrying amount	**8,659,517**	8,873,304

The revalued buildings consist of the office and storage properties in Beirut. Management determined that these constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property.

Fair value of the properties was determined by using market comparable method based on proprietary databases of prices of transactions for properties of similar nature, location, and condition. Significant increase (decrease) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis.

19 INTANGIBLE ASSETS

	Software	
	2019	*2018*
	LL (000)	*LL (000)*
Cost:		
At 1 January	**326,277**	279,569
Additions	**3,265**	46,708
At 31 December	**329,542**	326,277
Amortization:		
At 1 January	**236,546**	207,925
Charge for the year	**34,787**	28,621
At 31 December	**271,333**	236,546
Net carrying amount at 31 December	**58,209**	89,731

20 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2019 *LL (000)*	*2018* *LL (000)*
Current accounts		
Due to banks	**37,536**	184,895
Financial institutions and brokerage companies	**534,218**	30,914,499
	571,754	31,099,394

Accounts due to financial institutions include current credit balances with non-resident financial institutions resulting from trading of financial instruments for the account of the Group's clients.

21 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2019 *LL (000)*	*2018* *LL (000)*
Term deposits	**5,919,437**	6,794,955
Margins accounts	**5,254,463**	48,780,666
	11,173,900	55,575,621

Margin accounts represent guarantees given by the customers against facilities granted on financial instruments transactions.

22 OTHER LIABILITIES

	2019 *LL (000)*	*2018* *LL (000)*
Taxes due	**1,366,209**	1,355,177
Accrued expenses	**1,202,695**	1,376,314
Lease liabilities	**431,835**	-
Due to public sector	**85,462**	83,378
Miscellaneous creditors	**162,868**	222,230
	3,249,069	3,037,099

As at 31 December 2017, deferred revenue and provision for risks and charges included amounts recorded under regulatory acts amounting to LL (000) 948,224 and LL (000) 614,185 respectively and which do not meet the recognition criterion under IFRS. During 2018, the Group recognized these amounts in the income statement under "Net gain from financial assets at fair value through profit or loss" and "Write-back of provisions for risks and charges".

23 SHARE CAPITAL

- The share capital of the Group amounted to LL (000) 17,000,000 (170,000 shares of LL (000) 100 each fully paid as at 31 December 2019) (2018: the same).

- An amount of LL (000) 19,443,212 representing an issue premium resulted from the issuance of 85,000 shares of LL (000) 100 each for a consideration of US$ 218.07 by the Group.

24 RESERVES

Non-distributable reserves

a) General reserve
According to the Central Bank of Lebanon Main Circular 143, Banks in Lebanon are required to transfer to general reserve, the balance of reserves for general banking risks and general reserves for loans and advances previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Bank's equity and is not available for distribution. During the year ended 31 December 2019, the Group transferred an amount of LL (000) 1,604,035 from profit of prior year to general reserve (2018: LL (000) 2,606,908). This reserve is not available for distribution.

b) Legal reserve
As required by the Lebanese Code of Commerce and the Bank's articles of association (applicable to the Bank and the subsidiaries established in Lebanon), 10% of the net profit for the year has to be transferred to legal reserve. This reserve is not available for distribution. During the year ended 31 December 2019, the Group transferred an amount of LL (000) 372,834 to legal reserve (2018: LL (000) 129,576).

Distributable reserve

a) General reserve
In accordance with the general assembly decisions, the Group appropriated general reserve from profits of previous years. In accordance with the resolutions of the general assembly dated 06 May 2019, the shareholders decided to transfer an amount of LL (000) 36,368 from the profit of the year to general reserve. This reserve amounting to LL (000) 458,064 as at 31 December 2019 (2018: LL (000) 421,696) is available for distribution.

25 REVALUATION RESERVE OF PROPERTY

On 3 December 2013, the Central Bank of Lebanon approved the Group's revaluation of buildings resulting in a surplus of LL (000) 14,328,847 on the condition that this revaluation reserve should not be considered eligible under neither Tier 1 nor Tier 2 Capital as per the definition of the Central Bank of Lebanon's rules and regulations.

26 DIVIDENDS PAID

According to the resolutions of the ordinary general assemblies of shareholders of the Group held on 06 May 2019 and 31 May 2018, dividends amounting to LL (000) 1,700,000 and LL (000) 890,000 were declared and paid respectively.

27 OFF-STATEMENT OF FINANCIAL POSITION ACCOUNTS

	2019 *LL (000)*	*2018* *LL (000)*
Financial instruments with brokers on behalf of customers	**555,922,706**	679,648,967
Deposits with banks	**151,058,647**	113,438,428
Deposits with the Central Bank of Lebanon	**11,179,283**	-
Certificates of deposits (Central Bank of Lebanon)	**14,029,149**	2,575,722
Trading financial instruments	**20,254,164**	28,312,092
Loans and advances	**115,437,371**	121,720,782
Engagements on customers' future contracts and contracts for difference (long) - notional amount	**42,875,746**	34,579,557
Engagements on customers' future contracts (short) - notional amount	**10,577,890**	7,227,732
	921,334,956	987,503,280

27 OFF-STATEMENT OF FINANCIAL POSITION ACCOUNTS (continued)

	2019	*2018*
	LL (000)	*LL (000)*
Due to customers – custody arrangements	**609,376,342**	721,456,256
Due to customers – fiduciary arrangements	**311,958,614**	266,047,024
	921,334,956	987,503,280

In the normal course of business, the Group activities involve the execution, settlement, and financing of various customers' securities transactions. These activities may expose the Group to off statement of financial position risk in the event the customer or other broker is unable to fulfill its contractual obligations and the Group has to purchase or sell the financial instrument underlying the contract at a loss.

The Group's customers' securities activities are transacted on either a cash or advance basis. In advance transactions, the Group extends credit to its customers, collateralized by cash and securities in the customers' accounts. Such transactions may expose the Group to significant off statement of financial position risk in the event collateral margins are not sufficient to fully cover losses that customers may incur. In the event that customers fail to satisfy their obligations, the Group may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customers' obligations. The Group seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Group requires the customers to deposit additional collateral or to reduce positions when necessary.

The Group's customers' financing and securities settlement activities require the Group to pledge customers' securities as collateral in support of various secured financing sources. In the event the counterparty is unable to meet its contractual obligation to return customers' securities pledged as collateral, the Group may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customers' obligations. The Group controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure.

28 CASH AND CASH EQUIVALENTS

	2019	*2018*
	LL (000)	*LL (000)*
Cash and balances with the Central Bank of Lebanon	**994,667**	5,520,510
Due from banks and financial institutions	**22,114,827**	38,416,073
Due to banks and financial institutions	**(571,754)**	(31,099,394)
	22,537,740	12,837,189

29 RELATED PARTY TRANSACTIONS

The Group enters into transactions with the major shareholders, directors, senior management and affiliates in the ordinary course of business at commercial interest and commission rates. All the loans and advances with related parties are performing and not subject to a provision for potential credit losses.

Related parties' transactions included in the consolidated income statement are summarized as follows:

	2019	*2018*
	LL (000)	*LL (000)*
Other related parties:		
Commission income	**1,487**	40,106
Interest income	**5,061**	9,000
Revenue from custody of shares	**28,161**	55,675

29 RELATED PARTY TRANSACTIONS (continued)

Directors' remunerations amounted to LL (000) 2,311,961 for the year ended 31 December 2019 (2018: LL (000) 1,774,161) (note 7).

Board members and head of committee's remuneration amounted to LL (000) 103,641 for the year ended 31 December 2019 (2018: nil) (note 7).

Related parties' balances included in the consolidated statement of financial position are summarized as follows:

	2019	*2018*
	LL (000)	*LL (000)*
Loans and advances to related parties at amortized cost	**74,363**	15,810

30 COMMITMENTS AND CONTINGENT LIABILITIES

a) The Group is contingently liable for a guarantee issued in favor of the Beirut Stock Exchange amounting to LL 200 million as a guarantee for the commitments of the Group to operate as a financial broker (2018: the same).

b) Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. Fiscal years from 2015 to 2019 remain open to review by the tax authorities. Management believes that the effect of any such review will not have a material effect on the Group's consolidated financial statements.

c) Litigation is a common occurrence in the banking industry due to the nature of the business. Management, after review with its legal counsel of all pending actions and proceedings, considers that the aggregate liability or loss, if any, resulting from an adverse determination would not have a material effect on the consolidated financial position of the Group.

31 FAIR VALUE

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Group as a going concern.

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

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

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

31 FAIR VALUE (continued)

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

The following table shows an analysis of asset classes carried at fair value by level of the fair value hierarchy:

	2019			
	Level 1	*Level 2*	*Level 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*	*LL (000)*
Financial assets at fair value through profit or loss:				
Debt instruments	**2,167,366**	**-**	**4,718,444**	**6,885,810**
Exchange traded funds	**3,255,531**	**-**	**-**	**3,255,531**
Equity funds	**18,167**	**-**	**1,097,489**	**1,115,656**
Equity instruments	**478,909**	**-**	**301,711**	**780,620**
U.S. Treasury bills	**376,385**	**-**	**-**	**376,385**
	6,296,358	**-**	**6,117,644**	**12,414,002**
Financial assets at fair value through other comprehensive income				
Debt instruments	**-**	**-**	**1,126,739**	**1,126,739**
Equity instruments	**-**	**-**	**35,337**	**35,337**
	-	**-**	**1,162,076**	**1,162,076**
Property and equipment:				
Buildings	**-**	**21,174,077**	**-**	**21,174,077**

	2018			
	Level 1	*Level 2*	*Level 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*	*LL (000)*
Financial assets at fair value through profit or loss:				
Debt instruments	11,269,720	-	4,194,542	15,464,262
Equity instruments	1,780,955	-	301,808	2,082,763
Equity funds	16,590	-	1,422,913	1,439,503
	13,067,265	-	5,919,263	18,986,528
Property and equipment:				
Buildings	-	21,777,013	-	21,777,013

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

Valuation Techniques Used for Material Classes of Financial Assets and Liabilities Categorized within Level 3:

Debt Instruments

The Group values these unquoted debt securities using valuation models incorporating significant inputs that are not based on observable market data (unobservable inputs).

Equity Funds

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

31 FAIR VALUE (continued)

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

Financial assets and liabilities concentrated in Lebanon
These assets consist of balances with the Central Bank of Lebanon and Lebanese banks, Lebanese government securities, loans and advances to customers and related parties and customer deposits. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. Due to the situation described in note 1 and the unprecedent levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, management is unable to produce faithful estimation of the fair value of these financial assets and liabilities. Accordingly, the table below does not include fair value disclosures for these assets and liabilities.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities for which their fair values are disclosed.

31 December 2019	*Carrying Value*	*Fair Value*			
		Level 1	*Level 2*	*Level 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*	*LL (000)*	*LL (000)*
FINANCIAL ASSETS					
Cash on hand	**242,425**	**242,425**	-	-	**242,425**
Due from foreign banks and financial institutions	**15,805,000**	-	**15,805,000**	-	**15,805,000**
Loans and advances to customers at amortized cost	**3,600,000**	-	-	**3,600,000**	**3,600,000**
FINANCIAL LIABILITIES					
Due to banks and financial institutions	**571,754**	-	**571,754**	-	**571,754**

31 December 2018	*Carrying Value*	*Fair Value*			
		Level 1	*Level 2*	*Level 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*	*LL (000)*	*LL (000)*
FINANCIAL ASSETS					
Cash on hand	101,327	101,327	-	-	101,327
Due from foreign banks and financial institutions	37,157,000	-	37,157,000	-	37,157,000
Loans and advances to customers at amortized cost	4,595,000	-	-	4,595,000	4,595,000
FINANCIAL LIABILITIES					
Due to banks and financial institutions	31,099,394	-	31,099,394	-	31,099,394

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

Assets and liabilities not carried at fair value, for which fair value was estimated and approximates carrying value
For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values.

Loans and advances to customers and due from foreign banks and financial institutions
The fair value is determined using valuation models which incorporate a range of assumptions. These are grouped, as far as possible, into homogeneous groups and stratified by subgroups with similar characteristics to improve the accuracy of valuation outputs. These valuation techniques also consider expected credit losses and changes to behavioural profiles.

Due to banks and financial institutions and related parties
For the purpose of estimating fair value, these are grouped by remaining contractual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the date of the statement of financial position.

32 RISK MANAGEMENT

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

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

Risks are managed through a process of ongoing identification, measurement, monitoring, mitigation and control and reporting to relevant stakeholders. The Group ensures that risk and rewards are properly balanced and in line with the risk appetite that is approved by the Board of Directors.

Risk management structure
There are separate independent bodies responsible for managing and monitoring risks.

Board of directors
The Board of directors (the "Board") is ultimately responsible for identifying and setting the level of tolerable risks to which the Group is exposed, and as such defines the risk appetite for the Group. In addition, the Board approves policies and procedures related to all types of risks. Periodic reporting is made to the Board on existing and emerging risks in the Group. A number of management committees and departments are also responsible for various levels of risk management, as set out below.

Board risk committee
The role of the Board Risk Committee is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the bank risk policies and risk appetite, monitor the Group risk profile, review stress tests scenarios and results.

Asset liability committee
The asset liability committee (ALCO) is a management committee responsible in part for managing market risk exposures, liquidity, funding needs and contingencies. It is the responsibility of this committee to set up strategies for managing market risk exposures and ensuring that treasury implements those strategies so that exposures are managed within approved limits and in a manner consistent with the risk policy and limits approved by the Board.

Risk management unit
The risk management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained.

The risk management unit is responsible for monitoring compliance with risk principles, policies and limits across the Group. Each business group has its own unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

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

Internal audit
The Group's policy is that risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the audit committee.

32 RISK MANAGEMENT (continued)

Risk measurement and reporting systems
The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate loss based on statistical models. The models make use of probabilities derived from historical experience. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact occur.

Monitoring and controlling risks is primarily performed based on adjustable limits established by the management of the Group. These limits reflect the business strategy of the Group, and most important, are periodically attuned to be in line with the market environment and the level of risk that the Group is willing to accept. In addition, the Group's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented to the board of directors via the asset liability committee (ALCO), the credit committee, and the board risk committee.

The credit committee assesses the appropriateness of the allowance for credit losses on a monthly basis. For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk mitigation
As part of its overall risk management, the Group manages its exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from transactions.

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

33 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group tries to control these risks by monitoring the credit risks and by limiting the exposure with specific counterparties and assessing their creditworthiness.

The Group seeks to manage credit risks by distributing credit activities in order to avoid concentration of undesirable risks towards individuals or group of customers in specific areas or sectors. The Group also obtain relevant guarantees when necessary.

33.1 Credit risk management
The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio has significantly deteriorated since the last quarter 2019. As disclosed in notes 33.3 and 33.5, the Group's loans portfolio is properly diversified by geography and industry and the Group has obtained appropriate collateral reducing the risk of loss to minimal levels. Nonetheless, management is proactively reviewing and managing the quality of these assets and monitoring the market value of the collateral. Management does not expect the situation in Lebanon to reveal additional losses in its private loans portfolios.

33 CREDIT RISK (continued)

33.1 Credit risk management (continued)

Credit risk is monitored by the credit review and credit risk functions, which are independent from business lines. These functions ensure proper coverage of credit risk though the implementation of various processes, including but not limited to: providing independent opinions on credit files, reviewing and approving obligors risk ratings, conducting portfolio reviews, ensuring compliance with the Group's credit policy and limits, aggregating and reporting the credit risk profile to relevant stakeholders.

The Group has established various credit quality review processes to provide early identification of possible changes in the creditworthiness of counterparties, including regular revisions of credit files, including ratings and collateral quality. The credit quality review process allows the Group early detections of changes in assets quality, estimate the potential loss and take early corrective actions.

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

33.2 Expected credit losses

33.2.1 Governance and oversight of expected credit losses

The Group's IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the ECL estimation framework by: i) approving the IFRS 9 impairment policy, ii) reviewing key assumptions and estimations that are part of the ECL calculations; iii) approving the forward-looking economic scenarios; iv) approving staging classifications on a name-by-name basis for material exposures and v) reviewing ECL results.

Impairment policy requirements are set and reviewed regularly, at a minimum annually, to maintain adherence to accounting standards and evolving business models. Key judgements inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgement and data-driven methodologies.

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, and collateral information among other. The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

33.2.2 Definition of default and cure

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group.

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

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

33.2.3 PD estimation process

To assess the staging of exposures and to measure loss allowance on collective basis, the Group groups its exposures into segments on the basis of shared credit risk characteristics.

Treasury (including Sovereign) and interbank relationships

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

33 CREDIT RISK (continued)

33.2 Expected credit losses (continued)

33.2.3 PD estimation process (continued)

Loans
The Group has two forms of lending; term loans and margin loans. For the margin loans, the Group has adopted a "Loss Rate Approach" discussed under 33.2.6 below. As for term loans, the Group uses external benchmarking to similar risk portfolios.

33.2.4 Exposure at Default
Exposure ate default (EAD) represents an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

33.2.5 Loss given default
Loss given default (LGD) represents an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral; it is usually expressed as percentage of EAD.

Term loans
Due to the limited number of clients in this portfolio, the Group opted to calculate the LGD individually for each exposure rather than applying a blanket figure for the pool of similarly secured term loans. The Group applies an appropriate haircut as on the collaterals received, then deducts the resulting amount from the gross original exposure, leading to an accurate estimation of the LGD for each loan.

33.2.6 Loss rate approach
The Group applies the loss rate approach on its margin lending. By using a "Loss Rate" approach, the PD & LGD are assessed as a single combined measure, based on past losses, adjusted for current conditions and forecasts of future conditions; is used in the instances where there is no sufficient data to measure the separate components individually, and mostly in exposures that are of a short term nature and non-amortizing.

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

- A weak financial condition or the inability of the issuer to generate sufficient cash flow to service the payments;
- A delay in fulfilling the contractual cash flow obligations for a period exceeding 30 days;
- A downgrade in the debtor credit rating by 2 notches (if still above investment grade);
- A downgrade in the debtor credit rating by 1 notch (if rating becomes below investment grade);
- Business, economic or market conditions that may unfavorably affect the profitability and business of the issuer in the near to medium term;
- Difficulties experienced by the borrower in servicing its other debt obligations;
- Breach of any financial covenants by the borrower;
- A subjective opinion issued by qualified Group personnel that expresses a significant increase in Credit Risk

33 CREDIT RISK (continued)

33.2.8 Financial assets and ECLs by stage

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

	Gross exposure				*Impairment allowance*				*Net exposure*
	Stage 1 LL (000)	*Stage 2 LL (000)*	*Stage 3 LL (000)*	*Total LL (000)*	*Stage 1 LL (000)*	*Stage 2 LL (000)*	*Stage 3 LL (000)*	*Total LL (000)*	*LL (000)*
31 December 2019									
Cash and balances with the central bank	4,914,167	-	-	4,914,167	274,537	-	-	274,537	4,639,630
Due from banks and financial institutions	22,114,827	-	-	22,114,827	778,164	-	-	778,164	21,336,663
Financial assets at amortized cost	2,352,409	-	-	2,352,409	189,031	-	-	189,031	2,163,378
Loans and advances to customers and related parties at amortized Cost	9,776,205	-	3,364,000	13,140,205	78,766	-	644,890	723,656	12,416,549
Other assets	5,803,265	-	493,000	6,296,265	54,839	-	443,755	498,594	5,797,671
Total	44,960,873	-	3,857,000	48,817,873	1,375,337	-	1,088,645	2,463,982	46,353,891

	Gross exposure				*Impairment allowance*				*Net exposure*
	Stage 1 LL (000)	*Stage 2 LL (000)*	*Stage 3 LL (000)*	*Total LL (000)*	*Stage 1 LL (000)*	*Stage 2 LL (000)*	*Stage 3 LL (000)*	*Total LL (000)*	*LL (000)*
31 December 2018									
Cash and balances with the central bank	22,103,010	-	-	22,103,010	201,698	-	-	201,698	21,901,312
Due from banks and financial institutions	38,416,073	-	-	38,416,073	103,279	-	-	103,279	38,312,794
Financial assets at amortized cost	13,468,822	-	-	13,468,822	150,599	-	-	150,599	13,318,223
Loans and advances to customers and related parties at amortized Cost	32,624,926	2,959,684	-	35,584,610	113,358	53,393	-	166,751	35,417,859
Other assets	6,244,595	-	275,221	6,519,816	383,619	-	200,761	584,380	5,935,436
Total	112,857,426	2,959,684	275,221	116,092,331	952,553	53,393	200,761	1,206,707	114,885,624

33 CREDIT RISK (continued)

33.3 Analysis of concentration

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

The Group's concentrations of risk are managed by client/counterparty and by geographical region. The maximum exposure to credit risk is represented by the carrying amounts of the financial assets that are carried in the consolidated statement of financial position and the carrying amount of equities and other securities held with banks and financial institutions that are carried in the off-statement of financial position. The maximum credit exposure to any client or counterparty as of 31 December 2019 was LL (000) 5,584,671 (2018: LL (000) 15,182,273).

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

33.3.1 Geographic analysis

			2019			
	Lebanon LL million	***MENA LL million***	***Europe LL million***	***US LL million***	***Other LL million***	***Total LL million***
Cash on hand	**237**	-	-	-	**5**	**242**
Balances with the Central Bank of Lebanon	**4,397**	-	-	-	-	**4,397**
Due from banks and financial institutions	**5,532**	**8,180**	**795**	**6,822**	**8**	**21,337**
Financial assets at fair value through profit or loss (debt instruments)	**4,719**	-	**1,757**	**786**	-	**7,262**
Financial assets at amortized cost	**2,163**	-	-	-	-	**2,163**
Of which: Lebanese sovereign and Central Bank of Lebanon	***933***	-	-	-	-	***933***
Financial assets at fair value through other comprehensive income (debt instruments)	**1,127**	-	-	-	-	**1,127**
Loans and advances to customers at amortized cost	**8,742**	**420**	**1,131**	**2,049**	-	**12,342**
Loans and advances to related parties at amortized cost	**74**	-	-	-	-	**74**
Mandatory deposit with the Lebanese Treasury	**2,550**	-	-	-	-	**2,550**
	29,541	**8,600**	**3,683**	**9,657**	**13**	**51,494**

			2018			
	Lebanon LL million	*MENA LL million*	*Europe LL million*	*US LL million*	*Other LL million*	*Total LL million*
Cash on hand	91	4	-	-	6	101
Balances with the Central Bank of Lebanon	21,800	-	-	-	-	21,800
Due from banks and financial institutions	1,156	12,397	19,710	5,026	24	38,313
Financial assets at fair value through profit or loss	4,195	731	7,100	3,436	2	15,464
Financial assets at amortized cost	13,318	-	-	-	-	13,318
Of which: Lebanese sovereign and Central Bank of Lebanon	*11,919*	-	-	-	-	*11,919*
Loans and advances to customers at amortized cost	30,807	305	2,136	2,154	-	35,402
Loans and advances to related parties at amortized cost	8	8	-	-	-	16
Mandatory deposit with the Lebanese Treasury	2,550	-	-	-	-	2,550
	73,925	13,445	28,946	10,616	32	126,964

33.3.2 Industrial analysis

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

33 CREDIT RISK (continued)

33.3 Analysis of concentration (continued)

33.3.2 Industrial analysis (continued)

2019	Financial Services and Brokerage LL million	Government LL million	Consumers LL million	Retail and Wholesale LL million	Construction and Materials LL million	Energy and Petroleum LL million	Services and Utilities LL million	Total LL million
Cash and balances with the Central Bank	4,640	-	-	-	-	-	-	4,640
Central Bank of Lebanon	*4,397*	-	-	-	-	-	-	*4,397*
Due from banks and financial institutions	21,337	-	-	-	-	-	-	21,337
Financial assets at fair value through profit or loss	2,167	377	-	1,525	3,193	-	-	7,262
Financial assets at amortized cost	-	933	-	1,230	-	-	-	2,163
Lebanese sovereign and Central Bank of Lebanon	-	*933*	-	-	-	-	-	*933*
Private sector and other securities	-	-	-	*1,230*	-	-	-	*1,230*
Financial assets at fair value through other comprehensive income	-	-	-	-	1,127	-	-	1,127
Loans and advances to customers at amortized cost	6,548	-	1,557	-	2,730	-	1,507	12,342
Loans and advances to related parties at amortized cost	74	-	-	-	-	-	-	74
Other assets	3,248	2,550	-	-	-	-	-	5,798
	38,014	3,860	1,557	2,755	7,050	-	1,507	54,743

2018	Financial Services and Brokerage LL million	Government LL million	Consumers LL million	Retail and Wholesale LL million	Construction and Materials LL million	Energy and Petroleum LL million	Services and Utilities LL million	Total LL million
Cash and balances with the Central Bank	21,901	-	-	-	-	-	-	21,901
Central Bank of Lebanon	*21,800*	-	-	-	-	-	-	*21,800*
Due from banks and financial institutions	38,313	-	-	-	-	-	-	38,313
Financial assets at fair value through profit or loss	7,885	-	-	1,525	2,670	1,897	1,487	15,464
Financial assets at amortized cost	-	11,919	-	1,399	-	-	-	13,318
Lebanese sovereign and Central Bank of Lebanon	-	*11,919*	-	-	-	-	-	*11,919*
Private sector and other securities	-	-	-	*1,399*	-	-	-	*1,399*
Loans and advances to customers at amortized cost	26,605	-	5,113	-	61	-	3,623	35,402
Loans and advances to related parties at amortized cost	16	-	-	-	-	-	-	16
Other assets	3,385	2,550	-	-	-	-	-	5,935
	98,105	14,469	5,113	2,924	2,731	1,897	5,110	130,349

33.4 Credit quality and maximum exposure to credit risk analysis

In managing its portfolio, the Group utilizes rating and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not "impaired". The ultimate risk of possible financial loss on "Standard" quality is assessed to be higher than that for the exposures classified within the "High" quality range.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

33 CREDIT RISK (continued)

33.4 Credit quality and maximum exposure to credit risk analysis (continued)

	2019			
	Stage 1 LL million	*Stage 2 LL million*	*Stage 3 LL million*	*Total LL million*
Balances with the Central Bank				
High	4,672	-	-	4,672
Due from banks and financial institutions				
High	22,115	-	-	22,115
Financial assets at amortized cost				
High	980	-	-	980
Standard	1,372	-	-	1,372
Loans and advances to customers and related parties at amortized				
High	9,776	-	-	9,776
Individually impaired	-	-	3,364	3,364
Other assets				
High	5,803	-	-	5,803
Of which: Mandatory deposit with the Lebanese Treasury	*2,550*	-	-	*2,550*
Individually impaired	-	-	493	493
Total	44,718	-	3,857	48,575

	2018			
	Stage 1 LL million	*Stage 2 LL million*	*Stage 3 LL million*	*Total LL million*
Balances with the Central Bank				
High	22,001	-	-	22,001
Due from banks and financial institutions				
High	38,416	-	-	38,416
Financial assets at amortized cost				
High	12,037	-	-	12,037
Standard	1,432	-	-	1,432
Loans and advances to customers and related parties at amortized				
High	32,625	-	-	32,625
Standard	-	2,960	-	2,960
Other assets				
High	6,245	-	-	6,245
Of which: Mandatory deposit with the Lebanese Treasury	*2,550*	-	-	*2,550*
Individually impaired	-	-	275	275
Total	112,756	2,960	275	115,991

33.5 Maximum exposure to credit risk and collateral and other credit enhancements

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

	2019					
	Maximum exposure LL million	*Cash LL million*	*Securities LL million*	*Real estate mortgage LL million*	*Net credit exposure LL million*	*Associated ECL LL million*
Cash and balances with the central Bank	4,640	-	-	-	4,640	(275)
Due from banks and financial institutions	21,337	-	-	-	21,337	(778)
Financial assets at amortized cost	2,163	-	-	-	2,163	(189)
Loans and advances to customers at amortized cost	12,342	1,856	4,393	846	5,247	(711)
Loans and advances to related parties at amortized cost	74	74	-	-	-	(12)
Other assets	5,798	-	-	-	5,798	(499)
Total	46,354	1,930	4,393	846	39,185	(2,464)

33 CREDIT RISK (continued)

33.5 Maximum exposure to credit risk and collateral and other credit enhancements (continued)

	2018					
	Maximum exposure LL million	*Cash LL million*	*Securities LL million*	*Real estate mortgage LL million*	*Net credit exposure LL million*	*Associated ECL LL million*
Cash and balances with the central Bank	21,901	-	-	-	21,901	(202)
Due from banks and financial institutions	38,313	-	-	-	38,313	(103)
Financial assets at amortized cost	13,318	-	-	-	13,318	(151)
Loans and advances to customers at amortized cost	35,402	10,267	18,230	2,645	4,260	(167)
Loans and advances to related parties at amortized cost	16	16	-	-	-	-
Other assets	5,935	-	-	-	5,935	(584)
Total	114,885	10,283	18,230	2,645	83,727	(1,207)

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

Collateral and other credit enhancements

The amount, type and valuation of collateral is based on guidelines specified in the risk management framework. The main types of collateral obtained include real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

34 LIQUIDITY RISK

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities.

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs.

As per the Lebanese Grouping regulations, the Group must retain with the Central Bank of Lebanon interest bearing statutory investments equivalent to 15% of all foreign currency 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. In accordance, with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits and commitments in foreign currencies and Lebanese Liras should not be less than 10% and 40%, respectively.

The Group stresses the importance of savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratios, which compares loans and advances to customers as a percentage of core customer and savings accounts.

The ratios during the year were as follows:

Net liquid assets to deposits in foreign currencies	***2019*** *%*	*2018* *%*
Year-end	**95.33**	27.36
Maximum	**316.81**	52.33
Minimum	**80.11**	16.69
Average	**145.43**	32.12

34 LIQUIDITY RISK (continued)

Analysis of financial assets and liabilities by remaining maturities
The table below summarizes the maturity profile of the Group's financial assets and liabilities as at 31 December.

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

	31 December 2019							
	Up to 1 month LL million	*1 to 3 months LL million*	*3 to 12 months LL million*	*Sub total LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Sub total LL million*	*Total LL million*
Financial assets								
Cash and balances with the central bank	4,640	-	-	4,640	-	-	-	4,640
Due from banks and financial institutions	21,337	-	-	21,337	-	-	-	21,337
Financial assets at fair value through profit or loss	12,414	-	-	12,414	-	-	-	12,414
Financial assets at amortized cost	-	-	-	-	956	1,207	2,163	2,163
Financial assets at fair value through other comprehensive income	1,162	-	-	1,162	-	-	-	1,162
Loans and advances to customers at amortized cost	7,921	-	95	8,016	4,326	-	4,326	12,342
Loans and advances to related parties at amortized cost	74	-	-	74	-	-	-	74
Total financial assets	47,548	-	95	47,643	5,282	1,207	6,489	54,132
Due to banks and financial institutions	572	-	-	572	-	-	-	572
Customers' deposits at amortized cost	5,403	128	5,643	11,174	-	-	-	11,174
Total financial liabilities	5,975	128	5,643	11,746	-	-	-	11,746
Net financial assets (liabilities)	41,573	(128)	(5,548)	35,897	5,282	1,207	6,489	42,386

	31 December 2018							
	Up to 1 month LL million	*1 to 3 months LL million*	*3 to 12 months LL million*	*Sub total LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Sub total LL million*	*Total LL million*
Financial assets								
Cash and balances with the central bank	5,520	-	16,381	21,901	-	-	-	21,901
Due from banks and financial institutions	38,313	-	-	38,313	-	-	-	38,313
Financial assets at fair value through profit or loss	18,987	-	-	18,987	-	-	-	18,987
Financial assets at amortized cost	-	-	-	-	11,851	1,467	13,318	13,318
Loans and advances to customers at amortized cost	27,656	-	1,762	29,418	5,673	311	5,984	35,402
Loans and advances to related parties at amortized cost	16	-	-	16	-	-	-	16
Total financial assets	90,492	-	18,143	108,635	17,524	1,778	19,302	127,937
Due to banks and financial institutions	31,099	-	-	31,099	-	-	-	31,099
Customers' deposits at amortized cost	47,515	768	6,228	54,511	683	382	1,065	55,576
Total financial liabilities	78,614	768	6,228	85,610	683	382	1,065	86,675
Net financial assets (liabilities)	11,878	(768)	11,915	23,025	16,841	1,396	18,237	41,262

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments:

As of 31 December 2019	***On demand LL million***	***Less than 3 months LL million***	***3 to 12 months LL million***	***1 to 5 years LL million***	***Over 5 years LL million***	***Total LL million***
Financial instruments with brokers on behalf of customers	**555,923**	-	-	-	-	**555,923**
Deposits with banks	**142,995**	**19,243**	-	-	-	**162,238**
Certificates of deposits (Central Bank of Lebanon)	**14,029**	-	-	-	-	**14,029**
Trading financial instruments	**20,254**	-	-	-	-	**20,254**
Loans and advances	**52,464**	**792**	**12,026**	**45,979**	**4,177**	**115,438**
	785,665	20,035	12,026	45,979	**4,177**	**867,882**

As of 31 December 2018	*On demand LL million*	*Less than 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial instruments with brokers on behalf of customers	679,649	-	-	-	-	679,649
Deposits with banks	40,464	72,019	534	422	-	113,439
Certificates of deposits (Central Bank of Lebanon)	70	-	-	2,506	-	2,576
Trading financial instruments	22,387	-	3,920	1,553	452	28,312
Loans and advances	38,678	6,974	14,192	59,517	2,360	121,721
	781,248	78,993	18,646	63,998	2,812	945,697

35 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

Risk management is responsible for generating internal reports quantifying the Group's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Group's trading portfolio of fixed income securities to changes in market prices and / or market parameters.

A. INTEREST RATE RISK

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

The effective interest rate (effective yield) for a monetary financial instrument is the rate that if used to determine the present value of the instrument would give the book value of the instruments.

Interest rate sensitivity
The table below shows the sensitivity of interest income to 100 basis points parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. The result includes the effect of assets and liabilities held at 31 December 2019 and 2018. Given the novel and prolonged nature of the economic crisis and the high levels of uncertainty the Group expects lower interest rates during 2020. However, the Group is unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through Intermediary Circulars 536 and 544 (refer to note 1).

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

Currency	***Increase in effective interest basis points***	***2019 Effect on Consolidated income statement LL (000)***	*2018 Effect on Consolidated income statement LL (000)*
Lebanese Lira	**100**	**8,162**	3,568
US Dollars	**100**	**20,497**	29,074
Euro	**100**	**12,855**	7,976

35 MARKET RISK (continued)

A. INTEREST RATE RISK (continued)

Interest repricing gap

The tables below analyze the Group's interest rates risk exposure on non-trading financial assets and liabilities (excluding financial assets at fair value through profit or loss). The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates:

As of 31 December 2019

	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*Total less than one year LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total more than one year LL million*	*Non-interest sensitive LL million*	*Total LL million*
Assets									
Cash and balances with the central bank	3,920	-	-	3,920	-	-	-	720	4,640
Due from banks and financial institutions	2,537	-	-	2,537	-	-	-	18,800	21,337
Financial assets at amortized cost	-	-	-	-	956	1,207	2,163	-	2,163
Loans and advances to customers at amortized cost	7,921	-	95	8,016	4,326	-	4,326	-	12,342
Total assets	14,378	-	95	14,473	5,282	1,207	6,489	19,520	40,482
Liabilities									
Due to banks and financial institutions	572	-	-	572	-	-	-	-	572
Customers' deposits at amortized cost	-	128	5,643	5,771	-	-	-	5,403	11,174
Total liabilities	572	128	5,643	6,343	-	-	-	5,403	11,746
Total interest sensitivity gap	13,806	(128)	(5,548)	8,130	5,282	1,207	6,489	14,117	28,736

As of 31 December 2018

	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*Total less than one year LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total more than one year LL million*	*Non-interest sensitive LL million*	*Total LL million*
Assets									
Cash and balances with the central bank	-	-	16,381	16,381	-	-	-	5,520	21,901
Due from banks and financial institutions	228	-	-	228	-	-	-	38,085	38,313
Financial assets at amortized cost	-	-	-	-	11,797	1,467	13,264	54	13,318
Loans and advances to customers at amortized cost	27,656	-	1,762	29,418	5,673	311	5,984	-	35,402
Loans and advances to related parties at amortized cost	16	-	-	16	-	-	-	-	16
Total assets	27,900	-	18,143	46,043	17,470	1,778	19,248	43,659	108,950
Liabilities									
Due to banks and financial institutions	31,099	-	-	31,099	-	-	-	-	31,099
Customers' deposits at amortized cost	540	768	6,228	7,536	683	382	1,065	46,975	55,576
Total liabilities	31,639	768	6,228	38,635	683	382	1,065	46,975	86,675
Total interest sensitivity gap	(3,739)	(768)	11,915	7,408	16,787	1,396	18,183	(3,316)	22,275

B. CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. 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 Central Bank of Lebanon allows the banks to maintain a currency exchange position, receivable or payable, that does not exceed at any time 1% of total net equity on condition that the global currency exchange position does not exceed 40% of total net equity, provides that the banks abide on a timely and consistent manner by the required solvency rate.

35 MARKET RISK (continued)

B. CURRENCY RISK (continued)

Breakdown of assets and liabilities by currency as at 31 December 2019:

	LL *LL million*	*USD* *LL million*	*EUR* *LL million*	*GBP* *LL million*	*AED* *LL million*	*Other* *LL million*	*Total* *LL million*
Assets							
Cash and balances with the central bank	218	4,158	156	108	-	-	4,640
Due from banks and financial institutions	2,354	16,943	683	688	59	610	21,337
Financial assets at fair value through profit or loss	2,099	10,310	5	-	-	-	12,414
Financial assets at amortized cost	1,447	716	-	-	-	-	2,163
Financial assets at fair value through other comprehensive income	-	1,162	-	-	-	-	1,162
Loans and advances to customers at amortized cost	3,709	7,925	288	57	7	356	12,342
Loans and advances to related parties at amortized cost	-	-	74	-	-	-	74
Other assets	2,621	2,647	364	3	163	-	5,798
Property and equipment	23,684	21	-	-	476	-	24,181
Intangible assets	52	-	-	-	6	-	58
Total assets	36,184	43,882	1,570	856	711	966	84,169
Liabilities							
Due to banks and financial institutions	-	38	-	448	-	86	572
Customers' deposits at amortized cost	1,897	8,573	635	0	-	69	11,174
Other liabilities	1,582	1,274	19	1	370	3	3,249
Provisions for risks and charges	1,040	579	-	-	-	-	1,619
Total liabilities	4,519	10,464	654	449	370	158	16,614
Net exposure	31,665	33,418	916	407	341	808	67,555

Breakdown of assets and liabilities by currency as at 31 December 2018:

	LL *LL million*	*USD* *LL million*	*EUR* *LL million*	*GBP* *LL million*	*AED* *LL million*	*Other* *LL million*	*Total* *LL million*
Assets							
Cash and balances with the central bank	2,754	16,851	696	1,596	4	-	21,901
Due from banks and financial institutions	615	23,059	5,799	2,535	2,270	4,035	38,313
Financial assets at fair value through profit or loss	2,268	16,712	5	-	-	2	18,987
Financial assets at amortized cost	1,566	11,752	-	-	-	-	13,318
Loans and advances to customers at amortized cost	3,666	17,349	3,017	8,316	36	3,018	35,402
Loans and advances to related parties at amortized cost	1	9	-	6	-	-	16
Investments in subsidiaries and an associate	6	-	-	-	-	-	6
Other assets	2,632	3,293	10	-	-	-	5,935
Property and equipment	23,589	17	-	-	152	-	23,758
Intangible assets	78	-	-	-	12	-	90
Total assets	37,175	89,042	9,527	12,453	2,474	7,055	157,726
Liabilities							
Due to banks and financial institutions	-	24,376	2,404	2,991	2	1,326	31,099
Customers' deposits at amortized cost	848	37,112	3,158	7,522	2,624	4,312	55,576
Other liabilities	1,475	1,503	56	1	-	2	3,037
Provisions for risks and charges	869	657	-	-	-	-	1,526
Total liabilities	3,192	63,648	5,618	10,514	2,626	5,640	91,238
Net exposure	33,983	25,394	3,909	1,939	(152)	1,415	66,488

The Group's exposure to currency risk

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

35 MARKET RISK (continued)

C. PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. The fixed rate assets of the Group are not significant compared to the total assets. 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 on net interest income is not material after taking into account the effect of any prepayment penalties.

D. OPERATIONAL RISK

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

E. LITIGATION RISK

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

F. POLITICAL RISK

External factors, which are beyond the control of the Group, mainly the political and economic pressures in Lebanon (note 1) that have been building up prior to and increasing significantly since the last quarter of 2019 may adversely affect the operations of the Group, its strategy and financial performance. The Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties, which may result in significant impact on the Group's activities, operating results and financial position.

36 CAPITAL MANAGEMENT

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

On 3 February 2020, the Central Bank of Lebanon issued Intermediary Circular 543 in which it decreased the minimum regulatory capital adequacy ratios levels as reflected in the table below. Under the same circular, the regulator has increased the risk weight on foreign currency exposures to the Central Bank of Lebanon from 50% to 150%, excluding deposits with original maturities less than one year, which are still subject to a 50% risk weight.

36 CAPITAL MANAGEMENT (continued)

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Year ended 31 December 2019	**7.00%**	**8.50%**	**10.50%**
Year ended 31 December 2018	10.00%	13.00%	15.00%

	2019 ***LL (000)***	*2018* *LL (000)*
Risk-weighted assets:		
Credit risk	**37,904,307**	54,494,537
Market risk	**23,615,305**	25,719,161
Operational risk	**39,040,000**	36,323,642
Total risk-weighted assets	**100,559,612**	116,537,340

The regulatory capital excluding net income for the year as of 31 December is as follows:

	2019 ***LL (000)***	*2018* *LL (000)*
Tier 1 capital	**50,329,227**	48,057,893
Of which: common Tier 1	***50,329,227***	*48,057,893*
Tier 2 capital	**473,804**	681,182
Total capital	**50,803,031**	48,739,075

The capital adequacy ratio excluding net income for the year as of 31 December is as follows:

	2019	*2018*
Capital adequacy – Common Tier 1	**50.05%**	41.24%
Capital adequacy – Tier 1	**50.05%**	41.24%
Capital adequacy – Total capital	**50.52%**	41.82%

On 4 November 2019 the Central Bank of Lebanon issued Intermediary Circular 532 requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and to increase the regulatory capital by 20% of the common equity tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020. The Board of Directors in its meeting dated 7 April 2020, decided to wait before taking measures regarding increasing its regulatory capital as required by the Central Bank of Lebanon intermediary circular 532 as it considers it has adequate reserves.

37 SUBSEQUENT EVENTS

Outbreak of COVID-19

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

37 SUBSEQUENT EVENTS (continued)

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

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

THANK YOU!

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