ARABIA INSURANCE COMPANY S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2018

ARABIA INSURANCE COMPANY S.A.L.
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YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Arabia Insurance Company S.A.L.
Beirut, Lebanon

Opinion

We have audited the accompanying consolidated financial statements of Arabia Insurance Company S.A.L. (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, consolidated statement of profit or loss and consolidated statement of profit or loss and other 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's 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 audit. We remain solely responsible for our audit opinion.

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

Beirut, Lebanon
June 10, 2019

Deloitte & Touche

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE GENERAL INSURANCE DEPARTMENTS

ASSETS	Notes	December 31, 2018 LBP'000	2017 (Restated) LBP'000
Cash and banks	5	199,137,274	208,219,949
Financial assets at fair value through profit or loss	6	10,719,150	10,424,132
Insurance receivables, net	7	74,234,853	80,073,101
Due from reinsurers	8	9,539,772	6,891,462
Due from related company	25	179,928	10,156
Investment securities at fair value through other comprehensive income	9	80,703,692	79,512,715
Investment securities at amortized cost	10	10,891,341	11,297,323
Reinsurance assets	21	203,105,221	175,566,884
Deferred acquisition costs	11	6,440,583	7,794,532
Deferred tax assets	19	2,331,462	1,648,049
Other assets	12	4,439,081	5,751,743
Property and equipment	13	14,511,535	14,702,414
Goodwill	40	5,046,105	5,046,105
Intangible assets	14	1,524,927	1,145,025
Investment properties	15	4,628,154	5,717,672
Total Assets		627,433,078	613,801,262
Assets of the Life Division -- Appendix I		162,450,136	159,255,223
Combined Assets of General Insurance Departments and Life Division		789,883,214	773,056,485

The consolidated financial statements for the year ended December 31, 2018 were approved by the Board of Directors on April 26, 2019 and signed on their behalf by:

Mr. Samer Abou Jaoude
General Manager

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE GENERAL INSURANCE DEPARTMENTS

(Continued)

		December 31,	
LIABILITIES	**Notes**	**2018**	**2017 (Restated)**
		LBP'000	**LBP'000**
Due to banks	17	45,706,016	28,910,248
Insurance payables	18	28,623,591	27,735,798
Payables to insurance and reinsurance companies		44,261,496	42,385,202
Income tax payable	19	2,895,705	2,922,968
Due to life division	16	8,437,468	3,159,186
Accrued expenses and other liabilities	20	11,150,272	18,235,533
Insurance contract liabilities	21	331,176,772	328,747,283
Deferred commission income from reinsurers		2,035,199	2,432,802
Deferred tax liabilities	19	2,130,051	1,813,384
Provision for employees' end-of-service indemnity	23	3,772,744	4,892,135
Provision for contingencies	24	2,968,992	2,968,992
Total liabilities		483,158,306	464,203,531
EQUITY			
Share capital	26	51,000,000	51,000,000
Surplus on sale of treasury shares	26	5,211,359	5,211,359
Treasury shares	26	(976,287)	(585,037)
Legal reserve	27	24,894,262	24,955,335
General reserve		19,613,572	19,613,572
Asset revaluation reserve	28	6,887,300	6,887,300
Other restricted reserve	39	1,582,047	-
Foreign currency translation reserve		(17,917,269)	(17,930,066)
Investment revaluation reserve	29	3,236,773	4,380,096
Retained earnings		8,552,808	17,821,252
Equity attributable to owners of the Company		102,084,565	111,353,811
Non-controlling interests	31	42,190,207	38,243,920
Total equity		144,274,772	149,597,731
Total Liabilities and Equity		627,433,078	613,801,262
Liabilities of the Life Division – Appendix I		135,432,771	133,768,438
Net Assets of the Life Division – Appendix I		27,017,365	25,486,785
Total Liabilities and Net Assets of the Life Division - Appendix I		162,450,136	159,255,223
Combined Liabilities and Equity of General Insurance Departments and Life Division		789,883,214	773,056,485

Mr. Samer Abou Jaoudé
General Manager

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE GENERAL INSURANCE DEPARTMENTS

	Notes	Year Ended December 31, 2018 LBP'000	2017 LBP'000
Net income/(loss) of General Insurance Departments:			
Marine		2,227,965	1,031,134
Motor		14,792,445	7,916,721
Property		1,207,267	859,093
General accidents		1,409,257	2,198,124
Workmen's compensation		813,272	2,231,394
Medical		(5,340,894)	331,858
Reinsurance inwards		(452,773)	(690,296)
Net income of general insurance departments (net of allocated general and administrative expenses)	32	14,656,539	13,878,028
Provision for credit losses, net	43	(3,303,721)	(5,011,792)
Net income of insurance departments (after provision for credit losses and allocated general and administrative expenses)		11,352,818	8,866,236
Income from Investments:			
Interest income on deposits with banks	5	7,419,597	6,408,258
Interest expense on bank borrowings and overdrafts		(1,191,126)	(970,596)
Interest and dividend income from investment securities at FVTOCI		992,268	1,116,541
Interest and dividend income from investment securities at amortized cost		531,414	630,960
Interest and dividend income from financial assets at FVTPL		307,296	563,576
Realized gain on financial assets at FVTPL		660,134	1,838,856
Net change in fair value of financial assets at FVTPL	6	(2,271,580)	(135,016)
Net gain from de-recognition of investment securities at amortized cost		206,978	369,677
Decline in value of investment securities at amortized cost		-	(62,205)
Net foreign exchange losses		(239,213)	(880,453)
Gain on sale of investment property	15	2,425,687	-
Net (loss)/income from building		(95,325)	2,659
Other income		2,726,207	883,666
Net income from investments		11,472,337	9,765,923
Total income from general insurance departments and investments		22,825,155	18,632,159
General and administrative expenses unallocated to General Insurance Departments	33	(13,042,370)	(13,330,250)
Profit before tax		9,782,785	5,301,909
Income tax expense	19	(1,854,318)	(2,224,596)
Profit for the year		7,928,467	3,077,313
Attributable to:			
Owners of the Company		4,734,334	862,797
Non-controlling interests	31	3,194,133	2,214,516
		7,928,467	3,077,313

Mr. Samer Abou Jaoudé
General Manager

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE GENERAL INSURANCE DEPARTMENTS

	Year Ended December 31,	
	2018	**2017 (Restated)**
	LBP'000	**LBP'000**
Profit for the year	7,928,467	3,077,313
Other comprehensive income/(loss):		
Items that will not be reclassified subsequently to profit or loss:		
Net change in fair value of investment securities at FVTOCI	(2,121,172)	14,426,374
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translating foreign subsidiaries	12,796	928,399
Total other comprehensive (loss)/ income for the year	(2,108,376)	15,354,773
Total comprehensive income for the year	5,820,091	18,432,086
Attributable to:		
Owners of the Company	3,157,025	15,910,544
Non-controlling interests	2,663,066	2,521,542
	5,820,091	18,432,086

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE GENERAL INSURANCE DEPARTMENTS

	Share Capital LBP'000	Treasury Shares LBP'000	Surplus on Sale of Treasury Shares LBP'000	Legal Reserve LBP'000	General Reserve LBP'000	Asset Revaluation Reserve LBP'000	Other Restricted Reserve LBP'000	Foreign Currency Translation Reserve LBP'000	Investment Revaluation Reserve LBP'000	Retained Earnings LBP'000	Equity Attributable to Owners of the Company LBP'000	Non-controlling Interests LBP'000	Total Equity LBP'000
Balance at January 1, 2017	51,000,000	(718,773)	5,149,468	24,180,765	19,613,572	6,887,300	6,411,633	(18,394,849)	(12,013,586)	11,729,785	93,845,315	15,369,241	109,214,556
Total comprehensive income for the year 2017	-	-	-	-	-	-	-	464,783	14,582,964	862,797	15,910,544	2,521,542	18,432,086
Gain on disposal of investments securities at FVTOCI	-	-	-	-	-	-	-	-	1,806,060	417,556	2,223,616	-	2,223,616
Board of Directors' and committees' remunerations - Note 30	-	-	-	-	-	-	-	-	-	(494,048)	(494,048)	-	(494,048)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(619,498)	(619,498)
Effect of acquisition of shares in Al Mashreq	-	(463)	-	-	-	-	-	-	4,641	44,072	48,250	(101,612)	(53,362)
Net sale of ordinary shares - Note 26	-	134,199	61,891	-	-	-	-	-	-	-	196,090	-	196,090
Transfer to legal and other restricted reserve- Note 39	-	-	-	774,570	-	-	(6,411,633)	-	-	5,637,063	-	-	-
Effect of acquisition of a subsidiary-Note 40	-	-	-	-	-	-	-	-	-	137,273	137,273	1,374,262	1,511,535
Effect of disposal of shares in a subsidiary - Note 40	-	-	-	-	-	-	-	-	-	-	-	19,699,985	19,699,985
Tax on capital gain of merged branch	-	-	-	-	-	-	-	-	-	(501,698)	(501,698)	-	(501,698)
Other adjustments	-	-	-	-	-	-	-	-	17	(11,548)	(11,531)	-	(11,531)
Balance at December 31, 2017 (as restated)	51,000,000	(585,037)	5,211,359	24,955,335	19,613,572	6,887,300	-	(17,930,066)	4,380,096	17,821,252	111,353,811	38,243,920	149,597,731
Effect of adoption of IFRS 9 – Note 2	-	-	-	-	-	-	-	-	-	(11,342,398)	(11,342,398)	(72,376)	(11,414,774)
Balance at January 1, 2018	51,000,000	(585,037)	5,211,359	24,955,335	19,613,572	6,887,300	-	(17,930,066)	4,380,096	6,478,854	100,011,413	38,171,544	138,182,957
Total comprehensive income for the year 2018	-	-	-	-	-	-	-	12,796	(1,590,105)	4,734,334	3,157,025	2,663,066	5,820,091
Gain on disposal of investments securities at FVTOCI	-	-	-	-	-	-	-	-	-	(547,639)	(547,639)	-	(547,639)
Reclassification to retained earnings upon disposal of investment securities at FVTOCI	-	-	-	-	-	-	-	-	446,778	(446,778)	-	-	-
Board of Directors' and Committees' remunerations - Note 30	-	-	-	-	-	-	-	-	-	(468,810)	(468,810)	-	(468,810)
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,116,425)	(2,116,425)
Effect of acquisition of shares in subsidiary -Al Mashriq	-	(1,010)	-	-	-	-	-	-	-	125,503	124,493	(225,690)	(101,197)
Net sale of ordinary shares - Note 26	-	(390,240)	-	-	-	-	-	-	-	-	(390,240)	-	(390,240)
Transfer to legal and other restricted reserve	-	-	-	(61,073)	-	-	1,582,047	-	-	(1,520,974)	-	-	-
Effect of disposal of shares in a subsidiary – Note 40	-	-	-	-	-	-	-	-	-	199,364	199,364	3,697,707	3,897,071
Other adjustments	-	-	-	-	-	-	-	1	4	(1,046)	(1,041)	5	(1,036)
Balance at December 31, 2018	51,000,000	(976,287)	5,211,359	24,894,262	19,613,572	6,887,300	1,582,047	(17,917,269)	3,236,773	8,552,808	102,084,565	42,190,207	144,274,772

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMEN

ARABIA INSURANCE COMPANY S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE GENERAL INSURANCE DEPARTMENTS

	Notes	Year Ended December 31, 2018 LBP'000	2017 LBP'000
Cash Flows from operating activities:			
Profit for the year		7,928,467	3,077,313
Adjustments for:			
Interest income on bank deposits and investment securities		(7,951,011)	(7,039,218)
Interest expense on bank borrowings and overdrafts		1,191,126	970,596
Income tax expense		1,854,318	2,224,596
Net change in deferred tax balances		392,545	(761,349)
Depreciation of property and equipment	13	1,255,285	1,252,218
Amortization of intangible assets	14	536,322	701,309
Depreciation of investment properties	15	113,285	136,620
Provision for employees' end-of-service indemnity	23	425,969	(101,935)
Provision for credit losses	43	3,303,721	5,011,792
Gain on sale of investment properties	15	(2,425,687)	-
Net change in foreign currency translation reserve		28,138	1,586,120
Net change in fair value of financial assets at FVTPL	6	2,271,580	135,016
Net change in fair value of derivative liabilities	20	(269,064)	(207,787)
Net change in deferred acquisition costs	11	1,353,949	4,214,487
Net change in reinsurance assets	21	(27,538,337)	(52,451,265)
Net change in deferred commission income from reinsurers		(397,603)	(181,938)
Net change in insurance contract liabilities	21	2,429,489	18,292,301
		(15,497,508)	(23,141,124)
Increase in insurance receivables		(7,893,963)	(599,926)
(Increase)/decrease in due from reinsurers		(2,867,365)	2,531,926
Decrease/(increase) in other assets		1,312,137	(3,007,693)
Increase/(decrease) in insurance payables		887,793	(1,924,380)
Increase in payables to insurance and reinsurance companies		1,876,294	2,554,862
(Decrease)/increase in accrued expenses and other liabilities		(6,816,197)	7,776,139
Settlement of provision for employees' end-of-service indemnity	23	(1,545,360)	(689,676)
Income tax paid		(1,881,581)	(2,478,700)
Net cash used in operating activities		(32,425,750)	(18,978,572)
Cash flows from investing activities:			
Interest received from bank deposits and investment securities		9,851,291	5,489,132
Interest paid on bank borrowings and overdrafts		(1,191,126)	(970,596)
(Increase)/decrease in investment securities	38	(7,117,877)	15,851,584
Decrease in bank term deposits	5	2,585,168	4,497,261
Net increase in property and equipment	13	(1,064,916)	(2,684,124)
Net increase in intangible assets	14	(916,224)	(479,016)
Cash outflow on acquisition of additional shares in Al Mashriq		(100,187)	(52,898)
Cash inflow on disposal of shares in a subsidiary		3,897,071	1,511,535
Decrease/(increase) in investment properties	15	3,401,920	(295,499)
Cash outflow on acquisition of a subsidiary		-	(13,086,370)
Net cash generated by in investing activities		9,345,120	9,781,009
Cash flows from financing activities:			
Increase in due to banks		16,795,768	15,717,942
Net change in balance with the life division		5,278,279	(8,741,093)
Net change in due to related company		(169,772)	597,310
Net sale of treasury shares		(717,069)	(125,027)
Other changes to retained earnings		-	(11,548)
Dividends paid to non-controlling interests		(2,116,425)	(619,498)
Settlement of board of directors' and committees' remunerations		(142,991)	(173,394)
Net cash generated by financing activities		18,927,790	6,644,692
Net decrease in cash and cash equivalents		(4,152,840)	(2,552,871)
Cash and cash equivalents at beginning of year		72,205,484	74,758,355
Cash and cash equivalents at end of year	5	68,052,644	72,205,484

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
LIFE DIVISION
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(APPENDIX I)

ASSETS	Notes	December 31, 2018 LBP'000	December 31, 2017 (Restated) LBP'000
Cash at banks	5	49,088,172	46,856,269
Financial assets at fair value through profit or loss	6	58,965,170	65,800,971
Insurance and other receivables	7	4,741,550	3,514,731
Reinsurance receivables	8	1,863,298	2,695,029
Prepaid expenses and other assets		330,888	882,127
Investment securities at FVTOCI	9	12,355,738	9,487,416
Investment securities at amortized cost	10	12,877,969	13,378,456
Reinsurance assets	22	13,145,035	12,732,941
Furniture and equipment	13	439,719	509,419
Intangible assets	14	205,129	238,678
Due from general insurance departments	16	8,437,468	3,159,186
Total assets		162,450,136	159,255,223
LIABILITIES			
Due to banks	17	1,508,474	1,532,342
Insurance payables		9,797,939	4,110,629
Income tax payable		270,280	233,969
Accrued expenses and other credit balances	20	4,662,631	6,842,988
Life insurance contract liabilities	22	118,613,633	120,276,206
Provision for employees' end-of-service indemnity	23	579,814	772,304
Total liabilities		135,432,771	133,768,438
NET ASSETS			
Reserve for asset revaluation surplus		285,723	285,723
Investment revaluation reserve	9&28	(523)	57,505
Retained earnings		26,248,919	24,448,563
Net assets attributable to owners of the life division		26,534,119	24,791,791
Non-controlling interests	31	483,246	694,994
Net assets		27,017,365	25,486,785
Total Liabilities and net assets		162,450,136	159,255,223

Mr. Samer Abou Jaoudé
General Manager

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
LIFE DIVISION
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(APPENDIX II)

	Notes	Year Ended December 31, 2018 LBP'000	2017 LBP'000
Income:			
Written premiums		43,132,719	43,446,486
Premiums allocated to saving components	22	(11,897,583)	(12,862,766)
Insurance premiums		31,235,136	30,583,720
Reinsurers' share of insurance premiums		(9,186,068)	(8,479,971)
Net insurance premiums		22,049,068	22,103,749
Fee and commission insurance income		1,164,987	1,747,194
Net insurance income		23,214,055	23,850,943
Income from investment securities		1,500,384	1,482,360
Interest received from loans on policies		10,175	18,285
Interest income from deposits with banks	5	1,674,806	1,115,124
Net change in fair value of investment securities held at fair value through profit or loss	6	(7,851,255)	7,366,852
Total income		18,548,165	33,833,564
Expenses:			
Claims paid		(7,860,782)	(7,356,961)
Reinsurers' share of claims paid		3,844,623	4,272,010
Change in insurance contract liabilities	22	4,766,761	(8,631,859)
Reinsurers' share of change in insurance contract liabilities		412,095	(1,446,576)
Fees, commissions and other acquisition expenses		(5,237,326)	(5,101,553)
Other operating and administrative expenses	33	(9,524,306)	(10,311,946)
Contribution to head quarters' overheads	33	(2,200,000)	(2,200,000)
Provision for expected credit losses	43	(63,898)	-
Decline in value of investment securities at amortized cost		-	(37,688)
Net foreign exchange losses/(gain)		(107,280)	5,201
Income tax expense		(27,076)	(34,945)
Total expenses		(15,997,189)	(30,844,317)
Profit for the year		2,550,976	2,989,247
Attributable to:			
Owners of the life division		2,548,086	3,225,617
Non-controlling interests	31	2,890	(236,370)
		2,550,976	2,989,247

Mr. Samer Abou Jaoudé
General Manager

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARABIA INSURANCE COMPANY S.A.L.
LIFE DIVISION
CONSOLIDATED STATEMENT OF CASH FLOWS

(APPENDIX III)

	Notes	Year Ended December 31, 2018 LBP'000	2017 LBP'000
Cash flows from operating activities:			
Profit for the year		2,550,976	2,989,247
Adjustments for:			
Allocation to saving components	22	11,897,583	12,862,766
Income tax expense		27,076	34,945
Depreciation	33	92,147	125,203
Amortization of computer software	33	58,423	61,982
Provision for employees' end-of-service indemnity	23	(38,216)	83,918
Net change in fair value of financial assets at FVTPL	6	7,851,255	(7,366,852)
Interest income from deposits with banks		(1,674,806)	(1,115,124)
Amortization of discounts on investment securities at amortized cost	10	(2,145)	3,679
Gain on sale of furniture and equipment		-	(1,026)
Decline in value of investments securities at amortized cost		-	37,688
Provision for expected credit losses	35	63,898	-
Net change in reinsurance assets	22	(412,094)	(6,179,505)
Net change in insurance contract liabilities	22	(4,766,761)	8,631,859
		15,647,336	10,168,780
Net change in financial assets at FVTPL		(1,015,454)	(7,215,873)
Increase in insurance and other receivables		(2,000,128)	(2,211,218)
Decrease/(increase) in reinsurance receivables		831,641	(1,386,323)
Decrease/(increase) in prepaid expenses and other assets		685,895	(74,042)
Increase in insurance and other payables		5,687,310	1,808,632
Decrease in accrued expenses and other credit balances		(2,180,357)	(634,717)
(Decrease)/increase in life insurance contract liabilities		(8,793,395)	13,631,686
Settlements of provision for employees' end of service indemnity	23	(154,274)	(72,869)
Taxes paid		9,235	(201,461)
Net cash generated by operating activities		8,717,809	13,812,595
Cash flows from investing activities:			
Net change in investment securities		(2,717,465)	(10,587,512)
Increase in bank term deposits		(7,562)	(6,649,554)
Increase in intangible assets		(24,874)	(35,539)
Increase in furniture and equipment		(22,447)	(297,790)
Proceeds from disposal of furniture and equipment		-	99,775
Interest received		2,449,510	367,810
Net cash used in investing activities		(322,838)	(17,102,810)
Cash flows from financing activities:			
Increase in due to banks		(23,868)	(293,528)
(Increase)/decrease in due from general insurance departments		(5,278,282)	8,721,888
Other movements to net assets		40	1,158,883
Net cash (used in)/generated by financing activities		(5,302,110)	9,587,243
Net increase in cash and cash equivalents		3,092,861	6,297,028
Cash and cash equivalents at beginning of year		12,060,276	5,763,248
Cash and cash equivalents at end of year	5	15,153,137	12,060,276

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Arabia Insurance Company S.A.L. (the "Company") was incorporated in 1944 and registered in the Commercial Register in Beirut under No.1889, and is subject to Lebanese laws governing joint-stock companies and insurance companies.

The main objective of the Group is to carry out insurance and reinsurance operations in addition to short and long term placements and investments. The Company's headquarters are located at Arabia House, Ein El Mreisseh, Beirut, Lebanon.

The operations network of the Group is spread over the following areas:

Country	N°. of Branches
1. Lebanon - Headquarters	3
2. United Arab Emirates (branch)	4
3. Bahrain (branch)	1
4. Kuwait (branch)	1
5. Qatar (branch)	1
6. Sultanate of Oman (subsidiary)	7
7. Jordan (subsidiary)	2
8. Syria (subsidiary)	7
	26

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 New and revised IFRSs that are effective for the current year

In the current year, the Group have adopted the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) that are relevant to the Group' operations and effective for annual reporting periods beginning on or after January 1, 2018.

IFRS 9 *Financial Instruments*:

In the current year, the Group have applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after January 1, 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives and the Group have elected to apply this simplified transition approach.

Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

As required by IAS 8, the nature and effect of these changes are disclosed in Note 2.3 below.

IFRS 15 *Revenue from contracts with customers*:

IFRS 15 superseded the previous revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Furthermore, extensive disclosures are required by IFRS 15.

Based on analysis of the Group's revenue from contracts with customers for the year ended December 31, 2018, Management of the Group determined that the application of IFRS 15 had no impact on the consolidated financial statements.

Other IFRSs and amendments

The adoption of the below new and revised Standards and Interpretations did not result in any significant impact on the Group's financial statements:

- Amendments to IAS 40 Investment Property
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28
- Amendments to IAS 28 Investments in Associates and Joint Ventures
- Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions
- Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard

2.2 New and revised IFRSs that are effective for the current year

The Group have not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs.	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation.	1 January 2019
Amendment to IAS 19 Employee Benefits relating to amendment, curtailment or settlement of a defined benefit plan	1 January 2019
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures.	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020

New and revised IFRSs	Effective for annual periods beginning on or after
Amendment to IFRS 3 Business Combinations relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group' financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS17, may have no material impact on the financial statements of the Group in the period of initial application.

Management anticipates that IFRS 17 will be adopted in the Group' financial statements for the annual period beginning January 1, 2021. The application of IFRS 17 may have significant impact on amounts reported and disclosures made in the Group' financial statements in respect of its insurance contract liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of this standard until the Group complete its detailed review.

2.3 Impact of initial application of IFRS 9 *Financial Instruments* (2014)

The Group already early adopted IFRS 9 (2009 version) relating to the classification and measurement requirements for financial assets. After the adoption of 2014 final version, the Group are impacted by the new 'Expected Credit Loss' (ECL) model at the date of transition of January 1, 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognized.

As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures. All adjustments at the date of transitions were recognized in opening Head office account balance as at January 1, 2018. Set out below are the disclosures relating to the impact on the Group and significant accounting policies introduced on adoption of IFRS 9.

The classification and measurement requirement of IFRS 9 (2014) does not have a material impact on the combined financial statements. Refer to note 3 for the accounting policies regarding financial instruments and the accounting policies regarding impairment accounting under IAS 39.

Change in significant accounting policies for expected credit loss

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The ECL model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

In particular, IFRS 9 measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition. However, if the credit risk on a financial instrument has not increased significantly since initial recognition, an entity is required to measure the loss allowance at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables in certain circumstances.

The Group recognize loss allowances for ECL on financial instruments that are not measured at FVTPL, namely, its bank balances, term deposits, debt instruments measured at amortized cost and insurance receivables. No impairment loss is required on equity investments.

ECL for insurance receivables are recognised using the simplified approach. This is based on loss rates calculated from historical data, taking into account the business model, the respective customer and the economic environment. Forward-looking information is also taken into account if, based on past experience, such indicators show a substantive correlation with actual credit losses. Expected credit losses for other financial assets, i.e. bank balances, term deposits and debt instruments at amortised cost are determined using the low credit risk expedient, and therefore recognised a 12 month ECL. The results of the ECL assessment at January 1, 2018 is as follows:

Financial Assets	**Credit Risk attributes**	**General Insurance Departments LBP'000**	**Life Division LBP'000**
Insurance and other receivables	The Group applies the simplified approach and recognizes lifetime ECL for these assets	10,239,855	752,680
Investment securities at amortized cost	The Group applies the general approach and recognizes 12-month ECL using low credit risk expedient	308,036	231,763
Cash and banks	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable financial institutions	606,709	83,011
Due from reinsurers	The Group applies the general approach and recognizes 12-month ECL using low credit risk expedient	307,014	90
Other assets	The Group applies the simplified approach and recognizes lifetime ECL for these assets	-	8,619
Deferred tax		(46,840)	(139,581)
		11,414,774	936,582

The reconciliation between the ending provisions for impairment in accordance with IAS 39 to the opening loss allowance determined in accordance with IFRS 9 on January 1, 2018 is disclosed below:

	IAS 39 Provision	Remeasurement LBP'000	IFRS 9 Provision LBP'000
General insurance departments			
Insurance receivables	17,267,582	10,239,855	27,507,437
Investments carried at amortized cost	-	308,036	308,036
Cash and banks	-	606,709	606,709
Due from reinsurers	1,021,401	307,014	1,328,415
Other assets	42,388	-	42,388
Deferred tax	-	(46,840)	(46,840)
	18,331,371	11,414,774	29,746,145

	IAS 39 Provision	Remeasurement LBP'000	IFRS 9 Provision LBP'000
Life division			
Insurance receivables	-	752,680	752,680
Investments carried at amortized cost	-	231,763	231,763
Cash and banks	-	83,011	83,011
Due from reinsurers	-	90	90
Other assets	-	8,619	8,619
Deferred tax	-	(139,581)	(139,581)
	-	936,582	936,582

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Division's exposure to credit risk in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value as explained in the accounting policies below.

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.

The principal accounting policies applied are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Arabia Insurance Company S.A.L. incorporate the financial statements of the Company and enterprises controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Company. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.

The consolidated subsidiaries consist of:

Name of Company	Legal Location of Company	Percentage of Ownership 2018 %	2017 %	Activities
Arabia S.A.L. (Holding)	Lebanon	100	100	Holding company
Arabia Insurance International B.S.C.	Bahrain	100	100	Service company (Offshore)
UPI (Services) Limited	Cyprus	100	100	Investment company
Arabia Insurance Company – Jordan	Jordan	51.44	51.44	Direct insurance operations
Arabia Insurance Company – Syria	Syria	50.06	50.06	Direct insurance operations
Al-Mashriq Financial Investments Co.	Lebanon	90.03	89.37	Investment company
Arabia Insurance Brokers S.A.R.L.	Lebanon	100	100	Insurance brokerage – Dormant
Lawrence S.A.L (Holding)	Lebanon	100	100	Holding company
Lawrence Investment LLC	Oman	100	100	Holding company
Arabia Falcon Insurance Company	Oman	64.66	69.71	Direct insurance operations

B. Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

C. Goodwill:

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

D. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pounds ("LBP") which is the reporting currency of the Company. The primary currency of the economic environment in which the Company operates (functional currency) is the U.S. Dollar ("USD"). The exchange rate of the USD against the LBP has been constant since many years.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Lebanese Pounds using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

E. Classification of Financial Assets:

All recognized financial assets are measured in their entirety at either amortized cost or fair value, depending on their classification.

(i) Debt instruments designated at amortized cost

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Debt instrument designated at other comprehensive income

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI 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 in the investments revaluation reserve. The cumulative gain or loss will be reclassified to profit or loss on disposal or maturity of the debt investments.

Amortized cost and effective interest rate method

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the net carrying amount of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

(iii) Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI 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 in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss.

F. Reclassification of Financial Assets:

Financial assets are reclassified between FVTPL and amortized cost or vice versa, if and only if, the Group's business model objective for its financial assets changes so its previous model assessment would no longer apply. When reclassification is appropriate, it is done prospectively from the reclassification date being the next reporting date.

Reclassification is not allowed where:

- the "other comprehensive income" option has been exercised for a financial asset, or
- the "fair value" option has been exercised in any circumstance for a financial instrument.

E. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

Debt and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Financial Liabilities:

Financial Liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

G. Impairment of Financial Assets:

Policy applicable before January 1,2018:

Financial assets carried at amortized cost are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial asset.

Objective evidence that an impairment loss related to financial assets has been incurred can include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures and levels of and trends in delinquencies for similar Financial assets , taking into account the fair value of collaterals and guarantees.

The Group considers evidence of impairment for financial assets measured at amortized cost at both specific asset and collective level.

Impairment losses on financial assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the corresponding estimated recoverable amounts. Losses are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

For investments in equity securities, a significant or prolonged decline in fair value below cost is objective evidence of impairment.

Policy effective from January 1,2018:

The Group recognizes a loss allowance for expected credit losses (ECL) on debt instruments that are measured at amortized cost, insurance receivables and bank balances including term deposits. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

ECL for bank balances and term deposits are determined using the low credit risk expedient, and therefore recognized a 12 month ECL, as they are held with reputable financial institutions. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group always recognizes lifetime ECL for insurance receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument.

Definition of default:

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy:

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of insurance receivables, when the amounts are long past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Groups' recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of expected credit losses:

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. There is no discounting effect on the insurance receivables as these are interest free and has a lifetime of less than one year.

H. Fair Value Measurement of Financial Instruments:

Fair value is the amount agreed to exchange an asset or to settle a liability between a willing buyer and a willing seller in an arm's length transaction.

When published price quotations exist, the Group measures the fair value of a financial instrument that is traded in an active market using quoted prices for that instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument is based on one or more factors such as the time value of money and the credit risk of the instrument, adjusted for any other factors such as liquidity risk.

For financial reporting purposes, fair value measurement are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and
- Level 3 – Inputs are unobservable inputs for the asset or liability

I. Derivative financial instruments

Derivatives, such as foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps, are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. The resulting gain/loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm

commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Embedded derivatives

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

J. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

K. Property and Equipment:

Property and equipment except for buildings acquired prior to year 1993 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to year 1993 are stated at their carrying amounts adjusted on the basis of net realizable value, based on market prices prevailing at the end of year 1993 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus was reflected under "Equity".

Depreciation of property and equipment, other than land and advance payments on capital expenditures is calculated systematically using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	40 years
Furniture and Equipment	3 to 10 years

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

L. Intangible Assets:

Intangible assets consisting of computer software are amortized over a period of five years and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

M. Impairment of Tangible and Intangible Assets:

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

N. Provision for Employees' End-of-Service Indemnities:

Obligations for contributions to defined employees' benefits are recognized as an expense on a current basis.

The Group provides for the employees' end-of-service indemnities in accordance with local laws and regulations governing these indemnities in the countries where the Group operates.

Employees' End-of-Service Indemnities: (Under the Lebanese Jurisdiction)

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were voluntarily terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the sum of the last monthly basic salary paid and the monthly average of the last 12 months' additional benefits paid and less contributions paid to the Lebanese Social Security National Fund and interest accrued by the Fund.

O. Provisions:

Provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

P. Insurance contracts:

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risks from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Such contracts may also transfer financial risk.

The insurance contracts are classified in the following categories depending on the nature of the risk insured:

- Non-life insurance contracts:

These contracts are marine, motor, property, general accidents, workmen's compensation and medical insurance contracts.

Claims and loss adjustment expenses

Claims and loss adjustment expenses are charged to the statement of profit of loss as incurred, based on the estimated liability for compensation owed to insurance contract holders. Such expenses include direct and indirect claims settlement costs and arise from events that have occurred up to the statement of financial position date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and the Group's statistical analysis for the claims Incurred But Not Reported ("IBNR") and claims Incurred But Not Enough Reserved (IBNER).

Unearned Premiums Reserve (UPR)

Unearned premiums reserve represents the part of written premiums, including accessories and other fees, that is estimated to be earned in subsequent periods. Unearned premiums are calculated using the prorata temporis method except for the marine department which is computed on the basis of 25% of written premiums. The change in the provision is recorded in the consolidated statement of profit or loss to recognize revenue over the period of the risk.

- Life Insurance Contracts:

The life insurance contracts are classified in the following categories:

Traditional products:

This category consists of term life (individual or group) and classic combined assurances products (various traditional endowment plans).

Universal Life Insurance Contracts with discretionary participation features:

These insurance contracts contain discretionary participation features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional bonuses:

- Whose amount or timing is contractually at the discretion of the insurer; and
- That are based on realized and/or unrealized investment returns on a specified pool of assets held by the issuer.

Contracts on behalf of life insured where the insured bear the investment risk with significant insurance risk (Unit Linked):

These contracts transfer the financial risk to the policyholder and at the same time contain certain significant insurance risk.

Unbundling of deposit components:

Some life insurance contracts contain both an insurance component and a deposit component. The Group has measured the deposit component separately and presented the life insurance contracts by applying the principle of unbundling the insurance components from the deposit components which are recognized in the financial statements as follows:

Insurance Components:

Insurance components are reflected separately under income together with the elements of the insurance income related to loading and charges and premiums in the technical pipeline, which are recognized as income on accrual basis over the benefiting period.

Deposit Components:

Savings and/or deposit components of premiums are recognized as liabilities related to insurance contracts. These liabilities, including unit-linked products, are increased or decreased by the credit interest, either positive or negative change in the unit prices of the corresponding underlying investment portfolio, policy administration and fund management fees, mortality and surrender charges, withdrawals, and other factors impacting the value of the deposit component of the insurance contracts.

Mathematical provision for life insurance contracts:

Provisions for traditional products are calculated as the difference between the actuarial present value of the Group's future liabilities and the actuarial present value of the policyholders' future premiums based on the tables of mortality and the actuarial interest rates as per the original tariffs. In case losses arise from liability adequacy tests, an additional provision is raised.

The provisions for universal/unit-linked life insurance policies are calculated using the retrospective method (i.e. based on the savings account value).

At each reporting date, an actuarial valuation of the life portfolio is carried out by a professional independent actuary and a technical assessment is performed in respect of unearned revenues. Moreover, outstanding liabilities of the accumulation of deposit components and profits related are also based on an actuarial technical assessment. Prevailing laws require that such actuarial valuation be carried out annually.

Provision for outstanding claims

The provision for outstanding claims is made for all claims reported to the Group and still unpaid at the reporting date. Claims are recognized in the statement of profit or loss when incurred based on estimated benefits.

Q. Revenue and Expense Recognition:

Insurance premiums and other insurance revenues are recognized as income when the insurance policies are issued.

Interest income and expense are recognized on an accrual basis, taking into account of the principal outstanding and the applicable interest rate.

Rental income from property which is leased under operating leases is recognized on a straight line basis over the term of the relevant lease.

Fee and commission insurance income consists primarily of reinsurance and profit commission, policyholder administration fees and other contract fees. Reinsurance commissions receivable are deferred in the same way as acquisition cost. All other fee and commission income are recognized as the services are provided.

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

R. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the reporting date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

S. Liability Adequacy Test:

Liability adequacy tests are performed for portfolios of contracts at each reporting date, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. Net unearned premiums are tested to determine whether they are sufficient to cover related expected claims, loss adjustment expenses, commission and maintenance expenses using current assumptions. If a premium deficiency is identified, the entire deficiency is recognized in income and a premium deficiency reserve (PDR) is appropriated.

The Group does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

T. Reinsurance Contracts:

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Insurance contracts entered into by the Group under which the contract holder is another insurer are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts are recognized as receivables from reinsurance companies under reinsurance assets in the statement of financial position.

Reinsurance share of premiums and claims is computed on the basis of effective outwards. The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premiums is classified as reinsurance assets in the statement of financial position.

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in the profit or loss for the year.

U. Investment Property:

Investment property is carried at cost less accumulated depreciation and impairment loss, if any.

V. Deferred Acquisition Costs:

Deferred acquisition cost represents the deferred portion of the commission paid to brokers and sponsors. Deferred acquisition costs are amortized systematically over the life of the contracts and tested for impairment at each reporting date. Any amount not recoverable is expensed. They are derecognized when the related contracts are settled or disposed of.

W. Treasury Shares:

Treasury shares are carried at cost and presented in the consolidated statement of financial position as a deduction from Equity.

X. Distribution of Dividends:

The appropriation of proposed dividends from retained earnings is reflected separately in the statement of changes in equity based on the Board's recommendation, and reversed to liability in the year it is approved by the General Assembly of Shareholders.

Y. Consolidated Assets, Liabilities, and Net Assets of the Life Division:

Consolidated assets, liabilities, and net assets of the Life Division, comprising the life division of Arabia Insurance Company S.A.L., Arabia Falcon Insurance Company - Oman and Arabia Insurance Company ltd. – Jordan, are presented in a separate statement for the Life Division (Appendix I, II, III) and included as a line item in the consolidated financial statements.

Z. Cash and Cash Equivalents:

Cash and cash equivalents comprise unrestricted cash on hand and demand deposits and other short term deposits with original maturity period not exceeding three months.

AA. Offsetting

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Accounting Judgments:

A. Critical accounting judgments in applying the Group's accounting policies:

Going Concern:

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

Business Model Assessment:

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (Refer to note 3). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. The Group monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Key Sources of Estimation Uncertainty:

The following are 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.

Impairment of Insurance receivables (Applicable from January 1, 2018)

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Impairment of insurance receivables (Applicable before December 31, 2017)

The recoverable amount of insurance receivables is estimated when there is indication of incomplete collectibility of these receivables. The determination of impairment requires management to assess the solvency and financial liquidity of policyholders and reinsurers. Moreover, percentages of collections are reviewed based on the historical information of the Group and the detailed studies conducted during the year, in addition to the opinion of the legal management of the Group. The difference between the recoverable amounts and the book value is recognized as an expense in the statement of profit or loss. The difference between the actual amounts collected in future periods and those previously estimated is recognized in the statement of profit or loss at the date of collection.

The ultimate liability arising from claims made under insurance contracts:

The estimate of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made both for expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the reporting date. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and the management estimates based on past claims settlement trends for the claims incurred but not reported. Claim liabilities are also tested for adequacy as of the reporting date and the related provisions are adjusted accordingly.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3H. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainly of market factors, pricing assumptions and other risks affecting the specific instrument.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of market participants. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

5. CASH AND BANKS

This caption consists of the following:

	December 31, 2018		
	General Insurance Departments LBP'000	Life Division LBP'000	Total LBP'000
Cash on hand	991,180	239,041	1,230,221
Checks for collection	6,539,397	-	6,539,397
Demand deposits with banks	17,655,208	10,203,412	27,858,620
Term deposits with banks (original maturity less than 3 months)	42,866,859	4,710,684	47,949,458
Cash and cash equivalents	68,052,644	15,153,137	83,577,696
Term deposits with banks (original maturity more than 3 months)	87,680,471	24,195,459	111,504,015
Bank deposits pledged in guarantee of insurance business	43,177,074	9,713,054	52,890,128
	198,910,189	49,061,650	247,971,839
Accrued interest receivable	671,472	104,021	775,493
Provision for expected credit losses – Note 35	(444,387)	(77,499)	(521,886)
	199,137,274	49,088,172	248,225,446

	December 31, 2017		
	General Insurance Departments	Life Division	Total
	LBP'000	LBP'000	LBP'000
Cash on hand	968,307	1,000	969,307
Checks for collection	6,247,384	-	6,247,384
Demand deposits with banks	20,894,908	4,642,488	25,537,396
Term deposits with banks			
(original maturity less than 3 months)	44,094,885	7,416,788	51,511,673
Cash and cash equivalents	72,205,484	12,060,276	84,265,760
Term deposits with banks			
(original maturity more than 3 months)	89,636,512	24,311,584	113,948,096
Bank deposits pledged in guarantee of insurance business	43,806,201	9,589,367	53,395,568
	205,648,197	45,961,227	251,609,424
Accrued interest receivable	2,571,752	895,042	3,466,794
	208,219,949	46,856,269	255,076,218

Cash and banks of the general insurance departments and life division are composed of the following currencies (excluding accrued interest receivable):

	General Insurance Departments		Life Division	
	December 31,		December 31,	
	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese Pound	1,280,963	2,602,441	225,593	96,317
U.S. Dollar	47,350,951	44,875,332	6,660,486	6,350,143
Omani Riyal	71,184,106	82,065,117	22,027,507	21,075,661
U.A.E Dirham	22,378,363	21,871,968	10,165,850	9,374,588
Euro	662,666	225,240	9,989	22,601
Kuwaiti Dinar	6,405,714	6,687,457	4,983,274	4,700,283
Bahraini Dinar	5,422,337	5,884,076	2,018,450	1,821,947
Syrian Pound	9,240,394	4,861,782	-	-
Jordanian Dinar	16,458,857	16,714,050	2,211,663	2,142,020
Qatar Riyal	17,242,287	15,769,053	758,838	377,667
Other currencies	1,283,551	4,091,681	-	-
	198,910,189	205,648,197	49,061,650	45,961,227

Most of the deposits in Kuwaiti Dinar, UAE Dirham, Bahraini Dinar, Omani Riyal, and Jordanian Dinar shown above are pledged/restricted in favor of the authorities in the countries concerned, in guarantee of the insurance business for the general insurance departments and the life division.

Bank term deposits and deposits pledged in guarantee of insurance business mature within one year.

Interest earned on the deposits of the general insurance departments and the life division amounting to LBP7.4billion and LBP1.67billion respectively for the year 2018 (LBP6.4billion and LBP1.12billion, respectively for the year 2017) is reflected in the accompanying consolidated statement of profit or loss of the general insurance departments and the life division, respectively.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

(a) General Insurance Departments:

		December 31, 2018		
	Currency	Fair Value at Year End	Unrealized Gain/(loss) For the Year	Average Interest Rate
		LBP'000	LBP'000	%
Foreign corporate bonds - quoted:				
	U.S. Dollar	47,103	764	5.39
	Euro	578,900	(29,514)	6.00
		626,003	(28,750)	
Equity securities - quoted:				
	U.S. Dollar	702,427	(315,814)	
	Euro	1,990,037	(914,778)	
	Jordanian Dinar	2,395,105	(193,714)	
	UAE Dirham	117,017	(26,863)	
	Syrian Pound	494,339	34,031	
	Franc Suisse	295,506	(105,368)	
	Sterling Pound	29,457	(4,569)	
	Omani Riyal	2,644,272	(529,319)	
		8,668,160	(2,056,394)	
Funds - quoted:				
	U.S. Dollar	1,028,962	(132,868)	
	Euro	147,619	(26,723)	
	Canada Dollar	43,704	(9,404)	
		1,220,285	(168,995)	
Funds - unquoted:				
	U.S. Dollar	204,702	(17,441)	
		204,702	(17,441)	
		10,719,150	(2,271,580)	

	Currency	Fair Value at Year End LBP'000	Unrealized Gain/(loss) For the Year LBP'000	Average Interest Rate %
		December 31, 2017		
Foreign corporate bonds - quoted:				
	U.S. Dollar	1,850,699	40,645	6.00
	Euro	49,342	28,100	7.55
	Sterling Pound	-	23,522	-
		1,900,041	92,267	
Equity securities - quoted:				
	U.S. Dollar	1,564,954	(267,036)	
	Euro	551,447	6,956	
	Jordanian Dinar	2,616,460	(90,943)	
	UAE Dirham	9,278	(1,067)	
	Syrian Pound	460,308	284,682	
	Franc Suisse	114,256	8,630	
	Sterling Pound	188,397	(5,041)	
	Omani Riyal	2,005,550	(147,314)	
		7,510,650	(211,133)	
Funds - quoted:				
	U.S. Dollar	609,244	(4,075)	
	Euro	182,055	(8,961)	
		791,299	(13,036)	
Funds - unquoted:				
	U.S. Dollar	222,142	(3,114)	
		222,142	(3,114)	
		10,424,132	(135,016)	

The financial assets at FVTPL are distributed by country of origin of issuer as of December 31, 2018 and 2017 as follows:

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
United States of America	2,214,421	1,609,409
Europe	2,301,741	3,297,507
Asia/Middle East	6,097,639	5,517,216
Other	105,349	-
	10,719,150	10,424,132

The movement of financial assets at FVTPL during 2018 and 2017 is summarized as follows:

	2018 LBP'000	2017 LBP'000
Balance at January 1	10,424,132	9,159,615
Additions	14,101,330	13,041,624
Sales	(11,479,071)	(21,782,763)
Reclassified to FVTOCI – Note 9	-	(2,337,695)
Additions through acquisition of a subsidiary – Note 40	-	12,295,216
Change in fair value	(2,271,580)	(135,016)
Effect of foreign currency fluctuations	(55,661)	183,151
Balance at December 31	10,719,150	10,424,132

(b) Life Division:

The investment securities at FVTPL of the life division consist of unit-linked and other investment securities as follows:

	December 31,	
	2018 LBP'000	2017 LBP'000
Unit-linked investment securities	57,980,761	62,177,827
Other investment securities	984,409	3,623,144
	58,965,170	65,800,971

Unit-linked investment securities:

The movement of the unit-linked investment securities during 2018 and 2017 is summarized as follows:

	2018 LBP'000	2017 LBP'000
Balance at January 1	62,177,827	48,011,487
Additions	6,222,850	6,696,589
Sales	(3,879,556)	-
Transfer to non-unit linked	1,275,607	(333,157)
Change in fair value	(7,815,967)	7,744,376
Transfer to Non-life department	-	57,334
Effect of foreign currency fluctuations	-	1,198
Balance at December 31	57,980,761	62,177,827

Other investment securities:

The other investment securities consist of the following:

	December 31, 2018			
	Currency	Fair Value at Year End	Unrealized Gain/(loss) For the Year	Average Interest Rate
Lebanese government bonds - unquoted:				
	U.S. Dollar	168,959	(8,095)	7.05
		168,959	(8,095)	
Foreign bonds - quoted:				
	U.S. Dollar	223,675	-	4.25
	Euro	92	-	5.15
		223,767	-	
Equity securities – quoted:				
	Jordanian Dinar	189,971	(7,703)	
		189,971	(7,703)	
Funds – quoted:				
	U.S. Dollar	401,712	(19,490)	
		984,409	(35,288)	

	December 31, 2017			
	Currency	Fair Value at Year End LBP'000	Unrealized Gain/(loss) For the Year LBP'000	Average Interest Rate %
Lebanese government bonds - unquoted:				
	U.S. Dollar	88,296	-	7.00
		88,296	-	
Foreign bonds - quoted:				
	U.S. Dollar	1,366,028	(7,236)	7.00
	Euro	115	-	3.56
		1,366,143	(7,236)	
Equity securities – quoted:	Jordanian Dinar	197,582	14,195	
Funds – quoted:	U.S. Dollar	1,971,123	(384,483)	
		3,623,144	(377,524)	

The other investment securities are distributed by country of origin of issuer as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Europe	592,809	-
Asia/Middle East	391,600	197,582
Global funds	-	3,425,562
	984,409	3,623,144

The movement of other investment securities during 2018 and 2017 is summarized as follows:

	2018	2017
	LBP'000	LBP'000
Balance at January 1	3,623,144	3,206,759
Additions through acquisition of a subsidiary – Note 40	-	34,102
Additions	151,838	426,619
Sales	(1,479,678)	-
Transfer from/to unit linked	(1,275,607)	333,157
Change in fair value	(35,288)	(377,524)
Effect of foreign currency fluctuations	-	31
Balance at December 31	984,409	3,623,144

7. INSURANCE RECEIVABLES

(a) General Insurance Departments:

Insurance receivables and premiums of the general insurance department are distributed geographically as follows:

	Insurance Receivables December 31,		Written Premiums Year Ended December 31,	
	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000
Lebanon (Branches and Headquarters)	18,596,678	17,985,831	33,083,653	39,796,099
United Arab Emirates	26,677,909	25,665,412	49,505,201	84,116,930
Sultanate of Oman	23,399,018	24,125,498	56,241,887	55,714,885
State of Kuwait	5,248,357	3,862,653	10,630,627	8,468,086
State of Qatar	11,551,846	8,392,714	18,151,290	14,954,503
Kingdom of Bahrain	2,774,806	2,480,449	11,344,067	7,947,018
Kingdom of Jordan	14,395,519	14,629,963	46,608,496	42,434,344
Syria	270,257	198,163	3,482,660	3,030,768
	102,914,390	97,340,683	229,047,881	256,462,633
Less: Provision for credit losses – Note 35	(28,679,537)	(17,267,582)		
	74,234,853	80,073,101		

Written premiums for the year 2018 include premiums to cover extended warranty on vehicles for the amount of LBP2.9billion which were fully reinsured (LBP10.2billion for the year 2017).

The movement of the provision for expected credit losses for the year 2018 is disclosed under Note 35.

The movement of the provision for credit losses for the year 2017 is summarized as follows:

	2017
	LBP'000
Balance at January 1	14,550,906
Additions	4,951,979
Write-offs	(3,695,078)
Additions through acquisition of a subsidiary	1,451,481
Effect of foreign currency fluctuations	8,294
Balance at December 31	17,267,582

(b) Life Division:

Insurance and other receivables of the life division consist of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Accrued premium receivable	4,821,549	1,628,187
Loans on policies	322,271	165,832
Due from brokers and agents	371,039	1,720,712
Provision for expected credit losses – Note 35	(773,309)	-
	4,741,550	3,514,731

8. DUE FROM REINSURERS

This caption consists of the following:

	General Insurance Departments		Life Division	
	December 31,		December 31,	
	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000
Reinsurers' current accounts	10,661,328	7,912,863	1,863,388	2,695,029
Provision for credit losses- Note 35	(1,121,556)	(1,021,401)	(90)	-
	9,539,772	6,891,462	1,863,298	2,695,029

The movement of provision for expected credit losses of reinsurers' current accounts during the year 2018 is disclosed under Note 35.

The movement of provision for credit losses of reinsurers' current accounts during the year 2017 was as follows:

	2017
	LBP'000
Balance at January 1	1,841,586
Additions	-
Write-offs	(820,185)
Balance at December 31	1,021,401

9. INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVTOCI)

(a) General Insurance Departments:

The investment securities at FVTOCI consist of the following:

	December 31, 2018		
	Currency	Fair Value	Cumulative Change in Fair Value
		LBP'000	LBP'000
Equity securities - quoted:			
	U.S. Dollar	18,582,766	(2,392,919)
	Saudi Riyal	33,328,077	(1,192,790)
	Jordanian Dinar	11,721,756	(3,679,253)
	Omani Riyal	2,066,855	1,984
		65,699,454	(7,262,978)
Equity securities - unquoted:			
	U.S. Dollar	7,467,811	7,124,502
	Lebanese Pound	5,786,277	4,234,725
	Jordanian Dinar	132,464	-
	Omani Riyal	1,617,686	915,833
		15,004,238	12,275,060
		80,703,692	5,012,082

	Currency	December 31, 2017 Fair Value LBP'000	Cumulative Change in Fair Value LBP'000
Foreign corporate bonds - quoted:			
	U.S. Dollar	616,085	13,162
		616,085	13,162
Equity securities - quoted:			
	U.S. Dollar	17,009,773	(954,738)
	Saudi Riyal	35,457,465	(516,390)
	Jordanian Dinar	11,379,353	(4,018,460)
	Omani Riyal	141,522	33,115
		63,988,113	(5,456,473)
Equity securities - unquoted:			
	U.S. Dollar	8,991,886	7,113,105
	Lebanese Pound	4,680,169	4,267,291
	Jordanian Dinar	132,464	-
	Omani riyal	1,103,998	(136,183)
		14,908,517	11,244,213
		79,512,715	5,800,902

The investment securities at FVTOCI are distributed by country of origin of issuer as of December 31, 2018 and 2017 as follows:

	December 31, 2018 LBP'000	2017 LBP'000
Europe	-	14,975,057
Asia/Middle East	80,703,692	64,537,658
	80,703,692	79,512,715

The movement of investment securities at FVTOCI during 2018 and 2017 is summarized as follows:

	2018 LBP'000	2017 LBP'000
Balance at January 1	79,512,715	51,607,729
Additions	6,901,143	7,545,826
Sales	(2,052,548)	(4,058,112)
Reclassified from FVTPL – Note 6	-	2,337,695
Additions through acquisition of a subsidiary – Note 40	-	7,209,201
Transfer to life division	(1,506,717)	(232,516)
Reclassified from investments at amortized cost – Note 10	-	150,750
Change in fair value	(2,150,576)	14,943,313
Effect of foreign currency fluctuations	(325)	8,829
Balance at December 31	80,703,692	79,512,715

(b) Life Division:

	December 31, 2018		
	Currency	Fair Value LBP'000	Cumulative Change in Fair Value LBP'000
Equity securities - quoted:			
	U.S. Dollar	452,250	-
	Omani Riyal	8,609,810	-
	Jordanian Dinar	213,588	(66,678)
		9,275,648	(66,678)
Equity securities - unquoted:			
	Lebanese Pound	54,407	53,906
	Omani Riyal	3,025,683	12,249
		3,080,090	66,155
		12,355,738	(523)

	December 31, 2017		
	Currency	Fair Value LBP'000	Cumulative Change in Fair Value LBP'000
Equity securities - quoted:			
	U.S. Dollar	512,399	(15,226)
	Omani Riyal	8,609,810	-
	Jordanian Dinar	262,379	(29,597)
		9,384,588	(44,823)
Equity securities - unquoted:			
	Lebanese Pound	102,828	102,328
		102,828	102,328
		9,487,416	57,505

The investment securities at FVTOCI are distributed by country of origin of issuer as of December 31, 2018 and 2017 as follows:

	December 31,	
	2018 LBP'000	2017 LBP'000
Asia/Middle East	12,355,738	9,487,416
	12,355,738	9,487,416

The movement of investment securities at FVTOCI during 2018 and 2017 is summarized as follows:

	2018 LBP'000	2017 LBP'000
Balance at January 1	9,487,416	1,308,587
Additions	1,506,716	828,971
Sales	(45,074)	(382,528)
Transfer from general departments	1,506,717	232,516
Additions through acquisition of a subsidiary – Note 40	-	7,579,772
Change in fair value	(100,037)	(79,902)
Balance at December 31	12,355,738	9,487,416

10. INVESTMENT SECURITIES AT AMORTIZED COST

(a) General Insurance Departments:

	December 31, 2018			
	Currency	Amortized Cost LBP'000	Fair Value LBP'000	Average Interest Rate
Foreign corporate bonds - unquoted:				
	U.S. Dollar	604,010	575,865	6.50
		604,010	575,865	
Lebanese government bonds - unquoted:				
	U.S. Dollar	902,208	876,137	6.05
		902,208	876,137	
Foreign government bonds - quoted:	USD	629,694	603,000	7.52
		629,694	603,000	
Foreign corporate bonds - quoted:	Jordanian Dinar	1,607,855	1,607,855	5.5
	U.S. Dollar	6,999,553	6,470,610	6.13
	Euro	344,845	667,346	5.45
		8,952,253	8,745,811	
		11,088,165	10,800,813	
Accrued interest receivable		126,287	126,287	
Provision for expected credit losses – Note 35		(323,111)	(323,111)	
		10,891,341	10,603,989	

	Currency	Amortized Cost LBP'000	Fair Value LBP'000	Average Interest Rate %
		December 31, 2017		
Foreign corporate bonds - unquoted:				
	U.S. Dollar	604,213	575,865	6.5
		604,213	575,865	
Lebanese government bonds - unquoted:				
	U.S. Dollar	900,943	882,139	6.06
		900,943	882,139	
Foreign government bonds - quoted:				
	U.S. Dollar	634,579	603,000	7.50
		634,579	603,000	
Foreign corporate bonds - quoted:				
	Jordanian Dinar	1,840,677	1,607,855	5.5
	U.S. Dollar	6,546,975	6,713,142	6.12
	Euro	632,266	667,346	5.45
		9,019,918	8,988,343	
		11,159,653	11,049,347	
Accrued interest receivable		137,670	137,670	
		11,297,323	11,187,017	

The investment securities at amortized cost are segregated over remaining period to maturity as follows:

Remaining period to maturity	December 31, 2018 Amortized Cost LBP'000	December 31, 2018 Average Interest Rate %	December 31, 2017 Amortized Cost LBP'000	December 31, 2017 Average Interest Rate %
Up to 1 year	452,096	6.17	331,652	7.11
1 to 3 years	3,173,415	6.00	2,899,418	5.53
3 to 5 years	4,580,706	5.44	4,730,122	6.16
Beyond 5 years	2,881,948	5.99	3,198,461	6.02
	11,088,165		11,159,653	

The investment securities at amortized cost are distributed by country of origin of issuer as follows:

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
United States of America	1,955,348	1,212,099
Europe	1,418,892	1,599,721
Africa	172,279	180,365
Asia/Middle East	6,466,626	6,781,381
Australia	324,975	333,577
South America	750,045	1,052,510
	11,088,165	11,159,653

The movement of investment securities at amortized cost during 2018 and 2017 is summarized as follows:

	2018 LBP'000	2017 LBP'000
Balance at January 1	11,159,653	11,378,540
Additions	1,198,360	3,406,729
Redemptions	(1,248,801)	(1,547,747)
Amortization	(5,706)	(77,427)
Transfer to life division	-	(1,956,776)
Reclassification to FVTOCI – Note 9	-	(150,750)
Effect of foreign currency fluctuations	(15,341)	107,084
Balance at December 31	11,088,165	11,159,653
Accrued interest receivable	126,287	137,670
Provision for expected credit losses- Note 35	(323,111)	-
	10,891,341	11,297,323

(b) Life Division:

	December 31, 2018			
	Currency	Amortized Cost LBP'000	Fair Value LBP'000	Average Interest Rate %
Lebanese government bonds - unquoted:	U.S. Dollar	414,626	370,761	6.64
Lebanese corporate bonds - unquoted:	U.S. Dollar	150,750	136,429	7.00
		565,376	507,190	
Foreign bonds - quoted:				
	U.S. Dollar	9,821,366	9,442,603	5.71
	Omani Riyal	1,956,775	1,956,775	5.50
	Euro	606,747	645,125	5.20
		12,384,888	12,044,503	
		12,950,264	12,551,693	
Accrued interest receivable		211,943	211,943	
Provision for expected credit losses – Note 35		(284,238)	(284,238)	
		12,877,969	12,479,398	

	December 31, 2017			
	Currency	Amortized Cost LBP'000	Fair Value LBP'000	Average Interest Rate %
Lebanese government bonds - unquoted:	U.S. Dollar	414,750	415,370	6.64
Lebanese corporate bonds - unquoted:	U.S. Dollar	452,250	437,552	6.67
		867,000	852,922	
Foreign bonds - quoted:				
	U.S. Dollar	9,723,278	10,088,779	5.68
	Omani Riyal	1,956,775	1,956,775	5.50
	Euro	635,777	713,984	5.21
		12,315,830	12,759,538	
		13,182,830	13,612,460	
Accrued interest receivable		195,626	195,626	
		13,378,456	13,808,086	

The investment securities at amortized cost are distributed by country of origin of issuer as of December 31, 2018 and 2017 as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
United States of America	1,502,807	1,199,821
Europe	3,237,882	3,721,488
Asia/Middle East	6,708,579	6,307,968
South America	745,841	1,198,115
Africa	755,155	755,438
	12,950,264	13,182,830

The remaining period to maturity of the investment securities at amortized cost is as follows:

	Amortized Cost		Average Interest Rate	
	December 31,		December 31,	
	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000
Up to 1 year	2,078,940	150,963	5.69	7.45
1 to 3 years	3,998,531	2,636,442	6.04	6.16
3 to 5 years	3,155,964	6,167,713	5.22	5.71
More than 5 years	3,716,829	4,227,712	5.61	7.45
	12,950,264	13,182,830		

The movement of investment securities at amortized cost during 2018 and 2017 is summarized as follows:

	2018	2017
	LBP'000	LBP'000
Balance at January 1	13,182,830	10,878,960
Transfer from general departments	-	1,956,775
Additions	940,925	1,816,876
Sales / redemptions	(1,142,790)	(1,502,477)
Amortization of premiums and discounts	2,145	(3,679)
Impairment	-	(37,688)
Effect of foreign currency fluctuations	(32,846)	74,063
Balance at December 31	12,950,264	13,182,830
Accrued interest receivable	211,943	195,626
	13,162,207	13,378,456
Less: Provision for expected credit losses-Note 35	(284,238)	-
	12,877,969	13,378,456

11. DEFERRED ACQUISITION COSTS

The movement of deferred acquisition costs during 2018 and 2017 was as follows:

	2018	2017
	LBP'000	LBP'000
Balance at January 1	7,794,532	12,009,019
Additions	21,320,689	26,350,428
Amortization	(22,674,638)	(30,564,915)
Balance at December 31	6,440,583	7,794,532

12. OTHER ASSETS

This caption consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Prepayments	2,255,914	2,888,166
Receivable from employees	24,348	400,414
Refundable deposits	31,449	82,803
Receivables from tenants	276,314	197,186
Sundry debtors	1,893,444	2,225,562
	4,481,469	5,794,131
Provision for credit losses - Tenants	(42,388)	(42,388)
	4,439,081	5,751,743

The movement of provision for credit losses related to tenants during 2018 and 2017 was as follows:

	2018	2017
	LBP'000	LBP'000
Balance at January 1	42,388	200,675
Additions	-	59,813
Write-offs	-	(218,100)
Balance at December 31	42,388	42,388

13. PROPERTY AND EQUIPMENT

This caption consists of the following:

	General Insurance Departments December 31,		Life Division December 31,	
	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000
Property:				
Land - Ain Al-Mreisseh	2,792,352	2,792,352	-	-
Building – Ain Al-Mreisseh	3,345,957	3,345,957	-	-
Less: Accumulated depreciation	(1,872,887)	(1,789,238)	-	-
Net building after depreciation	1,473,070	1,556,719	-	-
Total land and building - Ain Al-Mreisseh	4,265,422	4,349,071	-	-
Subsidiary branch offices – Syria	365,400	365,400	-	-
Subsidiary office land and building – Jordan	4,949,808	4,949,808	-	-
Tripoli office (at cost)	273,804	273,804	-	-
Chtoura office (at cost)	87,441	87,441	-	-
Saida office (at cost)	248,285	248,285	-	-
	5,924,738	5,924,738	-	-
Less: Accumulated depreciation	(804,398)	(695,222)	-	-
Net office and subsidiary building	5,120,340	5,229,516	-	-
Total Property	9,385,762	9,578,587	-	-
Furniture and Equipment (at cost)	13,437,437	12,915,592	1,336,420	1,313,966
Less: Accumulated depreciation	(10,177,817)	(9,232,233)	(896,701)	(804,547)
Net Furniture and Equipment	3,259,620	3,683,359	439,719	509,419
Construction in progress:				
Subsidiary Branch offices – Syria	1,440,467	1,440,468	-	-
Qatar Office	425,686	-	-	-
	1,866,153	1,440,468	-	-
Total net book value of property and equipment	14,511,535	14,702,414	439,719	509,419

The movement of property and equipment during 2018 and 2017 was as follows:

	Land LBP'000	Buildings LBP'000	Furniture and Equipment LBP'000	Construction in Progress LBP'000	Total LBP'000
Cost:					
Balance at January 1, 2017	3,464,551	8,541,118	11,355,400	1,213,775	24,574,844
Additions through acquisition of a subsidiary	-	-	1,292,368	-	1,292,368
Additions	-	-	1,588,269	-	1,588,269
Disposals	-	-	(1,392,179)	-	(1,392,179)
Effect of foreign currency fluctuations	-	57,378	71,734	226,693	355,805
Balance at December 31, 2017	3,464,551	8,598,496	12,915,592	1,440,468	26,419,107
Additions	-	-	654,951	425,686	1,080,637
Disposals	-	-	(131,366)	-	(131,366)
Effect of foreign currency fluctuations	-	-	(1,740)	(1)	(1,741)
Balance at December 31, 2018	3,464,551	8,598,496	13,437,437	1,866,153	27,366,637
Accumulated Depreciation:					
Balance at January 1, 2017	-	(2,282,257)	(8,540,392)	-	(10,822,649)
Additions through acquisition of a subsidiary	-	-	(1,022,712)	-	(1,022,712)
Charge for the year	-	(215,597)	(1,036,621)	-	(1,252,218)
Eliminated upon disposals	-	23,335	1,417,857	-	1,441,192
Effect of foreign currency fluctuations	-	(9,941)	(50,365)	-	(60,306)
Balance at December 31, 2017	-	(2,484,460)	(9,232,233)	-	(11,716,693)
Charge for the year	-	(193,567)	(1,061,718)	-	(1,255,285)
Eliminated upon disposals	-	-	115,645	-	115,645
Effect of foreign currency fluctuations	-	742	489	-	1,231
Balance at December 31, 2018	-	(2,677,285)	(10,177,817)	-	(12,855,102)
Net Book Value:					
At December 31, 2018	3,464,551	5,921,211	3,259,620	1,866,153	14,511,535
At December 31, 2017	3,464,551	6,114,036	3,683,359	1,440,468	14,702,414

The Group premises in Ain El Mreisseh are pledged in favor of a local bank against bank borrowings (see Note 17)

Depreciation expense of Ain Al Mreisseh building in the amount of LBP89million in 2018 (LBP84million in 2017) is recorded under "net loss from building" in the consolidated statement of profit or loss.

During 1994, the carrying amount of Ain Al-Mreisseh property was adjusted on the basis of net realizable value and the new value was accounted for in the light of the requirements of the Law N°. 282 of December 30, 1993 (See Note 28 below).

Further to the above, the Group holds title of ownership in a property in Libya, registered in the Libyan Agency of Property's Registry in the name of Arabia Insurance Company S.A.L. This property was nationalized in 1970. In February 1975, the Libyan Revolution Command Council appointed a committee for the purpose of appraising the nationalized land in order to determine the value of the compensation. However, the value of such compensation has not yet been determined.

14. INTANGIBLE ASSETS

	Computer Software	
	General Insurance Departments LBP'000	Life Division LBP'000
Cost:		
Balance at January 1, 2017	2,602,216	619,696
Additions through acquisition of a subsidiary – Note 40	555,985	
Additions	479,016	35,539
Effect of foreign currency fluctuations	17,221	-
Write offs	(350,372)	-
Balance at December 31, 2017	3,304,066	655,235
Additions	916,224	24,874
Balance at December 31, 2018	4,220,290	680,109
Accumulated Amortization:		
Balance at January 1, 2017	(1,696,961)	(354,575)
Additions through acquisition of a subsidiary – Note 40	(95,317)	-
Amortization expense	(701,309)	(61,982)
Effect of foreign currency fluctuations	(15,826)	-
Write offs	350,372	-
Balance at December 31, 2017	(2,159,041)	(416,557)
Amortization expense	(536,322)	(58,423)
Balance at December 31, 2018	(2,695,363)	(474,980)
Net Book Value:		
Balance at December 31, 2018	1,524,927	205,129
Balance at December 31, 2017	1,145,025	238,678

15. INVESTMENT PROPERTIES

Investment properties represent the available area of the new headquarters of the Jordanian and Syrian subsidiaries that are not used by the Group and consist of the following:

	Land LBP'000	Buildings LBP'000	Total LBP'000
Cost:			
Balance at January 1, 2017	672,199	5,439,886	6,112,085
Effect of foreign currency fluctuations	-	171,377	171,377
Balance at December 31, 2017	672,199	5,611,263	6,283,462
Disposals	-	(1,088,978)	(1,088,978)
Balance at December 31, 2018	672,199	4,522,285	5,194,484
Accumulated depreciation:			
Balance at January 1, 2017	-	(411,819)	(411,819)
Charge for the year	-	(136,620)	(136,620)
Effect of foreign currency fluctuations	-	(17,351)	(17,351)
Balance at December 31, 2017	-	(565,790)	(565,790)
Charge for the year	-	(126,776)	(126,776)
Eliminated upon disposals	-	126,236	126,236
Balance at December 31, 2018	-	(566,330)	(566,330)
Net Book Value:			
At December 31, 2018	672,199	3,955,955	4,628,154
At December 31, 2017	672,199	5,045,473	5,717,672

During 2018, the Group sold a property in Syria for a total consideration of LBP3.4billion which resulted in a gain on sale in the amount of LBP2.43billion recognized to income.

The fair value of the investment properties approximates their carrying value as of December 31, 2018 and 2017 on the basis of a recent valuation carried out by independent real estate appraisers. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties, which is categorized into Level 2 of the fair value hierarchy.

16. DUE TO LIFE DIVISION

The Group keeps separate books of accounts for its life division, independent from the books of the general insurance departments and the accounting relationship between the two divisions is represented by an inter-company current account, the balance of which as of December 31, 2018 amounted to LBP8.44billion in favor of the life division (LBP3.16billion as of December 31, 2017).

17. DUE TO BANKS

(a) General Insurance Departments:

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Medium term loans in U.S. Dollar (i)	12,761,381	12,994,650
Long term loans in Omani Riyal (ii)	9,927,762	15,508,182
Long term loans in U.S. Dollar (iii)	22,914,000	-
Accrued interest payable	102,873	407,416
	45,706,016	28,910,248

i. Medium term bank loans denominated in U.S. Dollar were obtained from foreign banks to finance the working capital of the Group. These loans carry interest at the annual average rate of 3.6% in 2018 (3.07% in USD for the year 2017) and mature in 2019 and 2020.

ii. During 2017, the Group obtained a long term loan from Oman Arab Bank in the amount of OR4million (c/vLBP15.65billion) to partly finance the Group acquisition of the investment in the subsidiary Arabia Falcon Insurance Company. This loan is subject to interest at the annual rate of 5.7% and will be reimbursed into 5 yearly installments starting 2018 and maturing in 2022 as follows:

	OR
2018	1,463,234
2019	536,766
2020	666,667
2021	666,667
2022	666,666
	4,000,000

iii. During 2018, the Group obtained a long term loan from a local bank in the amount of USD16million (c/vLBP24.12billion) to fund additional reserve requirements in line with UAE new regulations fully secured by a first degree mortgage over the Group premises in Ain El Mreisseh. This loan is subject to interest at the annual rate of BRR with a minimum of 7.5% and will be reimbursed into 20 quarterly installments of USD800K each starting end of 2018 and maturing in 2023.

(b) Life Division:

Due to banks amounting to LBP1.51billion (LBP1.53billion as of December 31, 2017) represent loans denominated in U.S. Dollar, subject to an annual average interest rate of 2.94% for the years 2018 and 2017, and mature in the year 2019.

18. INSURANCE PAYABLES

This caption consists of the following:

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Due to sponsors, brokers and agencies	14,848,566	11,712,962
Due to garages	7,361,435	10,852,299
Due to hospitals	1,428,735	1,111,030
Other insurance payables	4,984,855	4,059,507
	28,623,591	27,735,798

19. INCOME TAX PAYABLE

Income tax payable as of December 31, 2018 and 2017 consists of the following:

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Insurance income tax – Subsidiaries and Branches	1,821,968	1,898,341
Insurance income tax – Lebanese operations	854,099	837,517
Corporate income tax - Lebanese company	209,638	177,110
Tax on holding companies	10,000	10,000
	2,895,705	2,922,968

The tax returns for Lebanese operations since year 2015 remain subject to examination and final assessment by the tax authorities.

The Group's accounts and tax returns in the other locations where the Group operates remain subject to examination and acceptance by the related tax authorities where applicable.

The extent of the tax contingency depends on the outcome of such tax examination. Management does not expect additional material tax claims as a result of this examination.

Deferred tax assets amounting to LBP2.33billion and LBP1.65billion as of December 31, 2018 and 2017, respectively, related to the subsidiaries in Jordan and Sultanate Oman are recognized for unused tax losses and on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Change in deferred tax assets is reflected under income tax expense in the consolidated statement of profit or loss.

Deferred tax liabilities amounting to LBP2.13billion and LBP1.81billion as of December 31, 2018 and 2018, respectively, are generally recognized for all taxable temporary differences and are mainly attributable to the change in fair value of investment securities at FVTOCI.

20. ACCRUED EXPENSES AND OTHER LIABILITIES

This caption consists of the following:

	General Insurance Departments		Life Division	
	December 31,		December 31,	
	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000
Accrued expenses	1,762,305	3,303,688	146,914	249,582
Accrued commission payable	322,521	586,739	771,329	1,347,235
Premiums received in advance	-	389,653	3,366,275	4,254,098
Balances outstanding between Head Office and Branches	(523,972)	914,674	-	-
Shareholders' dividends payable	621,510	626,984	-	-
Municipality fees and other taxes	3,194,350	2,790,855	199,518	30,324
Social Security National Fund	129,917	181,848	-	-
Escrow account (a)	-	2,548,916		
Held for trading derivative liability	24,553	293,617	-	-
Other credit balances	5,619,088	6,598,559	178,595	961,749
	11,150,272	18,235,533	4,662,631	6,842,988

(a) The Group maintained an amount of LBP2.55billion in an escrow account for one year against any contingent liability that may result from the acquisition of the subsidiary Arabia Falcon Insurance Company during 2017 (See note 40). The escrow account was released during 2018.

21. INSURANCE CONTRACT LIABILITIES – GENERAL INSURANCE DEPARTMENTS

The caption consists of the following:

	Gross December 31,		Reinsurers' Share December 31,		Net December 31,	
	2018	2017	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unearned premium reserves	91,943,836	109,871,636	(35,538,160)	(44,116,340)	56,405,676	65,755,296
Provision for outstanding claims	218,088,708	191,762,627	(163,193,373)	(123,582,534)	54,895,335	68,180,093
Incurred but not reported (IBNR)	15,058,356	19,949,326	(3,977,446)	(7,600,666)	11,080,910	12,348,660
Incurred but not enough reserved (IBNER)	2,209,088	2,290,827	-	-	2,209,088	2,290,827
Loss adjustment expense (LAE)	1,095,475	2,078,320	-	-	1,095,475	2,078,320
Premium deficiency reserve	2,781,309	2,794,547	(396,242)	(267,344)	2,385,067	2,527,203
	331,176,772	328,747,283	(203,105,221)	(175,566,884)	128,071,551	153,180,399

21(a). Unearned Premium Reserves (UPR)

	Gross December 31,		Reinsurers' Share December 31,		Net December 31,	
	2018	2017	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Marine	2,058,251	4,847,034	(1,749,727)	(4,319,945)	308,524	527,089
Motor	48,222,953	59,121,334	(5,801,536)	(7,004,658)	42,421,417	52,116,676
Property	8,576,420	9,687,083	(7,539,514)	(8,517,734)	1,036,906	1,169,349
General accidents	8,513,543	15,874,013	(6,289,855)	(14,302,701)	2,223,688	1,571,312
Workmen's compensation	5,113,522	3,975,269	(3,545,297)	(1,787,318)	1,568,225	2,187,951
Medical	19,459,147	16,293,009	(10,612,231)	(8,113,857)	8,846,916	8,179,152
Reinsurance inwards	-	73,894	-	(70,127)	-	3,767
	91,943,836	109,871,636	(35,538,160)	(44,116,340)	56,405,676	65,755,296

21(b). Provision for outstanding claims (including IBNR, IBNER and LAE)

	Gross December 31,		Reinsurers' Share December 31,		Net December 31,	
	2018	2017	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Marine	4,565,760	3,945,285	(3,588,492)	(2,880,750)	977,268	1,064,535
Motor	64,680,931	78,431,826	(11,466,461)	(8,749,408)	53,214,470	69,682,418
Property	20,257,155	15,166,734	(18,681,511)	(13,519,813)	1,575,644	1,646,921
General accidents	122,786,276	99,258,332	(118,936,885)	(95,532,999)	3,849,391	3,725,333
Workmen's compensation	9,371,220	5,199,913	(4,950,386)	(876,142)	4,420,834	4,323,771
Medical	14,790,285	14,079,010	(9,547,084)	(9,624,088)	5,243,201	4,454,922
Reinsurance inwards	-	-	-	-	-	-
	236,451,627	216,081,100	(167,170,819)	(131,183,200)	69,280,808	84,897,900

21(c). Premium Deficiency Reserve (PDR)

	Gross December 31, 2018 LBP'000	Gross December 31, 2017 LBP'000	Reinsurers' Share December 31, 2018 LBP'000	Reinsurers' Share December 31, 2017 LBP'000	Net December 31, 2018 LBP'000	Net December 31, 2017 LBP'000
Marine	3,345	1,854	-	-	3,345	1,854
Motor	1,385,323	2,042,723	(15,943)	(13,225)	1,369,380	2,029,498
Workmen's compensation	179,053	194,096	-	-	179,053	194,096
General accidents	122,641	137,585	-	-	122,641	137,585
Medical	1,090,947	418,289	(380,299)	(254,119)	710,648	164,170
	2,781,309	2,794,547	(396,242)	(267,344)	2,385,067	2,527,203

22. LIFE INSURANCE CONTRACT LIABILITIES

	Gross December 31, 2018 LBP'000	Gross December 31, 2017 LBP'000	Reinsurers' Share December 31, 2018 LBP'000	Reinsurers' Share December 31, 2017 LBP'000	Net December 31, 2018 LBP'000	Net December 31, 2017 LBP'000
Mathematical reserve	103,255,370	105,044,607	(4,071,810)	(4,072,761)	99,183,560	100,971,846
Provision for unexpired risks	3,861,738	5,240,543	(1,089,371)	(1,675,516)	2,772,367	3,565,027
Provision for outstanding claims	10,973,887	9,199,211	(7,983,854)	(6,984,664)	2,990,033	2,214,547
Claims under settlement reserve	522,638	791,845	-	-	522,638	791,845
	118,613,633	120,276,206	(13,145,035)	(12,732,941)	105,468,598	107,543,265

The movement in the gross life insurance contract liabilities is summarized below:

	2018 LBP'000	2017 LBP'000
Balance at January 1	120,276,206	85,149,895
Addition through acquisition of a subsidiary	-	22,006,690
Allocation to saving components	11,897,583	12,862,766
Change in value of insurance liabilities	(5,162,632)	7,691,046
Change in provision for unexpired risks	(1,378,805)	(993,657)
Change in provision for outstanding claims	1,774,676	1,934,470
Liabilities paid on surrenders	(8,496,533)	(7,718,598)
Liabilities paid on maturities	(24,251)	(405,518)
Distribution of profits on matured and surrendered policies to policyholders	(11,063)	(137,182)
Release of unpaid maturities	(249,937)	-
Effect of foreign currency fluctuations	(13,035)	22,609
Other movements	1,424	(136,315)
Balance at December 31	118,613,633	120,276,206

The life insurance contract liabilities include LBP57.98billion as of December 31, 2018 (LBP62.17billion as of December 31, 2017) relating to unit-linked contracts where the Group matches the liabilities to policyholders with the related assets in a way to eliminate price, currency, credit, or interest risk for these contracts. The change in insurance liabilities during the year 2018 includes a negative change in the unit prices of LBP7.82billion (A positive change of LBP7.74billion for the year 2017) that relates to unit-linked products (Note 6).

23. PROVISION FOR EMPLOYEES' END-OF-SERVICE INDEMNITY

The movement of provision for employees' end-of-service indemnity during 2018 and 2017 was as follows:

	General Insurance Departments		Life Division	
	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1	4,892,135	5,268,182	772,304	642,851
Addition through acquisition of a subsidiary – Note 40	-	415,564	-	99,200
Additions/(write backs)	425,969	(101,935)	(38,216)	83,918
Settlements	(1,545,360)	(689,676)	(154,274)	(53,665)
Balance at December 31	3,772,744	4,892,135	579,814	772,304

24. PROVISION FOR CONTINGENCIES

The movement of provision for contingencies during 2018 and 2017 was as follows:

	2018	2017
	LBP'000	LBP'000
Balance at January 1	2,968,992	2,968,992
Balance at December 31	2,968,992	2,968,992

This provision is intended to cover loss contingencies that may occur in view of the circumstances, which prevail in the areas where the Group operates and includes amounts to cover the likelihood of additional levies due to uncertainties.

25. RELATED PARTY BALANCES AND TRANSACTIONS

Due from related company amounting to LBP180million as of December 31, 2018 (LBP10million as of December 31, 2017) represents a non-interest bearing receivable current account due from Arabia Insurance Cooperative Company (AICC), an insurance company established in the Kingdom of Saudi Arabia, in which the Group owns 19.2% of the voting power.

The Group had balances and transactions with Arab Bank PLC, the major shareholder which owns 40.34% of the Company's shares, and with its subsidiaries, in the form of investment securities and bank deposits.

The Group owns 504,000 equity shares in Arab Bank PLC -Amman classified at FVTOCI and having a carrying fair value of LBP6.6billion and LBP6billion as of December 31, 2018 and 2017 respectively. These shares are pledged in favor of Arab Bank (Switzerland) Ltd against borrowings from the latter.

The following balances with Arab Bank Group were outstanding as at December 31, 2018 and 2017:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Bank deposits	75,710,256	58,001,467
Bank borrowings	(15,807,014)	(21,533,456)
Investment securities	6,927,740	6,299,907
	66,830,982	42,767,918

26. SHARE CAPITAL

The share capital amounting to LBP51billion as of December 31, 2018 and 2017, is composed of 20,400,000 nominal ordinary shares of par value LBP2,500 each, fully paid as follows:

	Number of shares		Balance	
	December 31,		December 31,	
	2018	2017	2018	2017
	LBP'000	LBP'000	LBP'000	LBP'000
Issued shares	20,400,000	20,400,000	51,000,000	51,000,000
Less: treasury shares	(114,610)	(71,467)	(976,287)	(585,037)
Outstanding shares	20,285,390	20,328,533	50,023,713	50,414,963

The movement of the share capital during 2018 and 2017 was as follows:

	Number of Shares LBP'000	Share Capital LBP'000	Treasury Shares LBP'000
Balance as at January 1, 2017	20,316,537	51,000,000	(718,773)
Buy-back of treasury shares	(95,257)	-	(862,063)
Sale of treasury shares	71,802	-	675,145
Distribution of treasury shares - Note 30	35,451	-	320,654
Balance as at December 31, 2017	20,328,533	51,000,000	(585,037)
Buy-back of treasury shares	(80,265)	-	(727,019)
Sale of treasury shares	1,100	-	9,950
Distribution of treasury shares - Note 30	36,022	-	325,819
Balance as at December 31, 2018	20,285,390	51,000,000	(976,287)

Surplus on sale of treasury shares resulting from the sale of treasury shares amounted to LBP5.2billion as of December 31, 2018 and 2017.

27. LEGAL RESERVE

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Legal reserve – Parent Company	17,000,000	17,000,000
Legal reserve - Subsidiaries	7,894,262	7,955,335
	24,894,262	24,955,335

In accordance with article 165 of the Lebanese Code of Commerce, Lebanese Companies are required to transfer ten percent of the annual net profit, for the years that show profit, to a reserve account until the reserve amount equals one third of the Company's capital. This reserve is not available for distribution.

28. ASSET REVALUATION RESERVE

During 1994, the real estate and the investments were adjusted on the basis of the net realizable value and the new values were accounted for in accordance with the requirements of the Law N°. 282 of December 30, 1993. Part of this reserve was distributed to shareholders in prior years and the remaining balance has been reflected in other comprehensive income under equity.

29. CUMULATIVE CHANGE IN FAIR VALUE OF INVESTMENT SECURITIES AT FVOCI

The cumulative change in fair value of investment securities at FVTOCI consists of the following:

	General Insurance Departments December 31,		Life Division December 31,	
	2018 LBP'000	2017 LBP'000	2018 LBP'000	2017 LBP'000
Debt and equity securities	5,012,082	5,800,902	(523)	57,505
Deferred tax liabilities	(1,943,088)	(1,066,265)	-	-
	3,068,994	4,734,637	(523)	57,505
Non-controlling interests - Note 31	167,779	(354,541)	-	-
	3,236,773	4,380,096	(523)	57,505

The movement of the cumulative change in fair value of investment securities at FVTOCI during 2018 and 2017 is summarized as follows:

(a) General Insurance Departments:

	2018 LBP'000	2017 LBP'000
Balance at January 1	4,380,096	(12,013,586)
Net change in fair value for the year	(1,582,651)	14,949,355
Allocation to retained earnings upon disposal of investment securities	446,778	1,806,060
Effect of acquisition of shares in Al Mashreq	-	4,641
Change in deferred tax	(7,454)	(366,374)
Other adjustments	4	-
Balance at December 31	3,236,773	4,380,096

(b) Life Division:

	2018 LBP'000	2017 LBP'000
Balance at January 1	57,505	120,951
Net unrealized loss for the year	(88,328)	(39,140)
Transfer to retained earnings upon disposal of securities	30,300	(24,306)
Balance at December 31	(523)	57,505

30. DIVIDEND AND REMUNERATION DISTRIBUTION

No dividends were distributed during the years 2018 and 2017. In its meeting held on April 26, 2019, the Board of Directors proposed only the distribution of remunerations to the Board of Directors, Investment Committee, and Audit Committee of LBP339million from treasury shares subject to the approval of the General Assembly of Shareholders to be held on June 18, 2019.

In its meeting held on June 6, 2018, the General Assembly of Shareholders approved the distribution of remunerations to the Board of Directors, Investment Committee, and Audit Committee of LBP468million of which LBP326million from treasury shares and the remaining in cash.

In its meeting held on April 25, 2017, the General Assembly of Shareholders approved the distribution of remunerations to the Board of Directors, Investment Committee, and Audit Committee of LBP494million of which LBP320million from treasury shares and the remaining in cash.

31. NON-CONTROLLING INTERESTS

Name of Subsidiary	Proportion of Non-Controlling Interests December 31, 2018 %	2017 %	Profit Allocated to Non-Controlling Interests Year Ended December 31, 2018 LBP'000	2017 LBP'000	Accumulated Non-Controlling Interests December 31, 2018 LBP'000	2017 LBP'000
Arabia Insurance Company - Syria	49.94	49.94	1,278,985	385,609	4,277,067	2,998,082
Arabia Insurance Company - Jordan	48.56	48.56	279,660	570,712	9,174,982	9,406,432
Al-Mashriq Financial Investments Co. S.A.L.	9.97	10.63	122,788	124,293	3,610,527	3,658,520
Arabia Falcon Insurance Company	35.34	28.29	1,512,700	1,133,902	25,127,631	22,180,886
			3,194,133	2,214,516	42,190,207	38,243,920

	General Insurance Departments December 31, 2018 LBP'000	2017 LBP'000	Life Division December 31, 2018 LBP'000	2017 LBP'000
Capital	39,801,377	37,768,174	-	-
Fair value of Arabia Insurance Company shares owned by non-controlling shareholders	(15,361)	(16,371)	-	-
Cumulative change in fair value of Arabia Company's shares owned by non-controlling shareholders	335,014	357,040	-	-
Cumulative change in fair value of financial assets at FVTOCI – Note 29	(502,793)	(2,499)	-	-
Foreign currency translation reserve	(17,706,857)	(17,706,857)	-	-
Reserves and retained earnings	17,084,694	15,629,917	480,356	931,364
Profit for the year	3,194,133	2,214,516	2,890	(236,370)
	42,190,207	38,243,920	483,246	694,994

Summarized financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below:

The summarized financial information below represents amounts before intragroup eliminations.

Arabia Insurance Company – Syria:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Total assets	19,972,086	15,125,719
Total liabilities	11,407,155	9,121,988
Total equity attributable to owners of the Company	4,287,864	3,005,649
Non-controlling interests	4,277,067	2,998,082

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Net insurance income	(157,959)	456,986
Net investment income	3,151,506	896,899
Other expenses, net	(432,347)	(581,694)
Profit for the year	2,561,200	772,191
Attributable to owners of the Company	1,282,215	386,582
Attributable to non-controlling interests	1,278,985	385,609
	2,561,200	772,191

Arabia Insurance Company – Jordan (General Insurance Departments):

	December 31,	
	2018	2017
	LBP'000	LBP'000
Total assets	73,450,130	76,268,016
Total liabilities	54,556,014	56,897,275
Total equity attributable to owners of the Company	9,719,134	9,964,309
Non-controlling interests	9,174,982	9,406,432

	Year Ended December 31, 2018 LBP'000	Year Ended December 31, 2017 LBP'000
Net insurance income	787,739	1,701,394
Net investment income	1,281,525	1,181,079
Other expenses, net	(1,493,357)	(1,707,201)
Profit for the year	575,907	1,175,272
Attributable to owners of the Company	296,247	604,560
Attributable to non-controlling interests	279,660	570,712
	575,907	1,175,272

Arabia Falcon Insurance Company – Oman (General Insurance Departments):

	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Total assets	232,558,507	212,282,407
Total liabilities	161,577,320	139,060,477
Total equity attributable to owners of the Company	45,853,556	51,041,044
Non-controlling interests	25,127,631	22,180,886

	Year Ended December 31, 2018 LBP'000	Year Ended December 31, 2017 LBP'000
Net insurance income	3,927,359	4,314,416
Net investment income	4,881,504	3,190,525
Other expenses, net	(4,644,709)	(3,761,786)
Profit for the year	4,164,154	3,743,155
Attributable to owners of the Company	2,651,454	2,609,253
Attributable to non-controlling interests	1,512,700	1,133,902
	4,164,154	3,743,155

32. CONSOLIDATED STATEMENT OF INCOME AND EXPENSES OF THE GENERAL INSURANCE DEPARTMENTS

	Year Ended December 31, 2018							
	Marine LBP'000	Motor LBP'000	Property LBP'000	General Accidents LBP'000	Workmen's Compensation LBP'000	Medical LBP'000	Reinsurance Inwards LBP'000	Total LBP'000
Income:								
Written premiums	7,463,147	108,933,101	19,498,371	20,495,395	8,559,677	64,081,702	16,488	229,047,881
Reinsurers' share	(6,348,955)	(17,868,069)	(17,147,350)	(15,942,689)	(4,712,871)	(39,901,063)	-	(101,920,997)
Group's share	1,114,192	91,065,032	2,351,021	4,552,706	3,846,806	24,180,639	16,488	127,126,884
UPR at beginning of year	4,847,034	59,121,334	9,687,083	15,874,013	3,975,269	16,293,009	73,894	109,871,636
Reinsurers' share	(4,319,945)	(7,004,658)	(8,517,734)	(14,302,701)	(1,787,318)	(8,113,857)	(70,127)	(44,116,340)
Effect of foreign currency fluctuations	(1)	-	2	-	-	-	-	1
Group's share	527,088	52,116,676	1,169,351	1,571,312	2,187,951	8,179,152	3,767	65,755,297
UPR at end of year	(2,058,251)	(48,222,953)	(8,576,420)	(8,513,543)	(5,113,522)	(19,459,147)	-	(91,943,836)
Reinsurers' share	1,749,727	5,801,536	7,539,514	6,289,855	3,545,297	10,612,231	-	35,538,160
Effect of foreign currency fluctuations	-	-	-	-	-	-	-	-
Group's share	(308,524)	(42,421,417)	(1,036,906)	(2,223,688)	(1,568,225)	(8,846,916)	-	(56,405,676)
Net change in UPR	218,564	9,695,259	132,445	(652,376)	619,726	(667,764)	3,767	9,349,621
Change in deferred commissions from reinsurers	70,158	-	(66,194)	393,639	-	-	-	397,603
Commissions from reinsurers	2,194,854	1,320,048	4,432,890	2,982,457	353,580	363,484	-	11,647,313
Profits/(loss) from treaties, interest and miscellaneous income	969,377	-	795	271,796	-	353,067	(182,721)	1,412,314
Total income from reinsurers	3,234,389	1,320,048	4,367,491	3,647,892	353,580	716,551	(182,721)	13,457,230
Total income	4,567,145	102,080,339	6,850,957	7,548,222	4,820,112	24,229,426	(162,466)	149,933,735

	Marine	Motor	Property	General Accidents	Workmen's Compensation	Medical	Reinsurance Inwards	Total
	Year Ended December 31, 2018							(Continued)
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Expenses:								
Outstanding claims, IBNR, IBNER and LAE at beginning of year	(3,945,285)	(78,431,826)	(15,166,734)	(99,258,332)	(5,199,913)	(14,079,010)	-	(216,081,100)
Reinsurers' share	2,880,750	8,749,408	13,519,813	95,532,999	876,142	9,624,088	-	131,183,200
Effect of foreign currency fluctuations	(1)	-	-	-	-	-	-	(1)
Group's share	(1,064,536)	(69,682,418)	(1,646,921)	(3,725,333)	(4,323,771)	(4,454,922)	-	(84,897,901)
Outstanding claims, IBNR, IBNER and LAE at end of year	4,565,760	64,680,931	20,257,155	122,786,276	9,371,220	14,790,285	-	236,451,627
Reinsurers' share	(3,588,492)	(11,466,461)	(18,681,511)	(118,936,885)	(4,950,386)	(9,547,084)	-	(167,170,819)
Effect of foreign currency fluctuations	655	54,117	(60,904)	1,770	4,631	(24,299)	3,767	(20,263)
Group's share	977,923	53,268,587	1,514,740	3,851,161	4,425,465	5,218,902	3,767	69,260,545
Net change in outstanding claims, IBNR, IBNER and LAE	(86,613)	(16,413,831)	(132,181)	125,828	101,694	763,980	3,767	(15,637,356)
PDR at beginning of year	(1,854)	(2,042,723)	-	(137,585)	(194,096)	(418,289)	-	(2,794,547)
Reinsurers' share	-	13,225	-	-	-	254,119	-	267,344
Company's share	(1,854)	(2,029,498)	-	(137,585)	(194,096)	(164,170)	-	(2,527,203)
PDR at end of year	3,345	1,385,321	-	122,641	179,053	1,090,949	-	2,781,309
Reinsurers' share	-	(15,943)	-	-	-	(380,299)	-	(396,242)
Company's share	3,345	1,369,378	-	122,641	179,053	710,650	-	2,385,067
Net change in PDR	1,491	(660,120)	-	(14,944)	(15,043)	546,480	-	(142,136)
Claims paid net of recoveries	2,244,806	101,715,532	6,255,939	9,702,233	1,992,850	45,274,465	276,724	167,462,549
Reinsurers' share	(1,804,983)	(26,189,440)	(5,394,941)	(8,645,326)	(23,457)	(32,171,155)	-	(74,229,302)
Group's share	439,823	75,526,092	860,998	1,056,907	1,969,393	13,103,310	276,724	93,233,247
Commissions expense	952,190	11,971,315	2,001,292	1,786,513	701,959	3,900,599	6,821	21,320,689
Change in deferred acquisition costs - note 11	14,324	1,470,045	120,951	145,325	55,579	(452,276)	-	1,353,948
Other direct expenses	43,697	1,315,318	166,829	89,656	36,022	2,944,642	-	4,596,164
Departments' share of general expenses - note 33	974,268	14,079,075	2,625,801	2,949,680	1,157,236	8,763,585	2,995	30,552,640
Total expenses	2,339,180	87,287,894	5,643,690	6,138,965	4,006,840	29,570,320	290,307	135,277,196
Net income/(loss) of insurance departments	2,227,965	14,792,445	1,207,267	1,409,257	813,272	(5,340,894)	(452,773)	14,656,539

	Marine	Motor	Property	General Accidents	Workmen's Compensation	Medical	Reinsurance Inwards	Total
	Year Ended December 31, 2017							
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Income:								
Written premiums	12,562,732	144,535,873	20,430,088	25,578,272	8,425,991	43,726,740	1,202,937	256,462,633
Reinsurers' share	(10,797,158)	(24,892,334)	(18,035,947)	(22,078,727)	(3,571,803)	(25,485,701)	(155,838)	(105,017,508)
Group's share	1,765,574	119,643,539	2,394,141	3,499,545	4,854,188	18,241,039	1,047,099	151,445,125
UPR at beginning of year	2,009,218	61,432,664	6,698,439	7,470,022	1,989,247	16,563,209	-	96,162,799
Reinsurers' share	(1,553,658)	(1,373,724)	(5,690,485)	(5,949,850)	-	(9,957,136)	-	(24,524,853)
Effect of foreign currency fluctuations	1,885	111,967	3,887	3,731	916	57,340	-	179,726
Group's share	457,445	60,170,907	1,011,841	1,523,903	1,990,163	6,663,413	-	71,817,672
UPR - additions through acquisition of a subsidiary	805,448	8,057,291	2,993,013	3,682,107	476,230	36,263	-	16,050,352
Reinsurers' share	(727,603)	(3,519,542)	(2,881,696)	(3,560,720)	3,604	92,665	-	(10,593,292)
Group's share	77,845	4,537,749	111,317	121,387	479,834	128,928	-	5,457,060
UPR at end of year	(4,847,034)	(59,121,334)	(9,687,083)	(15,874,013)	(3,975,269)	(16,293,009)	(73,894)	(109,871,636)
Reinsurers' share	4,319,945	7,004,658	8,517,734	14,302,701	1,787,318	8,113,857	70,127	44,116,340
Effect of foreign currency fluctuations	1,975	114,291	(42)	5,454	11,053	6,759	-	139,490
Group's share	(525,114)	(52,002,385)	(1,169,391)	(1,565,858)	(2,176,898)	(8,172,393)	(3,767)	(65,615,806)
Net change in UPR	10,176	12,706,271	(46,233)	79,432	293,099	(1,380,052)	(3,767)	11,658,926
Change in deferred commissions from reinsurers	56,877	-	(11,624)	136,685	-	-	-	181,938
Commissions from reinsurers	2,260,741	1,869,656	4,344,960	3,870,102	438,319	264,943	-	13,048,721
Profits from treaties, interest and miscellaneous income	163,491	-	(116,060)	609,964	-	338,660	62,663	1,058,718
Total income from reinsurers	2,481,109	1,869,656	4,217,276	4,616,751	438,319	603,603	62,663	14,289,377
Total income	4,256,859	134,219,466	6,565,184	8,195,728	5,585,606	17,464,590	1,105,995	177,393,428

(Continued)

	Marine LBP'000	Motor LBP'000	Property LBP'000	General Accidents LBP'000	Workmen's Compensation LBP'000	Medical LBP'000	Reinsurance Inwards LBP'000	Total LBP'000
	Year Ended December 31, 2017							
Expenses:								
Outstanding claims, IBNR, IBNER and LAE at beginning of year	(2,513,140)	(73,829,095)	(14,818,796)	(46,670,206)	(4,366,201)	(8,906,639)	-	(151,104,077)
Reinsurers' share	1,762,266	4,128,913	12,468,098	42,575,478	257,238	2,692,648	-	63,884,641
Effect of foreign currency fluctuations	(913)	(244,729)	(4,401)	(2,552)	(4,505)	(22,088)	-	(279,188)
Group's share	(751,787)	(69,944,911)	(2,355,099)	(4,097,280)	(4,113,468)	(6,236,079)	-	(87,498,624)
Outstanding claims, IBNR, IBNER and LAE additions through acquisition of a subsidiary	(575,586)	(6,937,284)	(2,465,129)	(6,949,468)	(1,371,275)	(70,850)	-	(18,369,592)
Reinsurers' share	507,826	2,944,453	2,362,469	7,048,292	528,842	49,503	-	13,441,385
Group's share	(67,760)	(3,992,831)	(102,660)	98,824	(842,433)	(21,347)	-	(4,928,207)
Outstanding claims, IBNR, IBNER and LAE at end of year	3,945,285	78,431,826	15,166,734	99,258,332	5,199,913	14,079,010	-	216,081,100
Reinsurers' share	(2,880,750)	(8,749,408)	(13,519,813)	(95,532,999)	(876,142)	(9,624,088)	-	(131,183,200)
Effect of foreign currency fluctuations	(3,152)	(137,275)	(4,620)	(6,221)	(25,231)	(1,856)	-	(178,355)
Group's share	1,061,383	69,545,143	1,642,301	3,719,112	4,298,540	4,453,066	-	84,719,545
Net change in outstanding claims, IBNR, IBNER and LAE	241,836	(4,392,599)	(815,458)	(279,344)	(657,361)	(1,804,360)	-	(7,707,286)
PDR at beginning of year	-	(3,320,086)	-	-	(388,750)	(7,258)	-	(3,716,094)
Reinsurers' share	-	8,488	-	-	-	2,056	-	10,544
Company's share	-	(3,311,598)	-	-	(388,750)	(5,202)	-	(3,705,550)
PDR at end of year	1,854	2,042,723	-	137,585	194,096	418,289	-	2,794,547
Reinsurers' share	-	(13,225)	-	-	-	(254,119)	-	(267,344)
Company's share	1,854	2,029,498	-	137,585	194,096	164,170	-	2,527,203
Net change in PDR	1,854	(1,282,100)	-	137,585	(194,654)	158,968	-	(1,178,347)
Claims paid net of recoveries	1,269,104	113,210,269	8,476,061	5,512,715	2,325,380	34,678,039	1,750,005	167,221,573
Reinsurers' share	(987,230)	(19,173,134)	(6,882,054)	(4,582,196)	(78,533)	(26,234,921)	(130,204)	(58,068,272)
Group's share	281,874	94,037,135	1,594,007	930,519	2,246,847	8,443,118	1,619,801	109,153,301
Commissions expense - note 11	1,025,105	16,469,194	2,202,240	2,016,930	849,572	3,781,806	5,581	26,350,428
Change in deferred acquisition costs - note 11	35,045	3,957,093	104,296	52,002	43,952	42,956	-	4,235,344
Other direct expenses	49,837	842,236	214,730	2,731	63,537	1,699,047	-	2,872,118
Departments' share of general expenses - note 33	1,590,174	16,671,786	2,406,276	3,137,181	1,002,319	4,811,197	170,909	29,789,842
Total expenses	3,225,725	126,302,745	5,706,091	5,997,604	3,354,212	17,132,732	1,796,291	163,515,400
Net income/(loss) of insurance departments	1,031,134	7,916,721	859,093	2,198,124	2,231,394	331,858	(690,296)	13,878,028

33. GENERAL AND ADMINISTRATIVE EXPENSES

a) General Insurance Departments:

Total general and administrative expenses of general insurance departments amounting to LBP45.8billion and LBP45.3billion for the years ended December 31, 2018 and 2017, respectively are allocated as follows:

	2018 LBP'000	2017 LBP'000
Allocated to general insurance departments - Note 32	30,552,640	29,789,842
Unallocated share of the head office	13,042,370	13,330,250
Life division share	2,200,000	2,200,000
	45,795,010	45,320,092

Total general and administrative expenses in 2018 and 2017 consist of the following:

	2018 LBP'000	2017 LBP'000
Salaries and related charges	27,664,289	28,122,483
General operating expenses	16,301,112	15,327,731
Depreciation and amortization expense	1,829,609	1,869,878
	45,795,010	45,320,092

The expenses allocated to the general insurance departments are made on the basis of the ratio of the net premiums of each department to the total net premiums.

Depreciation expense of Ain Al Mreisseh building in the amount of LBP89million in 2018 (LBP84million in 2017) is recorded under "net loss from building" in the consolidated statement of profit or loss.

(b) Life Division:

Total general and administrative expenses of the life division are distributed as follows:

	2018 LBP'000	2017 LBP'000
Salaries and related charges	5,727,876	6,533,811
General operating expenses	3,645,853	3,590,950
Depreciation of furniture and equipment	92,154	125,203
Amortization of computer software	58,423	61,982
	9,524,306	10,311,946

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows the fair values of financial assets recognized in the financial statements, including their levels in the fair value hierarchy. It does not include financial assets and financial liabilities which are not measured at fair value and where the directors consider that the carrying amounts of these financial assets and liabilities are reasonable approximations of their fair value:

	General Insurance Departments				
	Fair Value as at December 31, 2018				
	Level 1	Level 2	Level 3	Total	Valuation Technique and Key Inputs
	LBP'000	LBP'000	LBP'000	LBP'000	
Financial assets at fair value through profit of loss:					
Foreign corporate bonds - quoted	626,003	-	-	626,003	Quoted prices in an active market
Equity securities - quoted	8,668,160	-	-	8,668,160	Quoted prices in an active market
Funds - quoted	1,220,285	-	-	1,220,285	Quoted prices in an active market
Funds - unquoted	-	-	204,702	204,702	Net asset value
	10,514,448	-	204,702	10,719,150	
Financial assets at fair value through other comprehensive income:					
Equity securities - quoted	65,699,454	-	-	65,699,454	Quoted prices in an active market
Equity securities - unquoted	-	-	15,004,238	15,004,238	Net book value
	65,699,454	-	15,004,238	80,703,692	
Financial assets at amortized cost:					
Foreign corporate bonds - unquoted	-	-	575,865	575,865	Management estimate based on unobservable input related to market volatility and liquidity
Lebanese government bonds - unquoted	-	876,137	-	876,137	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Foreign government bonds - quoted	603,000	-	-	603,000	Quoted prices in an active market
Foreign corporate bonds - quoted	8,745,811	-	-	8,745,811	Quoted prices in an active market
	9,348,811	876,137	575,865	10,800,813	

	General Insurance Departments				
	Fair Value as at December 31, 2017				
	Level 1	Level 2	Level 3	Total	Valuation Technique and Key Inputs
	LBP'000	LBP'000	LBP'000	LBP'000	
Financial assets at fair value through profit of loss:					
Foreign corporate bonds - quoted	1,900,041	-	-	1,900,041	Quoted prices in an active market
Equity securities - quoted	7,510,650	-	-	7,510,650	Quoted prices in an active market
Funds - quoted	791,299	-	-	791,299	Quoted prices in an active market
Funds - unquoted	-	-	222,142	222,142	Net asset value
	10,201,990	-	222,142	10,424,132	
Financial assets at fair value through other comprehensive income:					
Foreign corporate bonds - quoted	616,085	-	-	616,085	Quoted prices in an active market
Equity securities - quoted	63,988,113	-	-	63,988,113	Quoted prices in an active market
Equity securities - unquoted	-	-	14,908,517	14,908,517	Net book value
	64,604,198	-	14,908,517	79,512,715	
Financial assets at amortized cost:					
Lebanese corporate bonds - unquoted	-	-	575,865	575,865	Management estimate based on unobservable input related to market volatility and liquidity
Lebanese government bonds - unquoted	-	882,139	-	882,139	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Foreign government bonds - quoted	603,000	-	-	603,000	Quoted prices in an active market
Foreign corporate bonds - quoted	8,988,343	-	-	8,988,343	Quoted prices in an active market
	9,591,343	882,139	575,865	11,049,347	

	Life Division				
	Fair Value as at December 31, 2018				
	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	Total LBP'000	Valuation Technique and Key Inputs
Financial assets at fair value through profit of loss:					
Lebanese government bonds - unquoted	-	168,959	-	168,959	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Foreign bonds - quoted	223,767	-	-	223,767	Quoted prices in an active market
Equity securities - quoted	189,971	-	-	189,971	Quoted prices in an active market
Funds - quoted	401,712	-	-	401,712	Quoted prices in an active market
	815,450	168,959	-	984,409	
Financial assets at fair value through other comprehensive income:					
Equity securities - quoted	9,275,648	-	-	9,275,648	Quoted prices in an active market
Equity securities - unquoted	-	-	3,080,090	3,080,090	Management estimate based on unobservable input related to market volatility and liquidity
	9,275,648	-	3,080,090	12,355,738	
Financial assets at amortized cost:					
Lebanese corporate bonds - unquoted	-	-	136,429	136,429	Management estimate based on unobservable input related to market volatility and liquidity
Lebanese government bonds - unquoted	-	370,761	-	370,761	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Foreign corporate bonds - quoted	12,044,503	-	-	12,044,503	Quoted prices in an active market
	12,044,503	370,761	136,429	12,551,693	

	Life Division				
	Fair Value as at December 31, 2017				
	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	Total LBP'000	Valuation Technique and Key Inputs
Financial assets at fair value through profit of loss:					
Lebanese government bonds - unquoted	-	88,296	-	88,296	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Foreign bonds - quoted	1,366,143	-	-	1,366,143	Quoted prices in an active market
Equity securities - quoted	197,582	-	-	197,582	Quoted prices in an active market
Funds - quoted	1,971,123	-	-	1,971,123	Quoted prices in an active market
	3,534,848	88,296	-	3,623,144	
Financial assets at fair value through other comprehensive income:					
Equity securities - quoted	9,384,588	-	-	9,384,588	Quoted prices in an active market
Equity securities - unquoted	-	-	102,828	102,828	Management estimate based on unobservable input related to market volatility and liquidity
	9,384,588	-	102,828	9,487,416	
Financial assets at amortized cost:					
Lebanese corporate bonds - unquoted	-	-	437,552	437,552	Management estimate based on unobservable input related to market volatility and liquidity
Lebanese government bonds - unquoted	-	415,370	-	415,370	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor
Foreign corporate bonds - quoted	12,759,538	-	-	12,759,538	Quoted prices in an active market
	12,759,538	415,370	437,552	13,612,460	

There have been no transfers between Level 1, Level 2 and Level 3 during the year.

35. INSURANCE AND FINANCIAL RISK MANAGEMENT

(A) Insurance Risk for General Departments:

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities, in addition to probability of underpricing of risks, imposing inadequate terms or selecting low quality or uninsurable risks. Thus the frequency or severity of claims and benefits become greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Group manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

(B) Life Insurance Risk

In the life insurance business a distinction is drawn between three types of underwriting risk: - longevity, death and disability. The Group conducts an annual review and analysis of its customers portfolios with regard to mortality, cancellation and reactivation. To manage disability risk and improve risk performance, individual evaluations are used along the portfolio analyses for disability risk to allow a better assessment of the exposure structure. The information gained is used in setting appropriate prices and rates as well as ensuring that reserves are sufficient for future insurance obligations to be met at all times. It also forms the basis for determining the risk capital that will be required to offset unexpected deviations in the actuarial reserves.

(C) Reinsurance Risk

In common with other insurance companies, in order to minimize financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes.

To minimize its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

The Group enters into reinsurance treaties that provide for the required capacities that fit its risk profiles at competitive costs, while optimizing its retention levels through yearly as if exercises, taking into consideration financial resources such as equity capital and free reserves, portfolio size and liquid assets. Its retention levels fit the empirical rules and general benchmarks, and, most importantly, ensure that the Group's solvency ratio remains high.

Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders. The Group remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

(E) Dealing with the accumulation of insurance risk

Concentration or accumulation of insurance risk is dealt with by the Group depending on the concerned line of business:

(a) Marine Cargo, and for known accumulation of policies/declarations on one vessel, an arrangement is usually made with reinsurers to reinsure the said vessel exceptionally on a "per bottom basis" (as opposed to the normal arrangement of a "per policy basis").

(b) For Property business (Fire and Burglary):

  1. In respect of small accumulation of insured risks, the group limits retained exposure by not taking 1 retention for every risk when there are 2 or more insured adjacent risks, whereby is reduced.
  2. In respect of large accumulated or catastrophic exposures under Property, especially from natural hazards such as earthquake, our Property reinsurers cover the group for their shares of same.
  3. In respect of accumulation of the retentions under our Property business, this is covered by a per event non-proportional treaty.

(c) Motor business is covered by per occurrence excess of loss treaties that also cover involvement of more than one vehicle in one accident.

(d) For the Liability adequacy test, the Group has built up over the years reserves for contingencies which would serve as well to offset any large event affected by a concentration of insured risks, either in the same line of insurance or across the different lines of insurance covered by the Group.

(F) Market Risk

Market risk is the risk that arises from fluctuations in the value of, or income from, assets or in interest or foreign exchange rates, including the risks arising from the mismatching of assets and liabilities. Life insurers are also exposed to market risks on the liabilities side of their statement of financial positions, especially interest rate risks stemming from the sale of long-term insurance policies with interest guarantees. Because the clients often take on long-term commitments, in addition to the guarantees they expect to profit from up trends on the financial markets in the form of bonuses. Options embedded in the insurance policies afford clients the necessary flexibility for long-term agreement. These three elements; guarantee, bonuses and options, essentially determine the financial risk of classical, life insurance and policies. The Group seeks to reduce market risks by ensuring a high level of diversification both in its investment portfolio and direct investments, hence, most of the Group assets are invested in bank deposits with low market risk involved.

Interest Rate Risk

The Group's interest rate risk arises from the possibility that changes in market interest rates will affect the value of interest earning assets and interest bearing liabilities. The financial assets of the Group are subject to fixed and floating interest rates and therefore expose the Group to cash flow interest rate risk. The financial liabilities of the Group are non-interest bearing except for bank borrowings and overdrafts which are subject to floating interest.

Currency Risk:

Currency risk arises from the possibility that changes in foreign exchange rates will affect the value of financial assets and liabilities stated in foreign currencies, whereby, the Group does not hedge its currency exposure by means of hedging instruments. The Group's monetary assets and monetary liabilities are mostly denominated in U.S. Dollar, Lebanese Pound and other Arab currencies pegged to the U.S. Dollar. The U.S. Dollar represents the functional currency of the Company and has been constant against the Lebanese Pound (LBP) since many years. Therefore, the Group has no significant exposure to currency risk except to the Syrian currency which represents the functional currency of the Group's subsidiary in Syria. Any exchange differences arising from translating the Syrian Pound to LBP are accumulated under equity.

(G) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due to a reasonable cost. The credit risk on liquid funds is limited because the counter-parties are banks with high credit ratings assigned by international credit rating agencies. All the fixed deposits mature within different periods not exceeding one year from the reporting date.

In addition, the Group's reinsurance contracts comprise, in addition to quarterly settlements of balances, cash loss provisions that warrant the immediate settlement of the reinsurers of their shares of a claim when same reach a certain amount.

(H) Credit Risk:

Credit risk concerns the possibility that debtors may no longer be able to meet their obligations. Responsibility for monitoring credit risks lies with the individual companies, which follow stringent Group-wide guidelines with regard to minimum borrower ratings and the diversification of credit risks across all areas in which the Group is exposed to such risks, in particular the investment and reinsurance segments.

The Group's principal financial assets that are subject to credit risks are bank balances, insurance and other receivables, reinsurance receivables and investment portfolio.

All bank balances are assessed to have low credit risk as they are held with reputable financial institutions. The Group's credit risk is primarily attributable to its insurance receivables. The amounts presented in the statement of financial position are net of allowances for credit losses. The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL using the "loss rate" approach based on the Company's historical credit loss experience adjusted for current conditions and forecasts for future conditions.

For non-insurance exposures, external credit ratings are used and mapped to the corresponding PDs reported by credit rating agencies. These are continuously monitored and updated, and the lowest credit rating (of all rating agencies) for the counterparty and/or debt issuer is adopted.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses
Stage 1	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Stage 2	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
Stage 3	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Credit risk exposure per class of financial asset and stage

The tables below detail the credit quality of the Company's financial assets, as well as the Company's maximum exposure to credit risk by credit risk rating grades.

General departments

	Note	Internal Credit Ratings	12 Month or Lifetime ECL	December 31, 2018 Gross Carrying Amount LBP'000	Loss Allowance LBP'000	Net Carrying Amount LBP'000
Cash and banks	5	Stage 1	12-month ECL	191,379,612	(444,387)	190,935,225
Insurance receivables	6	Stage 2	Lifetime ECL	75,739,121	(1,504,268)	74,234,853
Insurance receivables	6	Stage 3	Lifetime ECL	27,175,269	(27,175,269)	-
Due from reinsurers	8	Stage 1	12-month ECL	9,818,016	(278,244)	9,539,772
Due from reinsurers	8	Stage 3	Lifetime ECL	843,312	(843,312)	-
Investment securities at amortized cost	10	Stage 1	12-month ECL	11,088,165	(323,111)	10,765,054

Life division:

	Note	Internal Credit Ratings	12 Month or Lifetime ECL	December 31, 2018 Gross Carrying Amount LBP'000	Loss Allowance LBP'000	Net Carrying Amount LBP'000
Cash and banks	5	Stage 1	12-month ECL	48,822,609	(77,499)	48,745,110
Insurance receivables	6	Stage 2	Lifetime ECL	4,744,101	(2,551)	4,741,550
Insurance receivables	6	Stage 3	Lifetime ECL	770,758	(770,758)	-
Due from reinsurers	8	Stage 1	12-month ECL	1,863,388	(90)	1,863,298
Investment securities at amortized cost	10	Stage 1	12-month ECL	12,950,264	(284,238)	12,666,026

Movement of the allowance for expected credit losses

The movement of the allowance for expected credit losses for all class for financial assets during 2018 is summarized as follows:

General departments

	Insurance and other Receivables LBP'000	Due from Reinsurers LBP'000	Cash and Banks LBP'000	Investment Securities at Amortized Cost LBP'000	Deferred Tax LBP'000	Total LBP'000
Balance at December 31, 2017	17,267,582	1,021,401	-	-		18,288,983
Effect of adoption of IFRS9- Note 2.3	10,239,855	307,014	606,709	308,036	(46,840)	11,414,774
Balance at January 1, 2018	27,507,437	1,328,415	606,709	308,036	(46,840)	29,703,757
Net charge for the year	3,492,356	(87,959)	(162,322)	61,646	-	3,303,721
Write-off	(2,320,256)	(118,900)	-	(46,571)	-	(2,485,727)
Balance at December 31, 2018	28,679,537	1,121,556	444,387	323,111	(46,840)	30,521,751

Life division:

	Insurance and other Receivables LBP'000	Due from Reinsurers LBP'000	Cash and Banks LBP'000	Investment Securities at Amortized Cost LBP'000	Other Assets LBP'000	Deferred Tax LBP'000	Total LBP'000
Balance at December 31, 2017	-	-	-	-	-	-	-
Effect of adoption of IFRS9 – Note 2.3	752,680	90	83,011	231,763	8,619	(139,581)	936,582
Balance at January 1, 2018	752,680	90	83,011	231,763	8,619	(139,581)	936,582
Net charge for the year	20,629	-	(5,512)	52,475	(3,694)		63,898
Balance at December 31, 2018	773,309	90	77,499	284,238	4,925	(139,581)	1,000,480

36. CAPITAL MANAGEMENT

The Group manages its capital to ensure the Group's ability to continue as a going concern, while maximizing the return through the optimization of the liabilities and equity balance. The Group manages the capital structure and makes the necessary revisions, in light of changes in the economics of the business and the market conditions, and the risk characteristics of operations and underlying assets. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of liabilities (excluding provision for contingencies and offset by cash and cash equivalents) and equity of the Group. The Group monitors the capital risk on the basis of the ratio of net liabilities to equity. The ratio as at December 31, 2018 and 2017 was as follows:

	December 31,	
	2018 LBP'000	2017 LBP'000
Liabilities (excluding provision for contingencies)	480,189,314	461,234,539
Less: Cash and cash equivalents	(68,052,644)	(72,205,484)
Net liabilities	412,136,670	389,029,055
Total equity	144,274,772	149,597,731
Gearing Ratio	2.86	2.60

37. CONTINGENT LIABILITIES

The Group is contingently liable as at December 31, 2018 and 2017 in respect of guarantees aggregating to LBP24.7billion and LBP25.4billion respectively, issued in accordance with legal requirements as security to policies issued (general and life). The majority of these guarantees are covered by pledged funds deposited by the Group with the banks issuing these guarantees.

Similar to other insurers, the Group is subject to litigations in the normal course of its business. The Group does not believe that such litigations will have a material effect on its profit or loss and financial position.

On September 9, 2017, the Higher Appeal Committee (HAC) in the Kingdom of Saudi Arabia issued its resolution with respect to the appeal submitted by the General Authority of Zakat and Tax (GAZT) against the resolution of the Primary Objection Committee which was issued on August 5, 2014 in favor of the Group in connection to the tax assessment of Arabia Insurance International Company's branches in Saudi Arabia for fiscal years 2005 to 2008. The outcome of the HAC resolution resulted in confirming the Primary Objection Committee decision which was against the tax assessment for the years 2005 to 2007 but approved the appeal of the GAZT with respect to the year 2008 for an additional tax liability of SAR3,918,860 (C/VLBP1.57billion) in addition to late penalties of SAR4,075,615 (C/VLBP1.64billion) up to October 31, 2017, which are covered by the provision for contingencies reflected under liabilities in the consolidated statement of financial position as at December 31, 2018. The Group's management rejected the HAC's resolution with respect to the tax assessment for the year 2008 and submitted an appeal on the HAC's decision in front of the Board of Grievances (BOG). The outcome of this appeal is still unknown.

38. NON CASH TRANSACTIONS

The following non cash transactions relating to investing and financing activities were excluded from the statement of cash flows of the general insurance and the life division for 2018 and 2017:

General Insurance Departments:

- The net change in fair value of investment securities at fair value through other comprehensive income amounted to LBP5.27billion during the year 2018 (LBP9.98billion for the year 2017) of which fair value loss of LBP2.3billion (LBP157million for the year 2017) related to non-controlling interests against investment securities.

- Distribution of remunerations to the Board of Directors, Investment Committee, and Audit Committee in the amount of LBP326million (LBP321million in 2017) from the treasury shares.

Life Division:

- The net fair value loss of investment securities at fair value through other comprehensive income amounted to LBP100million during the year 2018 (fair value loss of LBP48million for the year 2017) against investment securities.

39. OTHER RESTRICTED RESERVE

General insurance departments:

In accordance with Article 10(bis) (b) amended by Capital Market Authority decision No. 19/2007 of the Oman Insurance Companies executive regulation, 10% of the outstanding claims as of year-end, if reporting profits, is transferred to a contingency reserve, until such reserve becomes equal to RO 5,000,000. In this respect an amount of LBP6.41billion was accumulated under "Other restricted reserve" as of December 31, 2016.

Life division:
In accordance with Article 10(bis) (c) amended by Capital Market Authority decision No. 19/2007 of the Oman Insurance Companies executive regulation, 1% of the annual life premiums, if reporting profits, is transferred to a contingency reserve, until such reserve becomes equal to RO 5,000,000. This contingency reserve shall be allocated to meet any underwriting loss that might occur in the life assurance division in any one year. In this respect an amount of LBP234million was accumulated under "Other restricted reserve" as of December 31, 2016.

During the year 2017 and as a result of the transfer of the insurance portfolio, assets and liabilities of the Group's branches in Oman to Arabia Falcon Insurance Company (see note 40), these restricted reserves became unrestricted and transferred to retained earnings.

During the year 2018, the Group transferred to other restricted reserve an amount of LBP1.58billion related to AFIC in accordance with the above regulations.

40. ACQUISITION OF A SUBSIDIARY

Effective March 28, 2017, the Group acquired 54.29% in the share capital of Falcon Insurance Company SAOC ("FIC"), an insurance company registered in Sultanate of Oman, pursuant to the Share Sale and Purchase agreement ("SPA") dated December 22, 2016, for a total cash consideration of LBP26.08billion. Simultaneously with the SPA, the Group acquired additional 17.42% in the share capital of FIC through the issue of FIC's new equity shares in consideration for the insurance portfolio, business, assets and liabilities of the Group's Oman branches valued at LBP28.9billion, pursuant to the Business Transfer Agreement ("BTA") dated December 22, 2016.

The acquisitions resulted in a goodwill of LBP5.05billion recognized by the Group.

Following the above, the name of FIC was changed to Arabia Falcon Insurance Company ("AFIC").

Below are the fair value of the assets and liabilities of AFIC (Life and Non-life) on the date of acquisition (After the transfer of the assets and liabilities of the Group's Oman branches):

	March 28, 2017
	C/V LBP'000
ASSETS	
Property and equipment	393,961
Provisional goodwill	3,721,328
Deferred tax asset	231,076
Other intangible assets	460,668
Available-for-sale financial assets	14,799,410
Held to maturity investments	4,304,905
Term deposits	82,245,355
Reinsurer's share in insurance funds	37,879,747
Financial assets at fair value through profit or loss	13,706,700
Insurance and other receivables	24,630,389
Cash and cash equivalents	14,896,971
Total assets	197,270,510
LIABILITIES	
End of service benefits	1,465,198
Insurance funds	99,923,635
Reinsurance contract payables	15,412,965
Claims and other payables	10,283,976
Payable to related party	494,587
Taxation	58,457
Total liabilities	127,638,818
Net asset value	69,631,692
% acquired by the Group	71.71%
Group share	49,931,019
Non-controlling interests share	19,700,673
Total consideration paid in cash	26,081,853
Total consideration in kind- fair value of Oman Branches	28,895,271
Total consideration	54,977,125
Goodwill arising on acquisition	5,046,105

Below are the fair value of the assets and liabilities of FIC only (Life and non-life) on the date of acquisition (before the transfer of the assets and liabilities of the Group's Oman Branches):

	March 28, 2017 C/V LBP'000
ASSETS	
Property and equipment	293,790
Deferred tax asset	225,518
Other intangible assets	460,668
Available-for-sale financial assets	14,788,973
Term deposits	30,204,517
Reinsurers' share in insurance funds	34,695,581
Financial assets at fair value through profit or loss	12,329,318
Insurance and other receivables	16,435,505
Cash and cash equivalents	12,995,483
Total assets	122,429,353
LIABILITIES	
End of service benefits	553,172
Insurance funds	59,472,012
Reinsurance contract payables	15,158,999
Claims and other payables	6,508,735
Total liabilities	81,692,918
Net asset value	40,736,435

The net cash outflow on acquisition of the above subsidiary is as follows:

	December 31, 2017 LBP'000
Consideration paid in cash	26,081,853
Less: cash and cash equivalent balances acquired	(12,995,483)
	13,086,370

During 2017, the Group sold 2% of its ownership interest in AFIC for a total consideration of LBP1.51billion which resulted in a gain on sale in the amount of LBP137million credited to retained earnings.

During 2018, the Group sold 5.05% of its ownership interest in AFIC through an initial public offering for a total consideration of LBP3.9billion, which resulted in a gain on sale in the amount of LBP199million credited to retained earnings.

41. PARTICIPATION IN SYNDICATES AND INSURANCE POOLS

The Group participates in the Arab War Risk Insurance Syndicate (AWRIS), an insurance syndicate registered in Bahrain, specializing in War Risk Insurance and composed of group of insurance companies that share profits proportionally in accordance with each company's ceded premiums' share to the total premiums of the syndicate.

The Group also participates in the accumulated "Syndicate" and "Contingency" reserves of "AWRIS", noting that this participation in reserves is only due to the Group upon its withdrawal from the Syndicate or upon the liquidation of the Syndicate, after recalculating the value of participation at that date and based on certain contractual conditions.

During 2017, and following to the decision of the General Assembly of the Syndicate, the "Syndicate's reserve" was merged with the "Contingency reserve" under the name of "Syndicate's General Reserve" under the Members' equity of the Syndicate to form a total balance of USD158.5million as of December 31, 2017 of which the Group share amounted to USD5.45million.

In addition to above, the Group participates in other syndicates and insurance pools, the most important of which are:

- The Lebanese Insurance Pool of The Orange Card
- The Lebanese Insurance Pool of Engineering Risks
- Bankers Blanket Bond Pool

The profits of these participations are recorded in the related insurance branches.

42 PRIOR YEAR ADJUSTMENTS

General Insurance Departments:

During 2018, the Group adjusted retrospectively the fair value of its share in the Members' equity of the Arab War Risk Insurance Syndicate (AWRIS) in the amount of LBP7.1billion as of December 31, 2017 following to the decision of the General Assembly of the Syndicate to merge the "Contingency reserve" with the Syndicate's General Reserve under the Members' equity of the Syndicate during 2017 (note 41), by restating the investment at fair value through other comprehensive income as of December 31, 2017 by LBP7.1billion against the cumulative change in fair value of investment at FVTOCI in "OCI" under equity as follows:

	As Previously Reported LBP'000	Restatement LBP'000	As Restated LBP'000
As at December 31, 2017			
Investment securities at FVTOCI	72,388,213	7,124,502	79,512,715
Cumulative change in fair value of investment securities at FVTOCI	(2,031,956)	6,412,052	4,380,096
Deferred tax liabilities	1,100,934	712,450	1,813,384

Life division:

During 2018, the Group determined that the saving component related to uncollected unit-linked/universal insurance contracts written in prior years should not have been recorded as income. The error was corrected by restating the statement of financial position as at December 31, 2017 and January 1, 2017. The statement of profit or loss for the year ended December 31, 2017 has not been restated as the error had an immaterial negative impact of LBP856million on 2017 profit or loss. Impact of the prior year error on the statement of financial position is as follows:

	As Previously Reported LBP'000	Restatement LBP'000	As Restated LBP'000
As at December 31, 2017			
Insurance receivable	8,756,881	(5,242,150)	3,514,731
Retained earnings	29,690,713	(5,242,150)	24,448,563
As at January 1, 2017			
Insurance receivable	6,545,663	(4,385,608)	2,160,055
Retained earnings	25,072,219	(4,385,608)	20,686,611