

BLC BANK S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2019

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BT 30714/DTT

INDEPENDENT AUDITORS' REPORT

To the Shareholders
BLC Bank S.A.L.
Beirut, Lebanon

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of BLC Bank S.A.L. (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at December 31, 2019, and the 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 a summary of significant accounting policies and other explanatory information.

We do not express an opinion on the accompanying consolidated financial statements of the Group for the year ended December 31, 2019. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

1. We draw attention to Notes 1 and 4 to the accompanying consolidated financial statements, concerning the Group's ability to continue as a going concern. There is currently a high degree of uncertainty surrounding the Lebanese banking industry and the Lebanese economy as a whole which has been triggered by the following events:
 - business disruption since the last quarter of 2019;
 - a series of Lebanese sovereign credit risk downgrades which started to deteriorate since the last quarter of 2019 and reached a default credit risk rating (to category "RD") by all major rating agencies in March 2020, after years of a stable credit risk rating at "B" category;

- restrictions on the movement and withdrawal of funds in foreign currencies;
- the inability to transfer foreign currency funds outside Lebanon;
- the sharp fluctuation in the foreign currency exchange rates and creation of parallel markets with a wide range of price variances;
- subsequent to the reporting date, on March 7, 2020, the Lebanese Government announced its decision to default on the 6.375% US\$1,200,000,000 bonds due on March 9, 2020;
- an announcement on March 23, 2020 by the Lebanese Government to discontinue payments on all of its US Dollars denominated Eurobonds;
- further deterioration in the market value of Lebanese Government bonds to junk status, resulting in the majority of the valuation of financial assets being adversely impacted in Lebanon;
- prolonged severe inactivity in capital markets rendering markets illiquid; and
- a devastating deadly blast occurred on August 4, 2020 at the Beirut seaport causing severe property damages across a wide area of the capital along with a large number of casualties, aggravating the financial crisis prevailing in the country.

As the situation is rapidly evolving, the effect of the default of the Lebanese Government along with the published Lebanese Government financial recovery plan, has exposed the banking system to a significant degree of uncertainty, with the magnitude of the possible adverse effects on the Lebanese economy, the banking sector and the Group, currently unknown.

The audit evidence available to us to confirm the appropriateness of preparing the consolidated financial statements on a going concern basis was limited due to the severity of the uncertainties noted above as applicable to the Group and within the banking sector as a whole in Lebanon resulting from the overwhelming systemic risk which could impact the assessment of solvency risk; liquidity and funding risk; currency risk; credit risk and profitability, and the related future actions and mitigation plans and factors.

This situation indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and in the absence of any alternative evidence available to us, we have been unable to form a view as to the applicability of the going concern basis, the circumstances of which, together with the effect on the consolidated financial statements should this basis be inappropriate, could result in the Group being unable to realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements do not adequately disclose this fact.

Notwithstanding the above basis for a disclaimer of opinion, we identified the following departures from the requirements of IFRS that have a material and pervasive impact on the consolidated financial statements and that would have otherwise resulted in an adverse auditors' opinion:

2.a We draw attention to Note 3 to the accompanying financial statements which states that these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Included in the consolidated statement of financial position at December 31, 2019, are net financial assets measured at amortized cost and debt securities measured at fair value through other comprehensive income amounting to LBP2,631billion(ECL of LBP45billion), which have significant exposure to sovereign debt in both Lebanese Pounds and foreign currencies; foreign currency deposits with and certificates of deposit issued by the Central Bank of Lebanon which are credit impaired as at 31 December 2019 due to the current uncertainty in the Lebanese banking industry and the Lebanese economy as a whole.

Consequently the Group has not recognized the appropriate level of impairment losses under the expected credit loss model in relation to these financial assets, which constitutes a significant departure from IFRS 9 *Financial Instruments*. It is not possible to determine with reasonable certainty the exact value of the impairment losses as the Group has not performed an updated expected credit loss assessment considering the factors noted above. In these circumstances, we are unable to quantify the effect of the departure from the accounting standard and in our opinion the effects would be both material and pervasive to the consolidated financial statements as a whole.

2.b Furthermore, as a result of the monetary and economic crisis, the credit quality of the loans and advances portfolio predominantly concentrated in Lebanon has deteriorated since the last quarter of 2019. Management is currently reviewing the credit staging of its loan portfolio taking into account the circumstances and available information at the reporting date, the impact of which cannot be determined at present but expected to be significant.

3.a The Group's financial assets at fair value, which are carried in the consolidated statement of financial position at LBP133.6billion, include financial assets at fair value of LBP97.5billion which are issued by the Lebanese Government as well as corporate entities domiciled in the Republic of Lebanon. Management has stated the aforementioned financial assets at fair value by using inputs into the determination of fair value which are not indicative of economic reality and market conditions existing at the reporting date, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount.

3.b Management has not disclosed in the consolidated financial statements the fair value of its financial assets and financial liabilities measured at amortized cost and the valuation techniques as required by IFRS 13 *Fair Value Measurement*, which constitutes a departure from IFRSs. We were unable to determine the fair value or the details which should be disclosed in the financial statements.

Other Matter

With reference to Article 107 of the Lebanese Code of Commerce and given the adverse circumstances discussed in the Basis for Disclaimer of Opinion above and disclosed under Note 1 to the accompanying consolidated financial statements, we do not recommend that the Board of directors approve any distribution of dividends to any class of shares.

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

The Board of directors and those charged with governance (referred to hereafter as “management”) are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group’s consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor’s report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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 consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Beirut, Lebanon
September 23, 2020


DFK Fiduciaire du Moyen Orient


Deloitte & Touche

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Cash and Central Bank	5	1,959,272,028	1,637,968,787
Deposits with banks and financial institutions	6	41,369,161	289,058,665
Loan to a bank	7	2,078,252	2,757,003
Investment securities at fair value through profit or loss	9	36,107,719	55,466,243
Loans and advances to customers	8	2,071,600,987	2,422,662,239
Investment securities at amortized cost	9	2,213,812,236	2,574,437,894
Investment securities at fair value through other comprehensive income	9	97,495,880	113,508,874
Customers' liability under acceptances	11	27,988,048	31,939,846
Assets acquired in satisfaction of loans	12	83,976,041	83,861,346
Right-of-use assets	13	22,349,593	-
Property and equipment	14	94,881,950	89,895,039
Intangible assets	15	4,618,351	4,342,575
Other assets	16	31,498,428	25,999,673
		<u>6,687,048,674</u>	<u>7,331,898,184</u>
Assets classified as held for sale	17	21,732,835	1,297,343,966
Total Assets		<u>6,708,781,509</u>	<u>8,629,242,150</u>
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:	36		
Letters of guarantee and standby letters of credit		123,875,508	149,012,881
Letters of credit		4,374,695	9,375,750
Forward exchange contracts		39,311,870	31,502,379
FIDUCIARY ACCOUNTS	37	7,228,463	14,313,713
ASSETS UNDER MANAGEMENT	38	-	14,285,795

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

<u>LIABILITIES</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Deposits from banks	18	173,746,297	149,157,009
Customers' accounts	19	5,310,511,959	5,891,381,129
Liability under acceptances	11	28,332,312	32,326,606
Other borrowings	20	347,826,103	404,460,408
Lease liabilities	13	22,065,854	-
Other liabilities	21	66,284,074	78,932,994
Provisions	22	20,475,746	19,926,438
		<u>5,969,242,345</u>	<u>6,576,184,584</u>
Liabilities directly associated with assets classified as held for sale	17	769,393	1,172,758,271
Total liabilities		<u>5,970,011,738</u>	<u>7,748,942,855</u>
<u>EQUITY</u>			
Capital	23	214,000,000	213,650,000
Preferred shares	24	152,786,633	152,786,633
Treasury shares	25	(75,787,285)	-
Reserves	26	198,156,339	176,028,131
Regulatory reserve for assets acquired in satisfaction of loans	26	64,981,187	62,192,827
Brought forward retained earnings		226,124,529	201,383,390
Cumulative change in fair value of investments at fair value through other comprehensive income		5,532,268	5,978,157
Net (loss)/profit for the year		(48,116,693)	61,748,513
Equity attributable to equity holders of the Bank		<u>737,676,978</u>	<u>873,767,651</u>
Non-controlling interests		<u>1,092,793</u>	<u>6,531,644</u>
Total equity		<u>738,769,771</u>	<u>880,299,295</u>
Total Liabilities and Equity		<u>6,708,781,509</u>	<u>8,629,242,150</u>

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<u>Notes</u>	<u>Year Ended December 31,</u>	
		<u>2019</u>	<u>2018</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Continuing operations:			
Interest income		506,436,493	475,737,145
<u>Less: Tax on interest</u>		(22,606,098)	(14,236,906)
Interest income, net of tax	28	483,830,395	461,500,239
Interest expense	29	(403,954,752)	(328,019,646)
Net interest income		<u>79,875,643</u>	<u>133,480,593</u>
Fee and commission income	30	29,025,392	30,663,421
Fee and commission expense	31	(2,285,054)	(3,221,814)
Net fee and commission income		<u>26,740,338</u>	<u>27,441,607</u>
Net interest income and other gain on investment securities at fair value through profit or loss, net	32	816,126	4,527,410
Other operating income	33	<u>3,251,942</u>	<u>5,837,600</u>
Net financial revenues		<u>110,684,049</u>	<u>171,287,210</u>
(Allowance for)/write-back of expected credit losses, net	41	(54,104,711)	7,077,923
Direct write-off of loans and advances, net		(19,860)	(19,822)
Net financial revenues after net expected credit losses		56,559,478	178,345,311
Net gain on disposal of property and equipment and properties acquired in satisfaction of loans	12	1,423,797	597,111
Allowance for risks and charges, net	22	(186,000)	(4,011,000)
Staff costs	34	(65,284,814)	(67,455,554)
General and administrative expenses	35	(26,876,465)	(31,987,051)
Depreciation and amortization	14, 15	(7,303,350)	(6,399,721)
Depreciation of right-of-use assets	13	(2,991,207)	-
(Loss)/profit before income tax		(44,658,561)	69,089,096
Income tax expense	21	(3,360,192)	(7,277,359)
(Loss)/profit for the year from continuing operations		<u>(48,018,753)</u>	<u>61,811,737</u>
Discontinued operations:			
Adjustments on disposal group carrying amount		-	10,606,424
Loss from discontinued operations		-	(10,606,424)
Profit for the year from discontinued operations	17	<u>-</u>	<u>-</u>
(Loss)/profit for the year		<u>(48,018,753)</u>	<u>61,811,737</u>
Attributable to:			
Equity holders of the Bank		(48,116,693)	61,748,513
Non-controlling interests		<u>97,940</u>	<u>63,224</u>
		<u>(48,018,753)</u>	<u>61,811,737</u>

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<u>Notes</u>	Year Ended December 31,	
		2019	2018
		LBP'000	LBP'000
(Loss)/profit for the year		(48,018,753)	61,811,737
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net change in fair value of equity securities at fair value through other comprehensive income		-	2,777,490
Deferred tax	21	-	(472,174)
		-	2,305,316
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of debt securities at fair value through other comprehensive income (net of tax)		(534,923)	(3,556,185)
Deferred tax	21	89,034	415,390
Currency translation adjustments		-	(212,501)
		(445,889)	(3,353,296)
Total other comprehensive loss		(445,889)	(1,047,980)
Total comprehensive (loss)/income for the year		(48,464,642)	60,763,757
Attributable to:			
Equity holders of the Bank		(48,562,582)	60,700,533
Non-controlling interests		97,940	63,224
		(48,464,642)	60,763,757

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.

Attributable to Equity Holders of the Bank

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31,	
		2019 LBP'000	2018 LBP'000
Cash flows from operating activities:			
Net (loss)/profit for the year		(48,018,753)	61,811,737
Adjustments for:			
Allowance for/(write-back of) expected credit losses	41	54,104,711	(7,077,923)
Depreciation and amortization	14, 15	7,303,350	6,399,721
Depreciation of right-of-use	13	2,991,207	-
Allowance for risk and charges (net)	22	186,000	4,011,000
Provision for end-of-service indemnities (net)	22	577,773	2,578,474
Allowance for/(write-back of) provision for loss on foreign currency position	22	901,398	(66,527)
Unrealized loss on investments at fair value through profit or loss	32	222,343	51,346
Income tax expense	21	3,360,192	7,277,359
Loss on disposal of property and equipment		7,922	60,845
Gain on disposal of property acquired in satisfaction of loans	12	(1,431,719)	(657,956)
Dividend income	32, 33	(2,113,583)	(2,149,366)
Interest expense	29	403,954,752	328,019,646
Interest income	28, 32, 39	(484,422,009)	(456,566,618)
Net decrease/(increase) in loans and advances to customers	39	(62,376,416)	(56,308,262)
Net decrease in investments at fair value through other comprehensive income	39	311,561,082	(77,051,076)
Net decrease in investments at fair value through profit or loss	39	15,299,001	15,532,995
Net decrease in investments at amortized cost	39	18,961,180	53,265,547
Net decrease in customers' deposits	39	322,341,111	384,143,986
Net decrease in compulsory deposits with the Central Bank		(582,970,787)	(21,429,762)
Net increase/(decrease) in margin with banks		8,088,084	5,310,600
Net increase in term deposits with Central Bank		3,800,352	(1,567,800)
Net decrease in term deposits with a related bank		(276,782,618)	(333,395,862)
Net increase in deposits from banks		-	22,796,789
Net increase in deposits from banks		24,763,106	80,644,700
Net increase in other assets		(7,776,898)	(3,009,898)
Net decrease in other liabilities		(11,244,494)	(5,414,196)
Proceeds from disposal of assets acquired in satisfaction of loans	39	2,368,276	836,662
Settlements made from provisions	22	(2,247,789)	(1,807,681)
Income tax paid		(236,216,810)	62,546,742
Dividends received from investments at fair value through profit or loss		(4,710,054)	(12,265,958)
Dividends received from investments at fair value through other comprehensive income	32	429,627	430,386
Interest paid	33	1,683,956	1,718,980
Interest received		(400,375,516)	(322,401,981)
Net cash (used in)/generated from operating activities		487,171,323	452,193,464
		(152,017,474)	182,221,633
Cash flows from investing activities:			
Proceeds from disposal of property and equipment		2,444	1,555
Proceeds from disposal of a subsidiary	17	98,101,015	-
Acquisition of property and equipment		(11,093,575)	(14,485,193)
Acquisition of intangible assets		(1,482,828)	(3,755,601)
Net cash generated from/(used in) investing activities		85,527,056	(18,239,239)
Cash flows from financing activities:			
Dividends paid	27	(10,296,396)	(11,193,187)
Settlement of lease liabilities	13	(2,840,988)	-
Issuance of preferred shares	24	-	39,724,132
Redemption of preferred shares series C	24	-	(52,762,500)
Net decrease in loan to a bank		700,000	700,000
Acquisition of treasury shares	25	(75,787,285)	-
Net (decrease)/increase in other borrowings	20	(56,441,557)	29,091,500
Net cash (used in)/generated from financing activities		(144,666,226)	5,559,945
Net (decrease)/increase in cash and cash equivalents		(211,156,644)	169,542,339
Effect of foreign currency fluctuation and other adjustments		(240,456)	5,453,868
Cash and cash equivalents beginning of year	39	471,594,874	296,598,667
Cash and cash equivalents end of year	39	260,197,774	471,594,874

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

1. GENERAL INFORMATION

BLC Bank S.A.L., (the “Bank”), is a Lebanese joint stock company registered in the Commercial Register under No. 1952 and in the Central Bank of Lebanon list of banks under No. 11. The consolidated financial statements of the Bank comprise the financial statements of the Bank and those of its subsidiaries (collectively the “Group”). The Group is primarily involved in investment, corporate and retail banking.

The Bank’s headquarters are located in Beirut, Lebanon.

The consolidated subsidiaries consist of the following as at December 31:

	<u>Ownership Interest</u>		<u>Country of Incorporation</u>	<u>Business Activity</u>
	<u>2019</u>	<u>2018</u>		
	<u>%</u>	<u>%</u>		
BLC Finance S.A.L.	99.04	98.99	Lebanon	Financial Institution
BLC Services S.A.L.	90.67	90.67	Lebanon	Insurance Brokerage
USB Holdings PLC (classified as held for sale in 2017 formerly USB Bank PLC)	99.25	99.25	Cyprus	Commercial bank
BLC Invest S.A.L. (Established in 2012 and under liquidation since 2017)	-	-	Lebanon	Entity under liquidation

Fransabank S.A.L. is the ultimate parent of the Bank.

In its meeting held on August 16, 2018, the Board of Directors resolved to sell its investment in USB Bank PLC to AstroBank Limited, a Cyprus registered Bank, which is owned by a group of investors including Sehnaoui group.

In conjunction with the sale, BLC Bank S.A.L. bought-back 10% of its own shares that were owned by Sehnaoui Holding for an aggregate amount of USD43million and EUR6.5million.

The Macro Economic Environment

The unprecedented severe financial, economic and monetary crisis that Lebanon has been witnessing since October 2019 has significantly increased credit, liquidity, market and operational risks. Banks limited foreign currency withdrawals and restricted transfers overseas. During December 2019, there was a credit risk rating downgrade by a rating agency of certain local rated banks to “C” category. Sharp fluctuation in the market foreign currency exchange rate and the creation of parallel markets with a wide range of price variance were witnessed in comparison to the official peg of LBP1,507.50 to the US Dollar.

Furthermore, the sovereign credit risk rating started to witness consecutive downgrading by all major rating agencies to reach the level of default on March 7, 2020, when the Lebanese Government announced that it will withhold payment on the bonds due on March 9, 2020, followed by another announcement on March 23, 2020 for the discontinuation of payments on all of its US Dollars denominated Eurobonds. This led to a further deterioration in the market value of Lebanese Government bonds to reach junk status. The market value of all other financial assets has also been adversely impacted.

On April 30, 2020, the Lebanese Council of Ministers approved the Lebanese Government's Financial Recovery Plan (the Plan) which includes among other items, reviewing the peg policy, restructuring of the government debt, restructuring of the financial system and the banking sector, and international financial assistance. On May 1, 2020, a formal request for support from the International Monetary Fund (IMF) was addressed to the IMF and discussion is still ongoing at the date of issue of the financial statements with no progress made so far.

In this respect the Association of Banks in Lebanon (ABL) has challenged the Government's Plan for many uncertainties associated with the Plan and the assumptions made in it. The ABL submitted an alternative approach to tackling the Lebanese economic crisis in general and the banking crisis in particular.

On August 4, 2020, a devastating deadly explosion occurred in the seaport of Beirut which resulted in, in addition to loss of lives, severe widespread property damage in a large area of Beirut, aggravating the economic, financial and social crisis.

As a result of the above adverse factors, the Lebanese economy has been contracting since the last quarter of 2019. The crisis has been intensified by the negative impact of the explosion in the seaport of Beirut and COVID-19 pandemic affecting Lebanon and the world leading to further deterioration of the economic environment, disruption of business operations and regular banking practices, rise of unemployment and social unrest.

The Group's Financial particulars

Assets and liabilities in foreign currency as of December 31, 2019, as presented in the consolidated financial statements, were converted into Lebanese Pound at the official exchange rate of USD1 = LBP1,507.5 which significantly varies from the exchange rates in the parallel markets.

Loss allowances on deposits with banks, deposits with and certificates of deposit issued by the Central Bank of Lebanon in foreign currencies, and Lebanese government securities held at amortized cost or at fair value through other comprehensive income have not been assessed and determined in accordance with International Financial Reporting Standard (IFRS) 9 expected credit losses requirements and models, given the uncertainties surrounding the Government debt restructuring and the impact thereof on the exposure in foreign currencies with the Central Bank of Lebanon, and the absence of observable data in the financial market, therefore impacting Management's ability to make adequate impairment assessment.

Fair values of financial assets originated in Lebanon have been determined by the Group using notional prices quoted on inactive and illiquid markets or using yield curves that are not reflective economic reality and of market conditions. In the absence of reliable data, the Group did not disclose the fair value of financial assets measured at amortized cost as required by IFRS 13 *Fair Value Measurements*.

The adverse economic conditions and the severe recession, resulted in a significant deterioration of the credit quality of the customers' loans portfolio concentrated in Lebanon since the last quarter 2019 despite the drop in the customers' loans portfolio. The Group's credit assessment of the customers' loans portfolio is based on information available to management which did not take into account the circumstances prevailing as a result of the economic crisis and recession which has intensified as a result of the Covid 19 pandemic.

The downgrade of sovereign credit rating, the increase in credit, liquidity, market and operational risks across all business sectors, the de-facto capital controls and restrictions on transfers of foreign currency overseas exposing the banking sector to litigation, the current and future possible changes to fiscal, economic and political conditions as well as changes to the legal and regulatory landscape in the Republic of Lebanon stemming from the above events and the declared Government's Recovery Plan have led to significant uncertainties and the full range of effects on the banking sector in general and on the Group's financial standing is unknown as of and beyond December 31, 2019.

Management has significant concerns about the effects that the above matters will have on the equity of the Group and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.

The Group's Management's current strategy is to continue operations with limited scope of services and transactions, similarly to the banking sector as a whole, as they have since October 17, 2019.

As disclosed in Note 44 to these consolidated financial statements, the Group's capital adequacy ratio as at December 31, 2019, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties reflected above once these uncertainties become reasonably quantifiable.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs and amendments to IFRSs and Interpretations, which became effective for annual periods beginning on or after January 1, 2019, have been adopted in these consolidated financial statements.

2.1.1 IFRS 16 Leases

In the current year, the Group, for the first time, has adopted IFRS 16 Leases (as issued by the IASB in January 2016). The standard replaces the existing guidance on leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor. The impact of the adoption of IFRS 16 on the Group's financial statements is described below.

The date of initial application of IFRS 16 for the Group is January 1, 2019.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. Therefore, there is no cumulative effect of applying the standard as an adjustment to the opening balance of retained earnings at January 1, 2019, nor a restatement of the comparative information.

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before January 1, 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use) to all lease contracts entered into or modified on or after January 1, 2019. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

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

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

Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

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

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

Applying IFRS 16, for all leases (except as noted below), the Group:

- a) recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
- b) recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
- c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Financial impact of initial application of IFRS 16

The requirements of IFRS 16 was applied to these leases from January 1, 2019. The effect of adoption IFRS 16 as at January 1, 2019 (increase/(decrease)) is as follows:

	December 31, 2018	Impact of IFRS16	January 1, 2019
	LBP'000	LBP'000	LBP'000
Right-of-use assets	-	25,340,800	25,340,800
Other assets	25,999,673	(2,278,143)	23,721,530
Lease liability	-	(23,062,657)	(23,062,657)
Effect on net assets and liabilities and net impact on equity		-	

Based on the foregoing, as at January 1, 2019:

- Right-of-use assets of LBP25.3billion were recognised and presented within right-of-use assets in the consolidated statement of financial position.
- Lease liabilities of LBP23.1billion were recognised and presented within lease liability in the consolidated statement of financial position.
- Other assets of LBP2.3billion related to previous operating leases were derecognized.

2.2 New and amended IFRS applied with no material effect on the financial statements

The following new and revised standards and interpretations have been applied in the current period with no material impact on the disclosures and amounts reported for the current and prior periods, but may affect the accounting for future transactions or arrangements:

- Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.
- Amendments to IFRS 9 *Financial Instruments*: Related to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
- Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- IFRIC 23 Uncertainty over Income Tax Treatments
 - The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
 - Whether tax treatments should be considered collectively;
 - Assumptions for taxation authorities' examinations;
 - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
 - The effect of changes in facts and circumstances

2.3 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Definition of Material - Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'	January 1, 2020
<i>Amendments to IAS 1 Presentation of Financial Statements</i> Amendments regarding the classification of liabilities	January 1, 2023
Definition of a Business – Amendments to IFRS 3 <i>Business Combinations</i> The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	January 1, 2020
<i>Amendments to References to the Conceptual Framework in IFRS Standards</i> Amendments to References to the Conceptual Framework in IFRS Standards related 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.	January 1, 2020
<i>IFRS 7 Financial Instruments: Disclosures and IFRS 9 — Financial Instruments</i> Amendments regarding pre-replacement issues in the context of the IBOR reform	January 1, 2020
<i>IFRS 9 — Financial Instruments</i> Amendments resulting from annual improvements to IFRS standards 2018 - 2020 (fees in the '10 per cent' test for derecognition of financial liabilities)	January 1, 2022
<i>IFRS 16 Leases</i> Amendments to provide lessees with an exemption from assessing whether a COVID -19 related rent concession is a lease modification	June 1, 2020
<i>IAS 37 Provisions, Contingent Liabilities and Contingent Assets</i> Amendments regarding the cost to include when assessing whether a contract is onerous	January 1, 2022
<i>IFRS 17 Insurance Contracts</i> IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as at January 1, 2023.	January 1, 2023

New and revised IFRSs

Effective for annual periods beginning on or after

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.

The directors anticipate that these new standards, interpretations, and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendment, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

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 and Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below:

- Land and buildings acquired prior to 1999 are measured at their revalued amounts based on market prices prevailing during 1999, to compensate for the effect of the hyper-inflationary economy prevailing in the earlier years.
- Financial assets and liabilities at fair value through profit and loss and other comprehensive income.
- Derivative financial instruments.
- Assets and liabilities classified as held for sale.

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

Summary of significant accounting policies

Following is a summary of the most significant accounting policies applied in the preparation of these consolidated financial statements:

A. Basis of Consolidation

The consolidated financial statements of BLC Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries) as at the reporting date. Control is achieved when the Bank:

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

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Bank's voting rights and potential voting rights.

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

Total comprehensive income of subsidiaries is attributed to the owners of the Bank 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 the subsidiaries to bring their accounting policies into line with those used by the Bank.

All intra-group transactions, balances, income and expenses (except for foreign currency transaction gains or loss) are eliminated on consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

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 are expensed as incurred in profit or loss.

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. Where applicable, adjustments are made to provisional values of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

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. Non-controlling interests in business acquisitions transacted so far by the Group were initially measured at the non-controlling interests' proportionate share of net assets acquired.

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. Foreign Currencies

The consolidated financial statements are presented in Lebanese Pound (LBP) which is the reporting currency of the Group. The primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's reporting 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 official 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 Pound using official exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period when this is a reasonable approximation. Exchange differences arising 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.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

D. Financial Instruments:

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day one profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

E. Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- The Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

In the current and prior reporting period the Group has applied the fair value option and so has designated debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described below.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets.

Impairment

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- deposits at banks;
- loans and advances to banks;
- loans and advances to customers;
- customers' liability under acceptances;
- debt investment securities;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased or Originated Credit Impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Exchange of securities

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date (“repos”) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified date are not recognized in the statement of financial position. The consideration paid, including accrued interest is recorded in the statement of financial position reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income in the statement of profit or loss and is accrued over the life of the agreement using the effective interest rate method.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group’s enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position

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

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

F. Financial Liabilities and Equity

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.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Group's own equity instruments.

The component parts of compound instruments (convertible notes) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments is an equity instrument.

Financial Liabilities:

Financial Liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost using the effective interest method.

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. Offsetting

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

H. Fair Value Measurement of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured by taking into account the characteristics of the asset or liability that if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

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 are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized 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.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts with embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract:

- is not measured at fair value with changes in fair value recognized in profit or loss.
- is not an asset within the scope of IFRS 9.

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.

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

K. Hedge Accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. The Group does not apply fair value hedge accounting of portfolio hedges of interest rate risk. In addition the Group does not use the exemption to continue using IAS 39 hedge accounting rules, i.e. the Group applies IFRS 9 hedge accounting rules in full.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In some hedge relationships the Group designates only the intrinsic value of options. In this case the fair value change of the time value component of the option contract is deferred in OCI, over the term of the hedge, to the extent that it relates to the hedged item and is reclassified from equity to profit or loss when the hedged item does not result in the recognition of a non-financial item. The Group's risk management policy does not include hedges of items that result in the recognition of non-financial items, because the Group's risk exposures relate to financial items only.

The hedged items designated by the Group are time-period related hedged items, which means that the amount of the original time value of the option that relates to the hedged item is amortised from equity to profit or loss on a rational basis (e.g. straight-line) over the term of the hedging relationship.

In some hedge relationships the Group excludes from the designation the forward element of forward contracts or the currency basis spread of cross currency hedging instruments. In this case a similar treatment is applied to the one applied for the time value of options. The treatment for the forward element of a forward and the currency basis element is optional and the option is applied on a hedge by hedge basis, unlike the treatment for the time value of the options which is mandatory. For hedge relationships with forwards or foreign currency derivatives such as cross currency interest rate swaps, where the forward element or the currency basis spread is excluded from the designation the Group generally recognises the excluded element in OCI.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in OCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Where hedging gains/losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVTOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. If the Group no longer expects the transaction to occur that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain/loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and accumulated in the foreign currency translation reserve.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation.

L. Non-Current Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

M. Property and Equipment

Property and equipment except for buildings acquired prior to 1999 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1999 are stated at their revalued amounts, based on market prices prevailing during 1999 less accumulated depreciation and impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of property and equipment, other than land and advance payments on capital expenditures less their residual values, if any, using the straight-line method over the useful lives estimated as follows:

	<u>%</u>
Buildings	2-4
Office improvements and installations	20
Furniture, equipment and machines	8-20
Computer equipment	20-33
Vehicles	10-20

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

N. Intangible Assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets other than goodwill are amortized on a straight line over their estimated useful lives as follows:

Computer software	5 years
Key money	15 years

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.

O. Leasing

Policy applicable before January 1, 2019:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Policy applicable after January 1, 2019:

The Group as lessee

The Group assesses whether contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the statement of financial position.

The Group applies IAS36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the “Impairment of non-financial assets” policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line ‘General and administrative expenses’ in the statement of profit or loss.

As a practical expedient, IFRS16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

P. Assets acquired in satisfaction of loans

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main circular 78, are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from Banking Control Commission approval date. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized as a separate line item in the statement of profit or loss. Gains resulting from the sale of repossessed assets are transferred to reserves to be used for capital increase starting in the following financial year.

Q. Impairment of Non-Financial Assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets, other than investment properties and deferred taxes, 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). Goodwill is tested annually for impairment. Recoverable amount is the higher of fair value less costs to sell and value in use.

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.

An impairment loss in respect of goodwill is not reversed.

R. Provision for Employees' End-of-Service Indemnity:

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were voluntary 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 monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund and interest accrued by the Fund.

S. 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 discounted where the impact is material.

T. Deferred Restricted Contributions

Restricted contributions derived from special and non-conventional deals arrangement concluded with the regulator are deferred until designated conditions for recognition are met. At the time income is received it is deferred under "regulatory deferred liability" and applied to the designated purpose according to the regulator's requirements.

U. Net Interest Income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net interest and other gain on investment securities at fair value through profit or loss'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities.

V. Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

Other fee and commission income are recognized as the related services are performed.

W. Net (loss)/income from financial assets at fair value through profit or loss

Met income from financial instruments financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL and related interest income, expense and dividends.

X. Dividend income

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

Y. 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.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of the items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax base used in the computation of taxable profit. 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.

Z. Fiduciary Accounts:

Fiduciary assets held or invested on behalf of the Group's customers on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, these deposits are reflected as off-balance sheet accounts.

AA. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with original contractual maturities of a period of three months including: cash and balances with the Central Bank and deposits with banks and financial institutions.

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 directors are required to make judgments, estimates and assumptions about the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent 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 recognized 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.

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

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Going concern:

Notwithstanding the uncertainties resulting from the events and conditions disclosed under Note 1, these consolidated financial statements have been prepared based on the going concern assumption. The Board of Directors and those charged with governance believe that they are monitoring the current situation and taking all possible attainable remediation actions under the circumstances to ensure the sustainability of the business and viability of the Group.

Business model assessment:

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (Refer to the financial assets sections of 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.

Significant increase of credit risk:

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 3 and note 41 for more details.

Establishing groups of assets with similar credit risk characteristics:

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar.

Models and assumptions used:

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 and note 42 for more details on ECL.

B. Key Sources of Estimation Uncertainty:

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Macroeconomic Factors and Forward Looking Information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

The Group's base scenario will be based on macroeconomic forecasts published by the World Bank or International Monetary Fund (IMF).

Probability of default:

PD constitutes a key input in measuring ECL. PD 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.

Loss Given Default:

LGD 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.

5. CASH AND CENTRAL BANK

This caption consists of the following:

	December 31,			
	2019		2018	
	Balance	of which Compulsory/ Regulatory Deposits	Balance	of which Compulsory/ Regulatory Deposits
	LBP'000	LBP'000	LBP'000	LBP'000
Cash on hand	17,650,581	-	33,200,339	-
Current accounts with Central Bank of Lebanon	187,214,490	67,258,845	102,282,325	75,346,929
Term placements with Central Bank of Lebanon	1,368,458,422	546,266,444	1,385,950,876	576,666,236
Term placements with Central Bank of Lebanon under leverage arrangements (Note 10)	355,792,197	-	105,988,375	-
Accrued interest receivable	31,250,492	-	17,440,545	-
	1,960,366,182	613,525,289	1,644,862,460	652,013,165
Expected credit losses (Note 41)	(1,094,154)	-	(6,893,673)	-
	1,959,272,028	613,525,289	1,637,968,787	652,013,165

Compulsory deposits under current accounts with Central Bank of Lebanon are in Lebanese Pounds and non-interest earning. These deposits are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds subject to certain exemptions, in accordance with local banking regulations. These deposits are not available for use in the Group's day-to-day operations.

Regulatory deposits under term placements with Central Bank of Lebanon are made in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and borrowings acquired from non-resident financial institutions.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Purchased checks	10,434	496,981
Current accounts with banks and financial institutions	37,354,469	219,754,019
Current accounts with the parent bank	2,115,671	3,545,626
Current accounts with related banks and financial institutions	952,223	644,433
	40,432,797	224,441,059
Term placements with banks and financial institutions	-	43,118,250
Term placements with a related bank	-	17,269,830
Blocked margins with banks and financial institutions	1,059,452	4,859,803
	1,059,452	65,247,883
Accrued interest receivable	-	4,746
	41,492,249	289,693,688
Expected credit losses (Note 41)	(123,088)	(635,023)
	41,369,161	289,058,665

Deposits with banks and financial institutions are distributed between resident and non-resident as follows:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Resident	2,695,137	5,401,797
Non-resident	38,797,112	284,291,891
	<u>41,492,249</u>	<u>289,693,688</u>

7. LOAN TO A BANK

This caption consists of the following:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Regular performing account	2,100,000	2,800,000
Accrued interest receivable	18,288	22,412
	<u>2,118,288</u>	<u>2,822,412</u>
Expected credit losses (Note 41)	(40,036)	(65,409)
	<u>2,078,252</u>	<u>2,757,003</u>

As a guarantee of the above loan, the borrower has pledged in favor of the Group regular and performing notes receivable against housing loans granted to its customers. The loan principal balance matures over 10 yearly payments of LBP700million each with final payment in year 2022.

8. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are reflected at amortized cost and consist of the following:

	December 31, 2019		
	Carrying amount	Expected credit losses	Net amount
	LBP'000	LBP'000	LBP'000
Performing Loans-Stages 1&2:			
Retail customers:			
Housing loans	536,316,092	(2,481,430)	533,834,662
Personal loans	204,051,337	(5,995,917)	198,055,420
Car loans	86,124,462	(1,545,409)	84,579,053
Credit cards	18,143,932	(347,563)	17,796,369
Educational loans	11,611,515	(47,173)	11,564,342
Staff loans	7,556,456	-	7,556,456
Private banking	1,025,577	-	1,025,577
Small and medium enterprises	270,490,617	(1,805,275)	268,685,342
Corporate	844,190,570	(48,204,685)	795,985,885
	<u>1,979,510,558</u>	<u>(60,427,452)</u>	<u>1,919,083,106</u>
Non-performing loans-Stage 3:			
Substandard	64,529,283	(13,398,543)	51,130,740
Doubtful	137,841,162	(60,253,197)	77,587,965
Bad	45,857,430	(45,640,120)	217,310
	<u>248,227,875</u>	<u>(119,291,860)</u>	<u>128,936,015</u>
	2,227,738,433	(179,719,312)	2,048,019,121
Accrued interest receivable	23,581,866	-	23,581,866
Total	<u>2,251,320,299</u>	<u>(179,719,312)</u>	<u>2,071,600,987</u>

December 31, 2018			
	Carrying amount	Expected credit losses	Net amount
	LBP'000	LBP'000	LBP'000
Performing Loans-Stages 1&2:			
Retail customers:			
Housing loans	588,130,747	(2,159,787)	585,970,960
Personal loans	262,443,393	(2,338,227)	260,105,166
Car loans	105,521,899	(844,480)	104,677,419
Credit cards	18,247,952	(339,515)	17,908,437
Educational loans	13,339,794	(104,346)	13,235,448
Staff loans	8,882,743	-	8,882,743
Private banking	10,971,569	-	10,971,569
Small and medium enterprises	322,803,931	(1,752,622)	321,051,309
Corporate	972,751,093	(11,132,062)	961,619,031
	<u>2,303,093,121</u>	<u>(18,671,039)</u>	<u>2,284,422,082</u>
Non-performing loans-Stage 3:			
Substandard	67,245,061	(13,008,995)	54,236,066
Doubtful	130,430,762	(67,820,827)	62,609,935
Bad	44,461,772	(44,043,141)	418,631
	<u>242,137,595</u>	<u>(124,872,963)</u>	<u>117,264,632</u>
	2,545,230,716	(143,544,002)	2,401,686,714
Accrued interest receivable	20,975,525	-	20,975,525
Total	<u>2,566,206,241</u>	<u>(143,544,002)</u>	<u>2,422,662,239</u>

The carrying value of loans and advances to customers includes accidentally temporary debtors with carrying value amounting to LBP21.8billion as at December 31, 2019 (LBP10.9billion as at December 31, 2018).

Loans granted to related parties amounted to LBP7.1billion as at December 31, 2019 (LBP12.6billion as at December 31, 2018).

9. INVESTMENT SECURITIES

This caption consists of the following:

	December 31,					
	2019			2018		
	LBP	C/V of	Total	LBP	C/V of	Total
	LBP'000	FCY	LBP'000	LBP'000	FCY	LBP'000
Financial assets at fair value through profit or loss	5,180,550	30,789,181	35,969,731	5,478,099	49,788,675	55,266,774
Accrued interest receivable	-	137,988	137,988	-	199,469	199,469
	<u>5,180,550</u>	<u>30,927,169</u>	<u>36,107,719</u>	<u>5,478,099</u>	<u>49,988,144</u>	<u>55,466,243</u>
Financial assets at fair value through other comprehensive income	57,716,787	38,833,460	96,550,247	61,376,141	50,667,665	112,043,806
Accrued interest receivable	766,944	178,689	945,633	791,984	673,084	1,465,068
	<u>58,483,731</u>	<u>39,012,149</u>	<u>97,495,880</u>	<u>62,168,125</u>	<u>51,340,749</u>	<u>113,508,874</u>
Financial assets at amortized cost	965,371,514	1,214,910,500	2,180,282,014	1,128,931,836	1,393,400,020	2,522,331,856
Accrued interest receivable	27,525,980	6,004,242	33,530,222	34,907,190	17,198,848	52,106,038
	<u>992,897,494</u>	<u>1,220,914,742</u>	<u>2,213,812,236</u>	<u>1,163,839,026</u>	<u>1,410,598,868</u>	<u>2,574,437,894</u>

A. Investments at Fair Value Through Profit or Loss:

	December 31,					
	2019			2018		
	LBP LBP'000	C/V of FCY LBP'000	Total LBP'000	LBP LBP'000	C/V of FCY LBP'000	Total LBP'000
Quoted equities	-	2,892,528	2,892,528	-	3,111,818	3,111,818
Equity securities (unquoted)	1,177,962	1,885,836	3,063,798	934,214	1,592,725	2,526,939
Foreign Eurobonds	-	20,006,530	20,006,530	-	39,623,424	39,623,424
Mutual Funds	4,002,588	6,004,287	10,006,875	4,543,885	5,460,708	10,004,593
	5,180,550	30,789,181	35,969,731	5,478,099	49,788,675	55,266,774
Accrued interest receivable	-	137,988	137,988	-	199,469	199,469
	<u>5,180,550</u>	<u>30,927,169</u>	<u>36,107,719</u>	<u>5,478,099</u>	<u>49,988,144</u>	<u>55,466,243</u>

Investments at fair value through profit or loss include an amount of LBP3.1billion as at December 31, 2019 (LBP2.5billion as at December 31, 2018) representing the Bank's share in startups established based on co-sharing agreement with the regulator providing the funding.

Net interest and other gain/(loss) on investment securities at FVTPL are detailed under Note 32.

B. Investments at Fair Value through Other Comprehensive Income:

	December 31,					
	2019			2018		
	LBP LBP'000	C/V of FCY LBP'000	Total LBP'000	LBP LBP'000	C/V of FCY LBP'000	Total LBP'000
Equity securities (Unquoted)	17,079,305	1,131,351	18,210,656	17,079,305	1,132,908	18,212,213
Lebanese government bonds	-	37,702,109	37,702,109	-	49,534,757	49,534,757
Lebanese treasury bills	40,637,482	-	40,637,482	44,296,836	-	44,296,836
	57,716,787	38,833,460	96,550,247	61,376,141	50,667,665	112,043,806
Accrued interest receivable	766,944	178,689	945,633	791,984	673,084	1,465,068
	<u>58,483,731</u>	<u>39,012,149</u>	<u>97,495,880</u>	<u>62,168,125</u>	<u>51,340,749</u>	<u>113,508,874</u>

	December 31,							
	2019				2018			
	Nominal Amount LBP'000	Cost LBP'000	Fair Value LBP'000	Cumulative Change in Fair Value LBP'000	Accrued Interest Receivable LBP'000	Nominal Amount LBP'000	Cost LBP'000	Fair Value LBP'000
Equity securities (Unquoted)	8,443,796	8,443,796	18,210,656	9,766,860	-	8,445,353	8,445,353	18,212,213
Lebanese government bonds	41,154,750	41,457,727	37,702,109	(3,755,618)	178,689	53,214,750	53,609,203	49,534,757
Lebanese treasury bills	40,629,423	40,632,606	40,637,482	4,876	766,944	43,629,423	43,778,575	44,296,836
	<u>90,227,969</u>	<u>90,534,129</u>	<u>96,550,247</u>	<u>6,016,118</u>	<u>945,633</u>	<u>105,289,526</u>	<u>105,833,131</u>	<u>112,043,806</u>
								<u>6,210,675</u>
								<u>1,465,068</u>

C. Investments at Amortized Cost:

Financial assets at amortized cost:

	December 31, 2019							
	LBP Base accounts		F/Cy Base accounts					
	Amortized Cost LBP'000	Expected Credit Losses (ECL) LBP'000	Net Carrying Amount LBP'000	Accrued Interest Receivable LBP'000	Amortized Cost LBP'000	Expected Credit Losses (ECL) LBP'000	Net Carrying Amount LBP'000	Accrued Interest Receivable LBP'000
Lebanese treasury bills	211,408,478	-	211,408,478	3,944,692	-	-	-	-
Lebanese government bonds	-	(19,597,500)	(19,597,500)	-	1,036,894,450	(19,859,296)	1,017,035,154	4,794,981
Certificates of deposit issued by Central Bank of Lebanon	769,230,473	-	769,230,473	23,504,007	171,669,689	(172,507)	171,497,182	837,290
Corporate bonds and asset backed securities	4,350,000	(19,937)	4,330,063	77,281	26,499,173	(121,009)	26,378,164	371,971
	984,988,951	(19,617,437)	965,371,514	27,525,980	1,235,063,312	(20,152,812)	1,214,910,500	6,004,242

	December 31, 2018							
	LBP Base accounts				F/Cy Base accounts			
	Amortized Cost	Expected Credit Losses (ECL)	Net Carrying Amount	Accrued Interest Receivable	Amortized Cost	Expected Credit Losses (ECL)	Net Carrying Amount	Accrued Interest Receivable
Lebanese treasury bills	365,247,252	-	-	6,426,036	-	-	-	-
Lebanese government bonds	-	(2,241,995)	363,005,257	-	1,082,378,885	(13,816,396)	1,068,562,489	14,160,450
Certificates of deposit issued by Central Bank of Lebanon	763,592,346	(1,995,830)	761,596,516	28,403,873	276,999,637	(1,759,831)	275,239,806	2,338,644
Corporate bonds and asset backed securities	4,350,000	(19,937)	4,330,063	77,281	49,825,254	(227,529)	49,597,725	699,754
	1,133,189,598	(4,257,762)	1,128,931,836	34,907,190	1,409,203,776	(15,803,756)	1,393,400,020	17,198,848

Lebanese treasury bills and Certificates of deposit issued by Central Bank of Lebanon amounting to LBP15.22billion and LBP7.94billion, respectively (Lebanese treasury bills in the amount of LBP56.25billion and Certificate of deposit issued by Central Bank of Lebanon in the amount of LBP6.29billion respectively in 2018) are pledged against borrowings from Central Bank of Lebanon.

Debt securities at amortized cost are segregated over the remaining period to maturity as follows:

Remaining period to Maturity	December 31, 2019					
	LBP			C/V of F/Cy		
	Nominal Value LBP'000	Amortized Cost LBP'000	Average Coupon Rate %	Nominal Value LBP'000	Amortized Cost LBP'000	Average Coupon Rate %
Lebanese treasury bills:						
Up to one year	41,500,000	41,503,583	7.80	-	-	-
1 year to 3 years	127,345,000	128,067,288	6.41	-	-	-
3 years to 5 years	3,155,000	3,153,013	7.11	-	-	-
5 years to 10 years	21,648,020	23,207,210	8.64	-	-	-
Above 10 years	15,124,490	15,477,384	10.50	-	-	-
	<u>208,772,510</u>	<u>211,408,478</u>		<u>-</u>	<u>-</u>	
Lebanese Government bonds:						
Up to one year	-	-	-	85,188,067	85,194,908	6.29
1 year to 3 years	-	-	-	131,542,943	131,026,258	7.71
3 years to 5 years	-	-	-	29,923,875	29,921,318	6.35
5 years to 10 years	-	-	-	408,625,965	410,266,461	6.45
Above 10 years	-	-	-	380,289,488	380,485,505	7.02
	<u>-</u>	<u>-</u>		<u>1,035,570,338</u>	<u>1,036,894,450</u>	
Certificates of deposit issued by Central Bank of Lebanon:						
1 year to 3 years	-	-	-	1,206,000	1,171,439	5.80
3 years to 5 years	-	-	-	22,612,500	22,612,500	6.48
5 years to 10 years	22,000,000	24,900,402	9.20	147,885,750	147,885,750	6.78
Above 10 years	<u>735,000,000</u>	<u>744,330,071</u>	10.70	<u>-</u>	<u>-</u>	-
	<u>757,000,000</u>	<u>769,230,473</u>		<u>171,704,250</u>	<u>171,669,689</u>	
Corporate Bonds & Asset backed securities:						
5 years to 10 years	<u>4,350,000</u>	<u>4,350,000</u>	7.83	<u>26,499,173</u>	<u>26,499,173</u>	6.74
	<u>4,350,000</u>	<u>4,350,000</u>		<u>26,499,173</u>	<u>26,499,173</u>	

Remaining period to Maturity	December 31, 2018					
	LBP			C/V of F/Cy		
	Nominal Value	Amortized Cost	Average Coupon Rate	Nominal Value	Amortized Cost	Average Coupon Rate
	LBP'000	LBP'000	%	LBP'000	LBP'000	%
Lebanese treasury bills:						
Up to one year	153,081,074	153,278,150	7.01	-	-	-
1 year to 3 years	96,120,000	96,603,961	7.06	-	-	-
3 years to 5 years	72,725,000	73,302,478	6.36	-	-	-
5 years to 10 years	24,803,020	26,574,244	8.45	-	-	-
Above 10 years	15,124,490	15,488,419	10.50	-	-	-
	<u>361,853,584</u>	<u>365,247,252</u>		<u>-</u>	<u>-</u>	
Lebanese Government bonds:						
Up to one year	-	-	-	45,432,277	45,396,907	5.91
1 year to 3 years	-	-	-	183,566,009	183,750,237	7.34
3 years to 5 years	-	-	-	52,536,375	51,221,849	6.06
5 years to 10 years	-	-	-	419,178,465	421,516,638	6.47
Above 10 years	-	-	-	380,289,488	380,493,254	7.02
	<u>-</u>	<u>-</u>		<u>1,081,002,614</u>	<u>1,082,378,885</u>	
Certificates of deposit issued by Central Bank of Lebanon:						
Up to one year	-	-	-	38,592,000	38,547,996	5.30
3 years to 5 years	15,000,000	15,738,075	8.24	91,203,750	90,565,891	6.12
5 years to 10 years	33,000,000	35,913,990	9.02	105,525,000	105,525,000	6.75
Above 10 years	703,000,000	711,940,281	9.54	42,360,750	42,360,750	6.85
	<u>751,000,000</u>	<u>763,592,346</u>		<u>277,681,500</u>	<u>276,999,637</u>	
Corporate Bonds & Asset backed securities:						
5 years to 10 years	4,350,000	4,350,000	7.83	49,825,254	49,825,254	6.86
	<u>4,350,000</u>	<u>4,350,000</u>		<u>49,825,254</u>	<u>49,825,254</u>	

During 2019 and 2018, the Bank entered into swap deals with the Central Bank of Lebanon to enhance the yield on its investments and term placements with Central Bank as follows:

Classification	Nominal Value	
	December 31, 2019	December 31, 2018
	LBP'000	LBP'000
Sold through swap:		
Term placements with Central Bank of Lebanon in US Dollar	Amortized cost	(167,319,490)
Lebanese treasury bills	Amortized cost	(131,657,000)
Certificates of deposit issued by Central Bank of Lebanon	FVTPL	(50,000,000)
Certificates of deposit issued by Central Bank of Lebanon	FVTOCI	(2,560,000)
Certificates of deposit issued by Central Bank of Lebanon	Amortized cost	(549,736,000)
	<u>(371,154,000)</u>	<u>(901,272,490)</u>
Acquired through swap:		
Term placements with Central Bank of Lebanon	Amortized cost	56,110,000
Lebanese treasury bills	Amortized cost	15,124,490
Certificates of deposit issued by Central Bank of Lebanon	Amortized cost	673,000,000
	<u>362,110,000</u>	<u>891,726,490</u>

During 2019, the Group entered into swap transaction of certificates of deposit in Lebanese Pounds of aggregate nominal value of LBP300billion in addition to certificates of deposit in U.S. Dollars of aggregate nominal value of USD47.2million, concluded in conjunction with the acquisition of certificates of deposit with the Central Bank of Lebanon in Lebanese Pounds in an aggregate nominal value of LBP306billion along with the acquisition of term placements with the Central Bank of Lebanon in Lebanese Pounds and U.S. Dollars in the aggregate amount of LBP7.3billion and USD32.4million, respectively. The premium resulting from the above transaction was deferred as yield enhancement on the new portfolio with longer maturity. The new securities mature in 2049 and yielding 11.92% on average per annum.

During 2018, the Group entered into swap transaction of term placements with Central Bank of Lebanon in US Dollar in the amount of LBP167billion, Lebanese treasury bills in the amount of LBP132billion, and certificates of deposit in Lebanese Pounds of aggregate nominal value of LBP583billion in addition to certificates of deposit in USD of aggregate nominal value of USD12.8million, concluded in conjunction with the acquisition of term placements with Central Bank of Lebanon in the amount of LBP204billion, Lebanese treasury bills in the amount of LBP15billion and certificates of deposit in Lebanese pound in an aggregate nominal value LBP673billion. The premium resulting from the above transaction was deferred as yield enhancement on the new portfolio with longer maturity. The new securities mature in 2049 and having yield between 8.88% and 11.40% on average per annum.

10. ASSETS UNDER LEVERAGE ARRANGEMENT WITH THE CENTRAL BANK OF LEBANON

	December 31,	
	2019	2018
	LBP'000	LBP'000
Assets under leverage arrangements:		
Term placements with Central Bank of Lebanon	348,295,000	44,337,000
Lebanese treasury bills at amortized cost	88,845,980	88,845,980
	437,140,980	133,182,980
Less:		
Leverage arrangements	437,140,980	133,182,980
Net	-	-

Assets under leverage arrangement consist of term placements with the Central Bank of Lebanon and Lebanese Treasury bills in LBP subject to interest rates between 6.74% and 10.66% originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP (bearing a 2% interest rate), with the purpose of providing yield adjustment on certain transactions related to either fresh deposits in foreign currency or sale of foreign currency against LBP placed in term deposits at the Central Bank of Lebanon and/or Government securities.

The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Term placements with Central Bank of Lebanon in U.S. Dollars	73,038,375	73,038,375
Term placements with Central Bank of Lebanon in Euro	72,231,872	-
Term placements with Central Bank of Lebanon in LBP originated from the sale of foreign currency	190,839,950	13,268,000
Term placements with Central Bank of Lebanon in LBP originated from the swap of certificates of deposit in foreign currency	19,682,000	19,682,000
	<u>355,792,197</u>	<u>105,988,375</u>

During 2019, the Bank signed with Central Bank of Lebanon a netting agreement allowing to offset the “assets under leverage arrangement” versus the borrowing from the Central Bank. The agreement covered financial assets and liabilities resulting from transactions that took place before the netting agreement date that have not yet matured. As such the Bank has presented “time deposits with Central Bank of Lebanon” and term borrowing from Central Bank of Lebanon” on a net basis for the years ended December 31, 2019 and 2018 for comparative purpose.

11. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

12. ASSETS ACQUIRED IN SATISFACTION OF LOANS

The acquisition of assets in settlement of loans is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits (Note 26).

The movement of assets acquired in satisfaction of loans was as follows:

	<u>Cost</u> <u>LBP'000</u>	<u>Impairment</u> <u>Allowance</u> <u>LBP'000</u>	<u>Carrying</u> <u>Value</u> <u>LBP'000</u>
Balance January 1, 2018	91,140,639	(8,643,766)	82,496,873
Foreclosures	1,543,179	-	1,543,179
Disposals	(405,332)	226,626	(178,706)
Balance December 31, 2018	92,278,486	(8,417,140)	83,861,346
Foreclosures	1,051,252	-	1,051,252
Disposals	(1,139,243)	202,686	(936,557)
Balance December 31, 2019	<u>92,190,495</u>	<u>(8,214,454)</u>	<u>83,976,041</u>

Gain on disposal of assets acquired in satisfaction of loans during the year amounted to LBP1.43billion, recorded under “Net gain on disposal of property and equipment and properties acquired in satisfaction of loans” in the statement of profit or loss (LBP658million in 2018).

13. LEASES

The Group mainly leases premises for the Bank’s branches. The average lease term is 7 years.

Set out below, are the carrying amounts of the Group’s right-of-use assets and lease liabilities and their related movements during the year:

	<u>Right-of-use</u> <u>Assets</u> <u>LBP'000</u>	<u>Lease</u> <u>Liabilities</u> <u>LBP'000</u>
Balance January 1, 2019	25,340,800	23,062,657
Depreciation expense	(2,991,207)	-
Interest expense	-	1,844,185
Payments	-	(2,840,988)
Balance December 31, 2019	<u>22,349,593</u>	<u>22,065,854</u>

The Group recognized rent expense from short-term leases of LBP323million during the year ended December 31, 2019. Moreover, depreciation charge for right-of-use assets is presented within “Depreciation of right-of-use assets” in the consolidated statement of profit or loss. The interest charge on lease liabilities is presented within “Interest expense – lease liabilities” in the consolidated statement of profit or loss.

14. PROPERTY AND EQUIPMENT

	Balance January 1, 2019 LBP'000	Additions LBP'000	Disposals and Adjustments LBP'000	Transfer Between Accounts LBP'000	Transfer to Intangible Assets LBP'000	Balance December 31, 2019 LBP'000
Cost/Revaluation:						
Owning properties	61,194,477	1,549,615	-	26,520,490	-	89,264,582
Computer hardware	17,368,799	754,233	(6,811)	-	-	18,116,221
Machines and equipment	6,192,122	222,951	(20,762)	-	-	6,394,311
Furniture and fixtures	6,197,300	183,498	(2,742)	129,797	-	6,507,853
Vehicles	1,038,067	86,680	-	-	-	1,124,747
Freehold and leasehold Improvements	30,664,334	1,384,518	-	2,386,476	-	34,435,328
	<u>122,655,099</u>	<u>4,181,495</u>	<u>(30,315)</u>	<u>29,036,763</u>	<u>-</u>	<u>155,843,042</u>
Accumulated depreciation	(56,885,411)	(5,955,642)	19,949	-	-	(62,821,104)
Allowance for impairment of owned properties	(65,308)	-	-	-	-	(65,308)
	<u>(56,950,719)</u>	<u>(5,955,642)</u>	<u>19,949</u>	<u>-</u>	<u>-</u>	<u>(62,886,412)</u>
Advance payments	<u>24,190,659</u>	<u>6,912,080</u>	<u>-</u>	<u>(29,036,763)</u>	<u>(140,656)</u>	<u>1,925,320</u>
Carrying value	<u>89,895,039</u>			<u>-</u>		<u>94,881,950</u>
	Balance January 1, 2018 LBP'000	Additions LBP'000	Disposals and Adjustments LBP'000	Transfer Between Accounts LBP'000	Transfer to Intangible Assets LBP'000	Balance December 31, 2018 LBP'000
Cost/Revaluation:						
Owning properties	61,194,477	-	-	-	-	61,194,477
Computer hardware	15,347,657	2,072,181	(53,526)	2,487	-	17,368,799
Machines and equipment	5,984,396	235,292	(23,753)	(3,813)	-	6,192,122
Furniture and fixtures	5,707,374	300,616	(1,522)	190,832	-	6,197,300
Vehicles	803,251	297,000	(62,184)	-	-	1,038,067
Freehold and leasehold improvements	27,785,362	370,342	(55,484)	2,564,114	-	30,664,334
	<u>116,822,517</u>	<u>3,275,431</u>	<u>(196,469)</u>	<u>2,753,620</u>	<u>-</u>	<u>122,655,099</u>
Accumulated depreciation	(51,649,309)	(5,370,171)	134,069	-	-	(56,885,411)
Allowance for impairment of owned properties	(65,308)	-	-	-	-	(65,308)
	<u>(51,714,617)</u>	<u>(5,370,171)</u>	<u>134,069</u>	<u>-</u>	<u>-</u>	<u>(56,950,719)</u>
Advance payments	<u>15,833,611</u>	<u>11,209,762</u>	<u>-</u>	<u>(2,753,620)</u>	<u>(99,094)</u>	<u>24,190,659</u>
Carrying value	<u>80,941,511</u>			<u>-</u>		<u>89,895,039</u>

During 2019, the Group acquired plots 4731 and 4732 in Achrafieh that were used for the purpose of expanding the Bank's head office in the aggregate amount of LBP26.5billion.

15. INTANGIBLE ASSETS

The movement of intangible assets was as follows during 2019 and 2018:

	Carrying Value January 1, 2019 LBP'000	Additions LBP'000	Amortization for the Year LBP'000	Transfer from Advance Payments Under Property and Equipment LBP'000	Carrying Value December 31, 2019 LBP'000
Computer software	4,342,575	1,482,828	(1,347,708)	140,656	4,618,351
	<u>4,342,575</u>	<u>1,482,828</u>	<u>(1,347,708)</u>	<u>140,656</u>	<u>4,618,351</u>

	Carrying Value January 1, 2018 LBP'000	Additions LBP'000	Amortization for the Year LBP'000	Transfer from Advance Payments Under Property and Equipment LBP'000	Carrying Value December 31, 2018 LBP'000
Computer software	1,517,430	3,755,601	(1,029,550)	99,094	4,342,575
	<u>1,517,430</u>	<u>3,755,601</u>	<u>(1,029,550)</u>	<u>99,094</u>	<u>4,342,575</u>

16. OTHER ASSETS

This caption consists of the following:

	December 31,	
	2019 LBP'000	2018 LBP'000
Prepayments	9,134,466	9,579,243
Commission receivable	723,117	347,393
Sundry debtors	16,929,727	11,536,712
Regulatory blocked deposit (a)	4,500,000	4,500,000
Fair value of forward exchange contracts	211,118	36,325
	<u>31,498,428</u>	<u>25,999,673</u>

- (a) Regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the establishment of a subsidiary that is in the process of liquidation. This deposit will be refunded upon finalizing the liquidation of the subsidiary, according to article 132 of the Lebanese Code of Money and Credit.

17. DISCONTINUED OPERATIONS

After signing a term sheet during 2017, the associated assets and liabilities of USB Holdings PLC (USB Bank PLC) were consequently classified as held for sale as follows:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Assets classified as held for sale	<u>21,732,835</u>	<u>1,297,343,966</u>
Liabilities directly associated with assets classified as held for sale	<u>769,393</u>	<u>1,172,758,271</u>

The major classes of assets and liabilities comprising the discontinued operations after the allocation of adjustments at the financial position date are as follows:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Cash and Central Bank	-	349,945,680
Deposits with banks and financial institutions	-	31,257,384
Investment securities at amortized cost	-	5,265,192
Investment securities at fair value through profit or loss	-	187,468,507
Loans and advances to customers	-	535,505,836
Stock of property	-	103,458,337
Investment properties	20,814,615	22,094,380
Property and equipment	-	20,965,211
Intangible assets	-	1,287,286
Other assets	-	4,204,050
Deferred assets adjustments to reach fair value less cost to sell	<u>918,220</u>	<u>35,892,103</u>
Total Assets	<u>21,732,835</u>	<u>1,297,343,966</u>
Customers' accounts	-	1,143,614,288
Other liabilities	769,393	28,136,242
Provisions	-	1,007,741
Total Liabilities	<u>769,393</u>	<u>1,172,758,271</u>

The result of the discontinued operations of USB Holdings PLC included in the statement of profit or loss is set out below.

	Year Ended	
	December 31,	
	2019	2018
	LBP'000	LBP'000
Profit for the year from discontinued operations		
Net interest income	-	31,516,713
Net fee and commission income	-	3,740,331
(Loss)/income from securities at fair value through profit or loss	-	(1,710,142)
Allowance for impairment for loans and advances (net)	-	(10,629,504)
Other income/expense (net)	-	(33,523,822)
Loss for the year from discontinued operations	-	(10,606,424)
Adjustments on disposal group carrying amount	-	10,606,424
	-	-

During 2019, and in conjunction with the sale, the Bank received a total consideration of LBP98billion (EUR57million) representing net assets of USB Holdings PLC excluding the Company's real estate properties.

Proceeds from the sale of these properties will be collected by the Group upon completion of formalities.

18. DEPOSITS FROM BANKS

This caption consists of the following:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Current deposits of banks and financial institutions	22,434,983	1,107,519
Short term deposits	118,748,003	94,099,861
Short term deposits with parent bank	31,550,000	52,762,500
Accrued interest payable	1,013,311	1,187,129
	<u>173,746,297</u>	<u>149,157,009</u>

19. CUSTOMERS' ACCOUNTS

Customers' accounts at amortized cost are detailed as follows:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Deposits:		
Current/demand deposits	703,433,463	562,520,064
Term deposits	4,354,087,800	4,988,485,508
Collateral against loans and advances	142,741,222	183,803,982
Margins and other accounts:		
Margins for irrevocable import letters of credit	3,508,190	3,837,059
Margins on letters of guarantee	26,011,645	25,981,252
Other margins	14,299,022	63,297,400
Blocked accounts	20,368,789	19,495,653
Accrued interest payable	<u>46,061,828</u>	<u>43,960,211</u>
Total	<u>5,310,511,959</u>	<u>5,891,381,129</u>

Customers' deposits include related party deposits detailed as follows:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Demand deposits	2,428,979	2,124,027
Term deposits	52,808,799	48,453,147
Collateral against loans and advances	410,145	594,425
Margins on letters of guarantee	-	1,500
Accrued interest payable	<u>931,810</u>	<u>696,201</u>
	<u>56,579,733</u>	<u>51,869,300</u>

Brackets of deposits were as follows:

	December 31, 2019				
	LBP		F/Cy		Total LBP'000
	Total Deposits LBP'000	% to Total Deposits %	Total Deposits LBP'000	% to Total Deposits %	
Less than LBP250million	609,347,901	35	687,594,385	19	1,296,942,286
Between LBP250million and LBP1.5billion	609,070,250	34	1,138,719,789	32	1,747,790,039
Above LBP1.5billion	<u>553,428,787</u>	<u>31</u>	<u>1,712,350,847</u>	<u>49</u>	<u>2,265,779,634</u>
	<u>1,771,846,938</u>	<u>100</u>	<u>3,538,665,021</u>	<u>100</u>	<u>5,310,511,959</u>

	December 31, 2018				
	LBP		F/Cy		Total LBP'000
	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	
	LBP'000	%	LBP'000	%	
Less than LBP250million	687,790,164	32	630,879,635	17	1,318,669,799
Between LBP250million and LBP1.5billion	709,562,126	33	1,059,620,176	28	1,769,182,302
Above LBP1.5billion	736,366,147	35	2,067,162,881	55	2,803,529,028
	<u>2,133,718,437</u>	<u>100</u>	<u>3,757,662,692</u>	<u>100</u>	<u>5,891,381,129</u>

Deposits from customers include coded deposit accounts in the aggregate amount of LBP63billion as at December 31, 2019 (LBP106billion as at December 31, 2018). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which stipulates that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include fiduciary deposits received from resident and non-resident banks for a total amount of LBP19billion and LBP11billion respectively as at December 31, 2019 (LBP20billion and LBP205billion respectively as at December 31, 2018).

The average balance of deposits and related cost of funds over the last 3 years were as follows:

Year	Deposits in LBP		Deposits in F/Cy		Cost of Funds LBP LBP'000
	Average Balance of Deposits	Average Interest Rate	Average Balance of Deposits	Average Interest Rate	
	LBP'000	%	LBP'000	%	
2019	1,980,000,000	8.50	3,665,000,000	5.76	382,284,204
2018	2,281,000,000	6.80	3,686,000,000	4.42	320,748,361
2017	2,457,000,000	5.71	3,555,000,000	3.96	282,304,935

20. OTHER BORROWINGS

	December 31,	
	2019 LBP'000	2018 LBP'000
Soft loans from Central Bank of Lebanon (a)	-	17,734,000
Borrowings from Central Bank of Lebanon (b)	347,425,980	382,067,955
Other borrowings	397,485	4,463,067
	<u>347,823,465</u>	<u>404,265,022</u>
Accrued interest payable	2,638	195,386
	<u>347,826,103</u>	<u>404,460,408</u>

(a) On March 21, 2019, the soft loan from the Central Bank of Lebanon in the amount of LBP17.7billion matured.

- (b) Outstanding facilities in Lebanese Pounds granted from the Central Bank of Lebanon in the amount of LBP347billion (LBP382billion as at December 31, 2018) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans the Bank has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. These facilities bear interest rate of 1% computed annually and paid monthly. Part of these facilities are collateralized by Lebanese treasury bills and certificates of deposit issued by Central Bank of Lebanon.

The remaining contractual maturities of all above borrowings are as follows:

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Up to 1 year	400,123	22,392,453
Over 5 years	<u>347,425,980</u>	<u>382,067,955</u>
	<u>347,826,103</u>	<u>404,460,408</u>

The movement of other borrowings is detailed as follows:

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Balance, beginning of year	404,265,022	375,173,522
Additions	-	30,425,701
Settlements	(56,441,557)	(1,334,201)
Balance, end of year	<u>347,823,465</u>	<u>404,265,022</u>

21. OTHER LIABILITIES

This caption consists of the following:

	<u>December 31,</u> <u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Withheld taxes	5,600,305	3,517,952
Deferred tax liability on accrued interest receivable	4,239,981	1,711,492
Deferred tax liability on future dividend distribution of subsidiaries	664,625	630,155
Deferred tax liability on other comprehensive income	1,133,114	1,222,148
Other deferred taxes	1,639,606	1,639,606
Due to the National Social Security Fund	721,506	762,172
Checks and incoming payment orders in course of settlement	3,762,827	18,054,110
Blocked capital subscriptions for companies under incorporation	91,416	414,764
Accrued expenses	16,038,920	12,408,482
Financial guarantees	140,681	654,419
Payable to personnel and directors	5,245,926	7,518,849
Sundry accounts payable	20,136,211	22,597,479
Provision for income tax (a)	5,632,270	6,982,132
Deferred income	1,225,337	807,885
Payable to non-controlling interests of a subsidiary under liquidation	11,349	11,349
Regulatory deferred liability (b)	-	-
	<u>66,284,074</u>	<u>78,932,994</u>

(a) Below is the reconciliation of income tax expense:

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
(Loss)/profit before tax from continuing operations	(44,658,561)	69,089,096
Income tax on enacted applicable rates	(6,575,666)	12,631,627
Effect of non-deductible expense and non-taxable income	9,935,858	(5,354,268)
Income tax expense	3,360,192	7,277,359
Other additional provisions/adjustments	2,272,078	(295,227)
Provision for income tax	<u>5,632,270</u>	<u>6,982,132</u>

In 2017, the Bank's accounts and tax returns for the years 2012 until 2014 (inclusive) were subject to examination by the tax authorities which resulted in a preliminary assessment of LBP2.99billion. A final decision was reached during 2018 where the Bank settled LBP2.8billion against the additional income tax liability account. The Bank's tax returns for the years 2015 till 2019 inclusive are still subject to review by the relevant tax authorities. Any additional tax liability depends on the outcome of such reviews.

- (b) In accordance with the Central Bank of Lebanon Intermediary Circular number 446, deferred liability which is regulated in nature shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks, and that in anticipation of implementation of IFRS 9 for impairment, as and when quantified effective on January 1, 2018.

During 2018, the Group allocated an amount of LBP103billion from regulatory deferred liability to retained earnings to offset the expected credit losses resulting from the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements.

Below is the movement of regulatory deferred liability for the year:

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Balance January 1	-	107,590,244
Offset against retained earnings upon adopting IFRS 9	-	(103,399,141)
Transfer to provision for risks and charges	-	(4,191,103)
Balance December 31	<u>-</u>	<u>-</u>

22. PROVISIONS

Provisions consist of the following:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Provision for staff end-of-service indemnity (a)	6,825,724	7,440,023
Provision for risk and charges (b)	12,161,416	11,850,310
Provision for expected credit losses on unutilized limits and off-balance sheet commitments	364,844	413,741
Provision for loss on foreign currency position	1,123,762	222,364
	<u>20,475,746</u>	<u>19,926,438</u>

(a) The movement of the provision for staff end-of-service indemnity was as follows:

	2019	2018
	LBP'000	LBP'000
Balance January 1	7,440,023	6,231,478
Additions - net (Note 34)	577,773	2,578,474
Settlements	(1,192,072)	(1,369,929)
Balance December 31	<u>6,825,724</u>	<u>7,440,023</u>

Additions are netted by LBP1.2billion representing estimated interest income accumulated by the Lebanese National Social Security Fund (LBP1.1billion during 2018).

(b) The movement of the provision for risk and charges was as follows:

	2019	2018
	LBP'000	LBP'000
Balance January 1	11,850,310	4,085,959
Additions	186,000	4,011,000
Transfer from regulatory deferred liability	-	4,191,103
Adjustment on assets held for sale	1,180,823	-
Settlements	(1,055,717)	(437,752)
Balance December 31	<u>12,161,416</u>	<u>11,850,310</u>

23. SHARE CAPITAL

On December 17, 2018, the Extraordinary General Assembly of shareholders resolved to increase the Bank's capital by LBP350million through issuing 350,000 common shares having a par value of LBP1,000 each which was subscribed through transferring LBP350million from non-distributable reserve as a result of redeeming of series "C" preferred shares (Note 24). This capital increase was approved by the Central Council of the Central Bank of Lebanon on March 12, 2019. Hence, as at December 31, 2019, the Bank's ordinary share capital consist of 214,000,000 shares of a par value of LBP1,000 each fully paid (213,650,000 shares of a par value of LBP1,000 each as at December 31, 2018).

As at December 31, 2019 and 2018, the Bank has a fixed exchange position in the amount of USD122,508,656, authorized by the Central Bank of Lebanon, to hedge its equity against exchange fluctuations within the limit of 60% of equity denominated in Lebanese Pound.

On January 30, 2020 the Extraordinary General Assembly of shareholders, and based on the intermediate circular 532 dated November 4, 2019 described below, the Bank called additional cash contribution from shareholders in the amount of USD93.86million.

Circular 532 required an increase by 20% of the Bank's common equity Tier I as at December 31, 2018. The contribution should be in US Dollars and 50% should be executed by the end of 2019, and the remaining by June 30, 2020. In this respect, subsequent to the financial position date, the shareholders injected USD45.96million in the form of cash contribution representing the first required 10%. Furthermore, the Central Bank of Lebanon, through its intermediate circular 567 dated August 26, 2020, extended the requirement for banks, to increase common equity Tier I one by 20% up to December 31, 2020.

This sort of financial instrument is accounted for in foreign currency and therefore allows hedging against national currency exchange fluctuation. According to local banking regulations, cash contribution to capital is considered as Tier I capital."

24. PREFERRED SHARES

Tier I Non-Cumulative Perpetual Redeemable preferred shares					
	Issue Date	Number of Shares	Expected Annual Return	December 31,	
				2019	2018
				Year	LBP'000
Series "C"	2013	350,000	6.75	-	-
Series "D"	2016	750,000	6.75	113,062,501	113,062,501
Series "E"	2018	263,510	7.00	39,724,132	39,724,132
				152,786,633	152,786,633

On December 17, 2018, the Extraordinary General Assembly of shareholders allowed holders of Series "C" preferred shares to redeem their shares.

The above shares are Tier I Non-Cumulative Perpetual Redeemable preferred shares at an issue price of USD100 per share with a nominal value of LBP1,000 each.

The preferred shares may be redeemed during the 60 days period following the annual general meeting held to approve the financial statements after 5 years for the related issue date for Series D and E respectively and each subsequent year thereafter.

In the event of liquidation of the Bank, holders of preferred shares series “D” and “E” rank senior to the holders of common shares.

25. TREASURY SHARES

As mentioned under Note 1 to the accompanying financial statements and in conjunction with the sale of USB Bank PLC, the Bank bought-back 10% of its own shares that were owned by Sehanoui Holding in an aggregate amount LBP76billion (USD43million and EUR6.5million).

26. RESERVES

	December 31,	
	2019	2018
	LBP'000	LBP'000
Legal reserve (a)	26,852,521	20,736,533
Special reserve for loans and advances (b)	7,303,478	4,803,478
Non-distributable reserve (c)	164,000,340	150,488,120
	<u>198,156,339</u>	<u>176,028,131</u>
Regulatory reserve for assets acquired in satisfaction of loans (Note 12)	64,981,187	62,192,827
	<u>263,137,526</u>	<u>238,220,958</u>

- (a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of the yearly net profits. This reserve is not available for distribution.
- (b) Based on Central Bank of Lebanon Circular 73 and Banking Control Commission memo 12/2010 relating to reserve allocation for doubtful debts, the Bank has allocated an amount of LBP7.3billion (LBP4.8billion as at December 31, 2018) to special reserve for the uncovered portion of its doubtful debts outstanding as at June 30, 2003 and not yet resolved.
- (c) In compliance with article 16 of the basic circular no. 143 issued by the Central Bank of Lebanon, during 2018 the Bank transferred the reserve for general banking risks and the general reserve for performing loans to a non-distributable reserve account.

27. DIVIDENDS PAID

The Bank's General Assembly held on May 15, 2019 resolved to distribute preferred shares earnings in the amount of LBP10.3billion.

The Bank's General Assembly held on May 31, 2018 resolved to distribute preferred shares earnings in the amount of LBP11.2billion.

28. INTEREST INCOME

This caption consists of the following:

	2019		
	Interest Income	Withheld Tax	Total
	LBP'000	LBP'000	LBP'000
Interest income from:			
Deposits with Central Bank	127,014,782	(12,759,232)	114,255,550
Deposits with banks and financial institutions	613,389	(20,066)	593,323
Deposits with a related bank	84,955	-	84,955
Loan to a bank	61,093	-	61,093
Investment securities (excluding FVTPL)	190,066,874	(9,826,800)	180,240,074
Loans and advances to customers	188,328,299	-	188,328,299
Loans and advances to related parties	267,101	-	267,101
	<u>506,436,493</u>	<u>(22,606,098)</u>	<u>483,830,395</u>

	2018		
	Interest Income	Withheld Tax	Total
	LBP'000	LBP'000	LBP'000
Interest income from:			
Deposits with Central Bank	91,344,438	(6,385,537)	84,958,901
Deposits with banks and financial institutions	1,479,455	-	1,479,455
Deposits with a related bank	52,333	-	52,333
Loan to a bank	75,714	(5,472)	70,242
Investment securities (excluding FVTPL)	205,104,978	(7,845,897)	197,259,081
Loans and advances to customers	177,247,122	-	177,247,122
Loans and advances to related parties	433,105	-	433,105
	<u>475,737,145</u>	<u>(14,236,906)</u>	<u>461,500,239</u>

Interest income on financial assets at fair value through profit or loss is included under "Net interest and other gain/(loss) on investment securities at fair value through profit or loss" (Note 32).

29. INTEREST EXPENSE

This caption consists of the following:

	<u>2019</u>	<u>2018</u>
	LBP'000	LBP'000
Interest expense on:		
Deposits and borrowings from banks	10,174,458	2,376,343
Deposits from Parent Bank	5,812,673	626,802
Revolving loans and facilities granted from Central Bank of Lebanon	3,722,044	4,126,078
Customers' accounts	378,406,771	317,896,398
Customers' accounts - related parties	3,877,433	2,851,963
Lease liabilities (Note 13)	1,844,185	-
Other borrowings	117,188	142,062
	<u>403,954,752</u>	<u>328,019,646</u>

30. FEE AND COMMISSION INCOME

This caption consists of the following:

	<u>2019</u>	<u>2018</u>
	LBP'000	LBP'000
Commission on documentary credits	1,111,819	1,410,349
Commission on letters of guarantee	1,730,308	1,698,980
Commission on transactions with banks	94,554	104,947
Service fees on customers' transactions	11,517,611	9,649,057
Commission on loans and advances	9,108,524	11,095,275
Commission earned on insurance policies	4,258,923	4,868,495
Commissions on capital market customers' transactions (Note 38)	504,626	525,464
Other	699,027	1,310,854
	<u>29,025,392</u>	<u>30,663,421</u>

31. FEE AND COMMISSION EXPENSE

This caption consists of the following:

	<u>2019</u>	<u>2018</u>
	LBP'000	LBP'000
Brokerage fees	96,502	799,932
Commission on transactions with banks and financial institutions	710,655	672,974
Commission paid to car dealers	227,537	884,701
Other	1,250,360	864,207
	<u>2,285,054</u>	<u>3,221,814</u>

32. NET INTEREST AND OTHER GAIN / (LOSS) ON INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Interest income (net of withheld tax)	591,614	4,167,064
Dividends received	429,627	430,386
Net unrealized loss	(222,343)	(51,346)
Net realized gain/(loss)	17,228	(18,694)
	<u>816,126</u>	<u>4,527,410</u>

33. OTHER OPERATING INCOME

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Dividend income from investments at fair value through other comprehensive income	1,683,956	1,718,980
Foreign exchange gain	531,429	1,835,975
Miscellaneous income	1,036,557	2,282,645
	<u>3,251,942</u>	<u>5,837,600</u>

34. STAFF COSTS

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Salaries	41,772,777	40,506,227
Board of directors' remunerations	2,000,691	2,549,978
Social security contributions	6,581,966	6,490,347
Provision for staff end-of-service indemnities (Note 22)	577,773	2,578,474
Other staff benefits and costs	14,351,607	15,330,528
	<u>65,284,814</u>	<u>67,455,554</u>

35. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Fees and taxes	1,310,660	1,622,203
Rent and building services	672,775	4,062,352
Legal and professional fees	3,099,324	3,106,983
Telephone and postage	1,193,410	1,299,525
Maintenance and repairs	6,641,930	6,659,930
Electricity and water	907,961	971,606
Heat, light and power	734,247	770,234
Insurance	704,457	667,635
Advertising and publicity	2,691,395	4,394,256
Public relations and entertainment	624,291	494,475
Printing and stationery	513,307	546,616
Subscriptions	1,890,302	1,613,056
Travel	281,892	744,163
Donations	1,030	15,933
Software implementation fees	61,900	117,937
Credit card expenses	1,456,463	899,697
Money transport	1,314,275	798,414
Cleaning	801,099	795,433
Guards expenses	491,983	600,219
Miscellaneous expenses	<u>1,483,764</u>	<u>1,806,384</u>
	<u>26,876,465</u>	<u>31,987,051</u>

Legal and professional fees include an amount of LBP226million representing various services provided by the parent bank during 2019 and 2018.

36. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the statement of financial position. However, documentary and commercial letters of credit which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipment documents of goods to which they relate and, therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 2019 and 2018 represent positions held for customers' accounts. The Group entered into such instrument to serve the needs of customers, and these contracts are fully hedged by the Group.

37. FIDUCIARY ACCOUNTS

Fiduciary deposits include deposits invested in back-to-back lending and are related to resident lenders and borrowers in addition to fiduciary deposits held or invested on behalf of the Group's customers on a non-discretionary basis. The risks and rewards of the related operations belong to the account holders.

38. ASSETS UNDER MANAGEMENT

Assets under management represent the total assets of BLC Income Fund 1 amounting to LBP14.3billion whereby the Group acts as the fund manager. Management fees equivalent to 1% of the average net asset value of the fund paid during 2019 amounted to LBP175million (LBP126million during 2018) are recorded under "Commissions earned on capital market customers' transactions" (Note 30). The Founder and Manager of the Fund (BLC Bank S.A.L.) ceased the activities of the Fund on its maturity on October 7, 2019 and liquidated it on October 8, 2019.

39. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the statement of cash flows consist of the following:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Cash on hand	17,650,581	33,200,339
Deposits with Central Bank (excluding compulsory deposits)	119,955,645	26,935,396
Term placements with Central Bank (with original maturity of less than 3 months)	82,158,751	126,630,000
Purchased checks	10,434	496,981
Current accounts with correspondents	37,354,469	219,754,019
Current accounts with related banks and financial institutions	952,223	644,433
Current accounts with the parent bank	2,115,671	3,545,626
Term placements with correspondents (with original maturity of less than 3 months)	-	43,118,250
Term placements with a related party (with original maturity of less than 3 months)	-	17,269,830
	<u>260,197,774</u>	<u>471,594,874</u>

Major non-cash transactions excluded from the statement of cash flows for the years ended December 31, 2019 and 2018 are summarized as follows:

- a. Adjustment of right-of-use assets in the amount of LBP25billion against other assets in the amount of LBP2billion and lease liability in the amount of LBP23billion upon the initial application of IFRS 16 in 2019.
- b. Adjustment of provision for risk and charges the amount of LBP1.18billion against retained earnings during the year ended December 31, 2019.
- c. Negative change in fair value of investments as at fair value through other comprehensive income of LBP195million and related deferred tax liability of LBP89million (Negative change in fair value of LBP779million and related deferred tax liability of LBP57million during 2018).
- d. Assets and investment properties acquired in satisfaction of loans in the amount of LBP1.05billion (LBP1.54billion in 2018).
- e. Transfer of LBP141million from property and equipment to intangible assets (LBP99million in 2018).
- f. Net transfers from investments held at amortized cost and investments at fair value through profit or loss in the amount of LBP93billion and LBP20billion respectively, to investments at fair value through other comprehensive income in the amount of LBP113billion in 2018.
- g. Deferred charges in the amount of LBP7.8billion were written-off against interest income in the amount of LBP9billion in 2018.
- h. Transfer of LBP4.2billion from regulatory deferred contribution to provision for risks and charges in 2018.

40. COLLATERAL GIVEN

The carrying values of financial assets given as collateral are as follows:

	December 31.				
	2019				2018
	Amount of Pledged Assets LBP'000	Maturity Date	Corresponding Facilities		Amount of Pledged Assets LBP'000
			Amount of Facility LBP'000	Nature of Facility LBP'000	
Certificates of deposit issued by the Central bank of Lebanon	7,943,789	June 9, 2029	29,537,516	Facilities from Central Bank of Lebanon	6,292,235
Lebanese treasury bills	15,219,300	Revolving	353,989,431	Facilities from Central Bank of Lebanon	56,246,230

41. RISK MANAGEMENT

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

- Credit risk: the risk of default or deterioration in the ability of a borrower to repay a loan.
- Liquidity risk: the risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Market risk: the risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.

A. Credit Risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities) and investments in Government debt securities, certificates of deposit issued by the Central Bank of Lebanon and term deposits with the Central Bank of Lebanon. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Credit risk management

The Group's Risk Management committee is responsible for managing the Group's credit risk by:

- Overseeing the risk management function as a whole.
- Ensuring that adequate policies and procedures governing the work of the risk management function exist at all levels, are up-to-date at all times, and ensure the proper and timely identification of risks that may put the capital of the bank at risk.
- Ensuring full compliance with laws and regulations related to risk management.
- Following up on corrective measures proposed by the risk management function and approved by the risk management committee.
- Overseeing the work of sub-committees especially when it comes to policies and procedures.
- Relaying to the board of directors its assessment on the adequacy of the risk management framework as a whole.

- Reviewing the risk reports making sure to relay to the board of directors in due time identified risks that may require a prompt attention/action.
- Validating all Risk related Policies, Business Continuity Policies, the Internal Capital Adequacy.
- Assessing the Recovery Plan Framework and the Impairment Framework before submission to the BOD for approval.
- Ensuring that the Bank risk appetite and limits are properly understood and duly approved by BOD
- Reviewing and following up the audit findings related to the risk management function
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Developing and maintaining the Group's risk grading to categories exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk

As explained in note 3 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In order to minimize credit risk, the Group has tasked its risk management committee to develop and maintain the Group's credit risk grading to categorize exposures according to their degree of risk of default. The Group's credit risk grading framework comprises ten categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;

For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and for corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

Central Bank of Lebanon Risk Rating	Central Bank of Lebanon Description	Moody's Grading	Moody's Description
1	Normal	1 – 4	Excellent – Satisfactory
2	Follow up	5 – 6	Adequate – Marginal
3	Follow up and regularization	7	Vulnerable
4	Substandard	8	Substandard
5	Doubtful	9	Doubtful
6	Loss	10	Loss

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic, mainly Real GDP growth. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group presumes for retail loans that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

Incorporation of forward-looking information

The ECL model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- Exposure at default (EAD).

Commercial and retail lending

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD 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 any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for exposures such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such exposures the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These exposures do not have a fixed term or repayment structure and have a short contractual cancellation period.

However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these exposures. This is because these exposures are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of product type.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Credit Risk monitoring and review

During 2019, the severe and unprecedented economic situation in Lebanon exerted significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types.

The above deterioration in the credit quality of the loans' portfolio in Lebanon was intensified in the subsequent period as a result of the massive and devastating explosion that occurred on August 4, 2020 and which resulted in the destruction of thousands of residential units and businesses in downtown Beirut as well as the eastern side of the capital leaving thousands of citizens homeless and/or jobless.

1. Maximum exposure to credit risk

The following corresponds to the maximum credit risk exposure net of the expected credit loss allowances:

	December 31, 2019		
	Gross Carrying Amount (Including Accrued Interest) LBP'000	Expected Credit Losses LBP'000	Net Carrying Amount LBP'000
Deposits with Central Bank (Note 5)	1,942,715,601	(1,094,154)	1,941,621,447
Deposits with banks and financial institutions (Note 6)	41,481,815	(123,088)	41,358,727
Loan to a bank (Note 7)	2,118,288	(40,036)	2,078,252
Loans and advances to customers (Note 8)	2,251,320,299	(179,719,312)	2,071,600,987
Investment securities at amortized cost (Note 9)	2,253,582,485	(39,770,249)	2,213,812,236
Investment securities at fair value through other comprehensive income (Note 9)	98,279,431	(783,551)	97,495,880
Customers' liability under acceptances	28,332,312	(344,264)	27,988,048
	<u>6,617,830,231</u>	<u>(221,874,654)</u>	<u>6,395,955,577</u>
Financial Guarantees and other commitments	<u>113,621,468</u>	<u>(364,844)</u>	<u>113,256,624</u>

	December 31, 2018		
	Gross Carrying Amount (Including Accrued Interest) LBP'000	Expected Credit Losses LBP'000	Net Carrying Amount LBP'000
Deposits with Central Bank (Note 5)	1,611,662,121	(6,893,673)	1,604,768,448
Deposits with banks and financial institutions (Note 6)	289,196,707	(635,023)	288,561,684
Loan to a bank (Note 7)	2,822,412	(65,409)	2,757,003
Loans and advances to customers (Note 8)	2,566,206,241	(143,544,002)	2,422,662,239
Investment securities at amortized cost (Note 9)	2,594,499,412	(20,061,518)	2,574,437,894
Investment securities at fair value through other comprehensive income (Note 9)	114,632,790	(1,123,916)	113,508,874
Customers' liability under acceptances	32,326,606	(386,760)	31,939,846
	<u>7,211,346,289</u>	<u>(172,710,301)</u>	<u>7,038,635,988</u>
Financial Guarantees and other commitments	<u>128,700,167</u>	<u>(413,741)</u>	<u>128,286,426</u>

The following represents the movement of expected loss allowance during 2019 and 2018:

	Deposits with Central Bank	Deposits with banks and financial institutions	Loan to a Bank	Loans and advances to customers at amortized cost	Investment securities at amortized cost	Investment securities at fair value through other comprehensive income	Customer Acceptance Liability	Financial Guarantees and other Commitments	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance as of January 1, 2019	6,893,673	635,023	65,409	143,544,002	20,061,518	1,123,916	386,760	413,741	173,124,042
(Write-back)/additional ECL for the year	(5,798,822)	(424,590)	(25,373)	41,720,445	19,708,731	(340,365)	(39,336)	(48,353)	54,752,337
Additional ECL – Specific	-	-	-	9,270,179	-	-	-	-	9,270,179
Write-back ECL – Specific	-	-	-	(9,917,805)	-	-	-	-	(9,917,805)
Transfer to off-balance sheet	-	-	-	(3,026,048)	-	-	-	-	(3,026,048)
Write-offs	-	-	-	(1,853,901)	-	-	-	-	(1,853,901)
Effect of exchange rate changes	(697)	(87,345)	-	(17,560)	-	-	(3,160)	(544)	(109,306)
Balance as of December 31, 2019	1,094,154	123,088	40,036	179,719,312	39,770,249	783,551	344,264	364,844	222,239,498

	Deposits with Central Bank	Deposits with banks and financial institutions	Loan to a Bank	Loans and advances to customers at amortized cost	Investment securities at amortized cost	Investment securities at fair value through other comprehensive income	Customer Acceptance Liability	Financial Guarantees and other Commitments	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance as of January 1, 2018	-	-	-	83,209,969	-	-	-	-	83,209,969
Effect of IFRS 9 adoption	4,840,760	850,195	85,101	71,221,621	25,487,882	-	425,618	487,964	103,399,141
Amended balance as of January 1	4,840,760	850,195	85,101	154,431,590	25,487,882	-	425,618	487,964	186,609,110
(Write-back)/additional ECL for the year	2,052,913	(215,172)	(19,692)	(3,897,198)	(5,426,364)	1,123,916	(38,858)	(74,223)	(6,494,678)
Additional ECL – Specific	-	-	-	45,694,139	-	-	-	-	45,694,139
Write-back ECL – Collective	-	-	-	(46,277,384)	-	-	-	-	(46,277,384)
Transfer to off-balance sheet	-	-	-	(4,987,803)	-	-	-	-	(4,987,803)
Write-offs	-	-	-	(1,373,848)	-	-	-	-	(1,373,848)
Effect of exchange rate changes	-	-	-	(45,494)	-	-	-	-	(45,494)
Balance as of December 31, 2018	6,893,673	635,023	65,409	143,544,002	20,061,518	1,123,916	386,760	413,741	173,124,042

1.1) Balances with Central Bank

Changes in carrying amounts of balances with Central Bank that contributed to changes in loss allowance are detailed as follows:

	Stage 1 12-month ECL	
	December 31,	
	2019	2018
	LBP'000	LBP'000
Gross carrying amount, January 1	1,594,221,577	1,240,693,246
New financial assets originated or purchased	1,059,131,236	1,058,743,750
Net change in the carrying value of existing deposits	101,407,672	6,278,831
Financial assets that have been derecognised	(843,295,376)	(711,494,251)
Gross carrying amount, December 31	1,911,465,109	1,594,221,576
Accrued interest receivable	31,250,492	17,440,545
	<u>1,942,715,601</u>	<u>1,611,662,121</u>

Movement of loss allowance on balances with Central Bank is detailed as follows:

	Stage 1 12-month ECL	
	December 31,	
	2019	2018
	LBP'000	LBP'000
Loss allowance, January 1	6,893,673	4,840,760
New financial assets originated or purchased	472,901	5,330,679
Net change due to increase/decrease in credit risk and change in balance	(3,171,231)	(27,177)
Financial assets that have been derecognised	(3,100,492)	(3,250,589)
Effect of exchange rate changes	(697)	-
Loss allowance, December 31	<u>1,094,154</u>	<u>6,893,673</u>

1.2) Deposits with banks and financial institutions

Changes in carrying amounts of deposits with banks and financial institutions that contributed to changes in loss allowance

	Stage 1 12-month ECL	
	December 31,	
	2019	2018
	LBP'000	LBP'000
Gross carrying amount, January 1	289,191,961	151,254,169
Changes due to modifications that did not result in derecognition	(189,020,842)	93,641,648
New financial assets originated or purchased	5,200,029	76,738,640
Financial assets that have been derecognised	(63,889,333)	(32,442,496)
Gross carrying amount, December 31	41,481,815	289,191,961
Accrued interest receivable	-	4,746
	<u>41,481,815</u>	<u>289,196,707</u>

The movement of expected credit loss allowance on deposits with banks and financial institutions is detailed as follows:

	Stage 1 12-month ECL	
	December 31,	
	2019	2018
	LBP'000	LBP'000
Loss allowance, January 1	635,023	850,195
New financial assets originated or purchased	8,490	419,243
Net change due to increase/decrease in credit risk and change in balance	(17,519)	39,472
Financial assets that have been derecognised	(415,561)	(673,887)
Effect of exchange rate changes	(87,345)	-
Loss allowance, December 31	<u>123,088</u>	<u>635,023</u>

1.3) Loan to a bank

Changes in carrying amounts of loan to a bank that contributed to changes in loss allowance

	Stage 1 12-month ECL	
	December 31,	
	2019	2018
	LBP'000	LBP'000
Gross carrying amount, January 1	2,800,000	3,500,000
Financial assets that have been derecognized	(700,000)	(700,000)
Gross carrying amount, December 31	2,100,000	2,800,000
Accrued interest receivable	18,288	22,412
	<u>2,118,288</u>	<u>2,822,412</u>

The movement of expected credit loss allowance on loan to a bank is detailed as follows:

	Stage 1 12-month ECL	
	December 31,	
	2019	2018
	LBP'000	LBP'000
Loss allowance, January 1	65,409	85,101
Net change due to change in balance	(25,373)	(19,692)
Loss allowance, December 31	<u>40,036</u>	<u>65,409</u>

1.4) Loans and advances to customers:

The allocation of loans and advances to customers by grade to their respective stage is presented as follows:

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
BDL Rating 1-2: low to fair risk	1,642,115,706	99,109,895	-	1,741,225,601
BDL Rating 3: Monitoring	4,966,596	233,318,361	-	238,284,957
BDL Rating 4: Substandard	-	-	64,529,283	64,529,283
BDL Rating 5: Doubtful	-	-	137,841,162	137,841,162
BDL Rating 6: Impaired	-	-	45,857,430	45,857,430
Total gross carrying amount	1,647,082,302	332,428,256	248,227,875	2,227,738,433
Loss allowance	(13,495,930)	(46,931,522)	(119,291,860)	(179,719,312)
Carrying Amount	<u>1,633,586,372</u>	<u>285,496,734</u>	<u>128,936,015</u>	2,048,019,121
Accrued interest receivable				<u>23,581,866</u>
				<u>2,071,600,987</u>

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
BDL Rating 1-2: low to fair risk	2,093,970,052	34,648,560	3,615,607	2,132,234,219
BDL Rating 3: Monitoring	4,112,178	170,362,331	-	174,474,509
BDL Rating 4: Substandard	-	-	67,245,061	67,245,061
BDL Rating 5: Doubtful	-	-	126,815,155	126,815,155
BDL Rating 6: Impaired	-	-	44,461,772	44,461,772
Total gross carrying amount	2,098,082,230	205,010,891	242,137,595	2,545,230,716
Loss allowance	(6,384,035)	(12,287,004)	(124,872,963)	(143,544,002)
Carrying Amount	<u>2,091,698,195</u>	<u>192,723,887</u>	<u>117,264,632</u>	2,401,686,714
Accrued interest receivable				<u>20,975,525</u>
				<u>2,422,662,239</u>

Changes in carrying amounts of loans to customers (excluding accrued interest) that contributed to changes in loss allowance is detailed as follows:

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Stage 3 Lifetime ECL LBP'000	Total LBP'000
Gross carrying amount as at January 1, 2019	2,098,082,230	205,010,891	242,137,595	2,545,230,716
Changes in gross carrying amount:				
- Transfer to Stage 1	11,994,610	(9,848,869)	(2,145,741)	-
- Transfer to Stage 2	(172,771,488)	175,164,300	(2,392,812)	-
- Transfer to Stage 3	(8,056,624)	(21,154,072)	29,210,696	-
Changes due to modifications that did not result in derecognition	(563,731,856)	(75,086,997)	(22,005,783)	(660,824,636)
New financial assets originated	293,848,086	58,771,218	8,015,659	360,634,963
Financial assets that have been derecognized	(12,282,656)	(428,215)	(4,591,739)	(17,302,610)
Gross carrying amount as at December 31, 2019	<u>1,647,082,302</u>	<u>332,428,256</u>	<u>248,227,875</u>	<u>2,227,738,433</u>
	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Stage 3 Lifetime ECL LBP'000	Total LBP'000
Gross carrying amount as at January 1, 2018	2,079,316,751	150,575,827	246,192,485	2,476,085,063
Changes in gross carrying amount:				
- Transfer to Stage 1	18,849,306	(17,291,038)	(1,558,268)	-
- Transfer to Stage 2	(70,056,203)	74,534,571	(4,478,368)	-
- Transfer to Stage 3	(11,425,373)	(10,513,885)	21,939,258	-
Changes due to modifications that did not result in derecognition	(204,866,681)	(15,167,746)	(4,545,424)	(224,579,851)
New financial assets originated	566,515,683	49,597,557	8,289,688	624,402,928
Financial assets that have been derecognized	(280,251,253)	(26,724,395)	(23,701,776)	(330,677,424)
Gross carrying amount as at December 31, 2018	<u>2,098,082,230</u>	<u>205,010,891</u>	<u>242,137,595</u>	<u>2,545,230,716</u>
	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Stage 3 Lifetime ECL LBP'000	Total LBP'000
Loss allowance as at January 1, 2019	6,384,035	12,287,004	124,872,963	143,544,002
Changes in the loss allowance:				
- Transfer to Stage 1	99,716	(92,520)	(7,196)	-
- Transfer to Stage 2	(20,341,502)	20,444,542	(103,040)	-
- Transfer to Stage 3	(3,026,104)	(6,765,843)	9,791,947	-
Net change due to increase/decrease in credit risk and change in balance	29,576,733	9,505,960	(13,052,587)	26,030,106
New financial assets originated	926,824	11,801,769	2,708,267	15,436,860
Financial assets that have been derecognized	(73,129)	(245,905)	(75,114)	(394,148)
Transfer to off-balance sheet	-	-	(3,026,048)	(3,026,048)
Write-offs	(50,643)	(3,485)	(1,799,773)	(1,853,901)
Effect of exchange rate changes	-	-	(17,559)	(17,559)
Loss allowance as at December 31, 2019	<u>13,495,930</u>	<u>46,931,522</u>	<u>119,291,860</u>	<u>179,719,312</u>

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Stage 3 Lifetime ECL LBP'000	Total LBP'000
Loss allowance as at January 1, 2018	6,110,197	8,308,165	140,013,228	154,431,590
Changes in the loss allowance:				
- Transfer to Stage 1	61,303	(58,246)	(3,057)	-
- Transfer to Stage 2	(4,393,300)	4,595,380	(202,080)	-
- Transfer to Stage 3	(4,498,770)	(3,626,246)	8,125,016	-
Net change due to increase/decrease in credit risk and change in balance	8,645,228	1,982,861	(8,139,065)	2,489,024
New financial assets originated	1,635,671	2,551,327	4,916,288	9,103,286
Financial assets that have been derecognized	(1,176,294)	(1,433,156)	(13,463,303)	(16,072,753)
Transfer to off-balance sheet	-	-	(4,987,803)	(4,987,803)
Write-offs	-	(33,022)	(1,340,826)	(1,373,848)
Effect of exchange rate changes	-	(59)	(45,435)	(45,494)
Loss allowance as at December 31, 2018	<u>6,384,035</u>	<u>12,287,004</u>	<u>124,872,963</u>	<u>143,544,002</u>

1.5) Investment securities

Investment securities are mainly concentrated with the Lebanese public sector.

The movement of investment securities (excluding accrued interest) classified at amortized cost during 2019 and 2018 is as follows:

	2019		
	LBP LBP'000	F/CY LBP'000	Total LBP'000
Balance, January 1	1,133,189,598	1,409,203,776	2,542,393,374
Acquisition	-	3,768,750	3,768,750
Swaps	6,000,000	(71,154,000)	(65,154,000)
Redemption upon maturity	(153,081,074)	(81,119,858)	(234,200,932)
Sale	-	(26,230,500)	(26,230,500)
Amortization of discount/premium	(925,742)	(52,159)	(977,901)
Change in the unamortized discount/premium	(193,831)	647,303	453,472
Balance, December 31	<u>984,988,951</u>	<u>1,235,063,312</u>	<u>2,220,052,263</u>

	2018		
	LBP LBP'000	F/CY LBP'000	Total LBP'000
Balance, January 1	1,382,405,598	1,637,147,150	3,019,552,748
Initial adoption of IFRS9	(101,164,133)	(98,846,774)	(200,010,907)
Reclassifications	54,974,710	52,020,810	106,995,520
Acquisition	31,000,000	46,732,500	77,732,500
Swaps	26,027,490	(19,296,000)	6,731,490
Redemption upon maturity	(262,800,000)	(53,945,888)	(316,745,888)
Sale	-	(153,385,746)	(153,385,746)
Amortization of discount/premium	(1,373,306)	115,028	(1,258,278)
Change in the unamortized discount/premium	<u>4,119,239</u>	<u>(1,337,304)</u>	<u>2,781,935</u>
Balance, December 31	<u>1,133,189,598</u>	<u>1,409,203,776</u>	<u>2,542,393,374</u>

The movement of investment securities at fair value through other comprehensive income (excluding accrued interest) during 2019 and 2018 is as follows:

	2019		
	LBP LBP'000	F/CY LBP'000	Total LBP'000
Balance, January 1	61,376,141	50,667,665	112,043,806
Sale	-	(1,557)	(1,557)
Redemption upon maturity	(3,000,000)	(12,060,000)	(15,060,000)
Change in fair value	(513,388)	318,829	(194,559)
Amortization of discount/premium	(170,740)	(91,477)	(262,217)
Change in the unamortized discount/premium	24,774	-	24,774
Balance, December 31	<u>57,716,787</u>	<u>38,833,460</u>	<u>96,550,247</u>

	2018		
	LBP LBP'000	F/CY LBP'000	Total LBP'000
Balance, January 1	14,318,131	1,119,962	15,438,093
Initial adoption of IFRS9	53,592,132	66,727,980	120,320,112
Reclassifications	(7,402,710)	-	(7,402,710)
Swaps	(2,560,000)	-	(2,560,000)
Sale	-	(3,370)	(3,370)
Redemption upon maturity	-	(13,513,230)	(13,513,230)
Change in fair value	3,279,436	(4,058,131)	(778,695)
Amortization of discount/premium	(46,886)	(96,072)	(142,958)
Change in the unamortized discount/premium	196,038	490,526	686,564
Balance, December 31	<u>61,376,141</u>	<u>50,667,665</u>	<u>112,043,806</u>

The movement of expected credit loss allowance for investments at amortized cost and investments at fair value through other comprehensive income is as follows:

	Stage 1- 12 months ECL	
	At Amortized Cost LBP'000	At Fair Value through Other Comprehensive Income LBP'000
Loss allowance as at January 1, 2019	20,061,518	1,123,916
New Financial assets purchased	281	-
Financial assets that have been derecognized	(2,321,750)	-
Net provision/(write back) due to change in credit risk	22,030,200	(340,365)
Loss allowance as at December 31, 2019	<u>39,770,249</u>	<u>783,551</u>

	Stage 1- 12 months ECL	
	At Amortized Cost LBP'000	At Fair Value through Other Comprehensive Income LBP'000
Loss allowance as at January 1, 2018	25,487,882	-
New Financial assets purchased	2,715,412	-
Financial assets that have been derecognized	(7,161,193)	-
Net write back due to change in credit risk	(486,845)	-
Reclassifications	(493,738)	1,123,916
Loss allowance as at December 31, 2018	<u>20,061,518</u>	<u>1,123,916</u>

1.6) Customer's liability under acceptances

Customers' liability under acceptances represents facilities granted only for resident customers and are classified as follows:

	December 31, 2019		
	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
BDL Rating 1-2: low to fair risk	25,555,566	-	25,555,566
BDL Rating 3: Monitoring	-	2,776,746	2,776,746
Total gross carrying amount	25,555,566	2,776,746	28,332,312
Loss allowance	(188,182)	(156,082)	(344,264)
Carrying amount	<u>25,367,384</u>	<u>2,620,664</u>	<u>27,988,048</u>

	December 31, 2018		
	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
BDL Rating 1-2: low to fair risk	28,321,761	-	28,321,761
BDL Rating 3: Monitoring	-	4,004,845	4,004,845
Total gross carrying amount	28,321,761	4,004,845	32,326,606
Loss allowance	(181,202)	(205,558)	(386,760)
Carrying amount	<u>28,140,559</u>	<u>3,799,287</u>	<u>31,939,846</u>

Changes in carrying amounts of customer liability under acceptance that contributed to changes in loss allowance is detailed as follows:

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
Gross carrying amount as at January 1, 2019	28,321,761	4,004,845	32,326,606
Changes in gross carrying amount of existing acceptances	(8,035,392)	(663,304)	(8,698,696)
New financial assets originated	7,275,644	364,916	7,640,560
Financial assets that have been derecognized	(2,006,447)	(929,711)	(2,936,158)
Gross carrying amount as at December 31, 2019	<u>25,555,566</u>	<u>2,776,746</u>	<u>28,332,312</u>

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
Gross carrying amount as at January 1, 2018	53,738,042	1,921,354	55,659,396
Changes in gross carrying amount of existing acceptances	(1,611,525)	(921,614)	(2,533,139)
New financial assets originated	21,662,034	3,075,134	24,737,168
Financial assets that have been derecognized	(45,466,790)	(70,029)	(45,536,819)
Gross carrying amount as at December 31, 2018	<u>28,321,761</u>	<u>4,004,845</u>	<u>32,326,606</u>

The movement of expected credit loss allowance on customer's liability under acceptances is as follows:

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
Loss allowance as at January 1, 2019	181,201	205,559	386,760
Net change due to change in balances of existing acceptances	(30,508)	(22,602)	(53,110)
New financial assets originated	48,369	18,169	66,538
Financial assets that have been derecognized	(7,722)	(45,042)	(52,764)
Effect of exchange rate changes	(3,160)	-	(3,160)
Loss allowance as at December 31, 2019	<u>188,180</u>	<u>156,084</u>	<u>344,264</u>

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
Loss allowance as at January 1, 2018	314,041	111,577	425,618
Net change due to change in balances of existing acceptances	(1,906)	(62,407)	(64,313)
New financial assets originated	147,173	160,516	307,689
Financial assets that have been derecognized	(278,107)	(4,127)	(282,234)
Loss allowance as at December 31, 2018	<u>181,201</u>	<u>205,559</u>	<u>386,760</u>

Loan commitments and financial guarantees are classified as follows:

	December 31, 2019		
	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
BDL Rating 1-2: low to fair risk	112,596,241	-	112,596,241
BDL Rating 3: Monitoring	-	1,025,227	1,025,227
Total gross carrying amount	112,596,241	1,025,227	113,621,468
Loss allowance	(263,359)	(101,485)	(364,844)
Carrying amount	<u>112,332,882</u>	<u>923,742</u>	<u>113,256,624</u>

	December 31, 2018		
	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
BDL Rating 1-2: low to fair risk	128,055,914	-	128,055,914
BDL Rating 3: Monitoring	-	644,253	644,253
Total gross carrying amount	128,055,914	644,253	128,700,167
Loss allowance	(380,272)	(33,469)	(413,741)
Carrying amount	<u>127,675,642</u>	<u>610,784</u>	<u>128,286,426</u>

Changes in carrying amounts of loan commitments that contributed to changes in loss allowance is detailed as follows:

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Stage 3 Lifetime ECL LBP'000	Total LBP'000
Gross carrying amount as at January 1, 2019	128,028,606	671,561	-	128,700,167
Changes of the balances of existing commitments (10,372,975)	(61,212)	-	(10,434,187)
New financial assets originated	17,715,498	511,875	-	18,227,373
Financial assets that have been derecognized	(22,424,632)	(447,253)	-	(22,871,885)
Gross carrying amount as at December 31, 2019	<u>112,946,497</u>	<u>674,971</u>	<u>-</u>	<u>113,621,468</u>

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Stage 3 Lifetime ECL LBP'000	Total LBP'000
Gross carrying amount as at January 1, 2018	150,762,178	2,216,230	76,445	153,054,853
Changes in gross carrying amount:				
- Transfer to Stage 1	91,680	(91,680)	-	-
- Transfer to Stage 2	(105,334)	105,334	-	-
Changes of the balances of existing commitments (17,192,186)	(50,006)	-	(17,242,192)
New financial assets originated	57,746,570	476,672	-	58,223,242
Financial assets that have been derecognized	(63,274,302)	(1,984,989)	(76,445)	(65,335,736)
Gross carrying amount as at December 31, 2018	<u>128,028,606</u>	<u>671,561</u>	<u>-</u>	<u>128,700,167</u>

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
Loss allowance as at January 1, 2019	393,282	20,459	413,741
Changes in the loss allowance:			
- Transfer to Stage 2	(69,071)	69,071	-
- Net change due to change in credit risk and balances of existing commitments	(10,840)	(3,755)	(14,595)
New commitments originated or purchased	58,545	1,501	60,046
Cancelled commitments	(71,211)	(22,593)	(93,804)
Effect of exchange rate changes	(544)	-	(544)
Loss allowance as at December 31, 2019	<u>300,161</u>	<u>64,683</u>	<u>364,844</u>

	Stage 1 12-month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Total LBP'000
Loss allowance as at January 1, 2018	346,291	141,673	487,964
Changes in the loss allowance:			
- Transfer to Stage 1	6,581	(6,581)	-
- Transfer to Stage 2	(76)	76	-
- Net change due to change in credit risk and balances of existing commitments	17,071	(5,838)	11,233
New commitments originated or purchased	148,374	22,916	171,290
Cancelled commitments	(124,959)	(131,787)	(256,746)
Loss allowance as at December 31, 2018	<u>393,282</u>	<u>20,459</u>	<u>413,741</u>

Allocation of carrying amount of loans and advances to customers by economic sector:

	December 31,	
	2019 LBP'000	2018 LBP'000
<u>Corporate:</u>		
Agriculture	45,571,117	55,251,455
Commerce	432,058,861	499,761,759
Construction and real estate	456,153,968	496,563,483
Individual	76,849,091	88,854,219
Industrial	129,931,628	154,477,455
Public Sector	8,560,925	8,656,489
Services	<u>128,717,120</u>	<u>166,752,660</u>
	<u>1,277,842,710</u>	<u>1,470,317,520</u>
<u>Retail:</u>		
Retail loans	949,895,723	1,074,913,196
Accrued interest receivable	<u>23,581,866</u>	<u>20,975,525</u>
	<u>2,251,320,299</u>	<u>2,566,206,241</u>

Netting arrangements:

The Group sometimes further restricts its exposure to credit losses by entering into netting arrangements with counterparties. Netting arrangements reduce credit risk associated with favorable contracts to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

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

2. Risk Mitigation Policies

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees

Collateral generally is not held over loans and advances to banks, except when securities are held as part of a reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

3. Financial assets with credit risk exposure and related concentrations

(a) Exposure to credit risk and concentration by counterparty:

The tables below reflect the Group's exposure to credit risk by counterparty segregated between the categories of deposits with banks and financial institutions and loans and advances:

(a.1) *Distribution of deposits with banks and financial institutions by brackets (excluding ECL):*

	December 31, 2019		
	<u>Total Balance LBP'000</u>	<u>% to Total %</u>	<u>Number of Counterparties</u>
Less than LBP5billion	27,162,232	65	34
From LBP5billion to LBP15billion	14,330,017	35	1
	<u>41,492,249</u>	<u>100</u>	<u>35</u>

	December 31, 2018		
	<u>Total Balance LBP'000</u>	<u>% to Total %</u>	<u>Number of Counterparties</u>
Less than LBP5billion	22,975,296	8	29
From LBP5billion to LBP15billion	23,508,595	8	3
From LBP15billion to LBP30billion	58,811,688	20	3
From LBP30billion to LBP50billion	184,398,109	64	3
	<u>289,693,688</u>	<u>100</u>	<u>38</u>

(a.2) Loans and advances to customers are allocated as follows by brackets (carrying amount excluding expected credit losses):

	December 31, 2019		
	<u>Carrying Amount</u> LBP'000	<u>% of Total Amount</u> %	<u>Number of Counterparties</u>
Less than LBP500million	1,062,054,445	48	47,625
From LBP500million to LBP5billion	551,466,954	25	429
From LBP5billion to LBP15billion	283,408,679	12	36
Above LBP15billion	330,808,355	15	11
	2,227,738,433	100	48,101
Accrued interest receivable	23,581,866		
	<u>2,251,320,299</u>		

	December 31, 2018		
	<u>Carrying Amount</u> LBP'000	<u>% of Total Amount</u> %	<u>Number of Counterparties</u>
Less than LBP500million	1,235,479,044	48	50,216
From LBP500million to LBP5billion	614,684,132	24	473
From LBP5billion to LBP15billion	369,804,686	15	46
Above LBP15billion	325,262,854	13	10
	2,545,230,716	100	50,745
Accrued interest receivable	20,975,525		
	<u>2,566,206,241</u>		

(a.3) Details of the Group's exposure to credit risk with respect to loans and advances to customers:

	December 31, 2019									
	Carrying Values of Collaterals Received									
	Carrying amount LBP'000	Expected Credit Losses LBP'000	Net amount LBP'000	Pledged Funds LBP'000	Bank Guarantees LBP'000	Properties on Mortgage LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	Others LBP'000	Lesser of Individual Exposure or Total Guarantees LBP'000
Performing – Stages 1 and 2	2,006,906,523	(60,427,452)	1,946,479,071	203,892,197	40,112,111	1,824,042,914	3,137,108	226,125	502,783,298	1,334,692,184
Substandard – Stage 3	64,529,220	(13,398,543)	51,130,677	175,265	713,929	77,521,594	-	-	20,680,809	58,067,300
Doubtful – Stage 3	134,031,262	(60,253,197)	73,778,065	98,295	5,036,537	151,546,329	-	-	11,971,261	123,096,493
Loss – Stage 3	45,853,294	(45,640,120)	213,174	63,482	1,089,551	1,460,889	-	-	20,635,653	13,389,343
	2,251,320,299	(179,719,312)	2,071,600,987	204,229,239	46,952,128	2,054,571,726	3,137,108	226,125	556,071,021	1,529,245,320

	December 31, 2018									
	Carrying Values of Collaterals Received									
	Carrying amount LBP'000	Expected Credit Losses LBP'000	Net amount LBP'000	Pledged Funds LBP'000	Bank Guarantees LBP'000	Properties on Mortgage LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	Others LBP'000	Lesser of Individual Exposure or Total Guarantees LBP'000
Performing – Stages 1 and 2	2,324,068,646	(18,671,039)	2,305,397,607	273,916,231	50,522,071	2,429,713,962	3,137,108	286,425	575,523,152	1,526,574,273
Substandard – Stage 3	67,245,061	(13,008,995)	54,236,066	474,452	1,546,928	80,026,225	-	-	9,551,854	61,185,415
Doubtful – Stage 3	130,430,762	(67,820,827)	62,609,935	90,672	5,801,747	137,174,589	-	-	9,013,985	112,330,096
Loss – Stage 3	44,461,772	(44,043,141)	418,631	21,029	1,044,810	1,353,547	-	-	18,223,396	12,332,905
	2,566,206,241	(143,544,002)	2,422,662,239	274,502,384	58,915,556	2,648,268,323	3,137,108	286,425	612,312,387	1,712,422,689

Overdue but not impaired loans as at December 31, 2019 and 2018 are as follows:

	2019	2018
	LBP'000	LBP'000
Between 60 and 90 days	82,361,114	26,672,384
Between 90 and 180 days	128,082,935	68,497,271
Between 180 and 360 days	30,990,525	4,916,520
Over 360 days	5,666,167	7,985,560
	<u>247,100,741</u>	<u>108,071,735</u>

(a.4) *Concentration of major financial assets and liabilities by geographical location:*

	December 31, 2019				
	Lebanon	Middle East	North	Europe	Other
	LBP'000	and Africa	America	LBP'000	LBP'000
	LBP'000	LBP'000	LBP'000	LBP'000	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS					
Cash and Central Bank	1,959,272,028	-	-	-	1,959,272,028
Deposits with banks and					
financial institutions	2,591,901	1,663,777	7,330,279	29,783,204	41,369,161
Loan to a bank	2,078,252	-	-	-	2,078,252
Investments at fair value					
through profit or loss	20,497,682	-	-	15,610,037	36,107,719
Loans and advances to customers	1,976,556,994	76,226,029	7,204,781	8,486,450	2,071,600,987
Investments at amortized cost	2,213,812,236	-	-	-	2,213,812,236
Investments at fair value through					
other comprehensive income	97,495,880	-	-	-	97,495,880
Total	<u>6,272,304,973</u>	<u>77,889,806</u>	<u>14,535,060</u>	<u>53,879,691</u>	<u>6,421,736,263</u>
FINANCIAL LIABILITIES					
Deposits from banks	112,012,965	46,305,237	-	15,428,095	173,746,297
Customers' accounts	4,447,377,184	619,755,599	67,575,714	130,128,901	5,310,511,959
Other borrowings	347,425,980	400,123	-	-	347,826,103
Lease liability	22,065,854	-	-	-	22,065,854
Total	<u>4,928,881,983</u>	<u>666,460,959</u>	<u>67,575,714</u>	<u>145,556,996</u>	<u>5,854,150,213</u>

	December 31, 2018					
	Lebanon	Middle East	North			
	LBP'000	and Africa	America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<u>FINANCIAL ASSETS</u>						
Cash and Central Bank	1,637,968,787	-	-	-	-	1,637,968,787
Deposits with banks and						
financial institutions	4,766,774	4,426,039	17,129,723	261,297,963	1,438,166	289,058,665
Loan to a bank	2,757,003	-	-	-	-	2,757,003
Investments at fair value						
through profit or loss	23,495,906	-	-	31,970,337	-	55,466,243
Loans and advances to customers	2,335,011,501	69,177,489	5,771,896	10,589,750	2,111,603	2,422,662,239
Investments at amortized cost	2,574,437,894	-	-	-	-	2,574,437,894
Investments at fair value through						
other comprehensive income	113,508,874	-	-	-	-	113,508,874
Total	6,691,946,739	73,603,528	22,901,619	303,858,050	3,549,769	7,095,859,705
<u>FINANCIAL LIABILITIES</u>						
Deposits from banks	75,867,856	45,442,402	-	27,846,751	-	149,157,009
Customers' accounts	4,761,801,814	668,948,993	76,736,972	328,839,125	55,054,225	5,891,381,129
Other borrowings	399,942,046	4,518,362	-	-	-	404,460,408
Total	5,237,611,716	718,909,757	76,736,972	356,685,876	55,054,225	6,444,998,546

B. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. That being said, Lebanon is facing adverse conditions and high level of uncertainty since October 2019 and up to the date of the financial statements, as a result of deterioration of the economic environment following the social unrest which lead to disruption of normal operations of most business sectors and closure of the banking sector for a period of time during the last quarter of 2019, resulting in a de-facto capital control, leading to incremental credit risks and restricted access to foreign currency among other adverse factors.

1. *Management of liquidity risk*

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels due to changes in their business operations or unanticipated events. Through Assets and Liabilities Committee, the Board of Directors is responsible for establishing the liquidity policy as well as approving operating and contingency procedures and monitoring liquidity on an ongoing basis. The treasury department is responsible for planning and executing their funding activities and strategy.

Liquidity management and business unit activities are managed consistent with a strategy of funding stability, flexibility and diversity. It includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met;
- Maintenance of a portfolio of liquid and marketable assets;
- Daily and forecast cash flow management;
- Implementation of long-term funding strategies.

The cumulative impact of these various elements is monitored on at least monthly basis by ALCO. Monitoring and reporting take the form of cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

The Group relies on deposits from customers and on its own equity, as the primary sources of funding.

2. *Exposure to liquidity risk*

Regulatory requirements

The Group ensures that it is in compliance with the liquidity limits in Lebanese Pound and foreign currencies as established by the Central Bank of Lebanon.

The table below shows the allocation of major monetary liabilities based on the earliest possible contractual maturity (undiscounted values). The expected maturities vary significantly from the contractual maturities namely with regard to customers' deposits.

Residual contractual maturities of financial liabilities

	December 31, 2019				
	Up to	3 Months to	1 Year to	3 Years to	Over
	3 Months	3 Months to	1 Year to	3 Years to	5 Years
	LBP'000	1 Year	3 Years	5 Years	LBP'000
Deposits from banks	163,696,297	10,050,000	-	-	-
Customers' accounts at amortized cost	4,195,974,078	867,796,858	220,454,402	25,759,005	527,616
Lease Liabilities	1,097,045	906,468	4,767,622	4,101,473	11,193,246
Other borrowings	2,638	397,485	-	-	347,425,980
	4,360,770,058	879,150,811	225,222,024	29,860,478	359,146,842
					5,854,150,213

	December 31, 2018				
	Up to	3 Months to	1 Year to	3 Years to	Over
	3 Months	3 Months to	1 Year to	3 Years to	5 Years
	LBP'000	1 Year	3 Years	5 Years	LBP'000
Deposits from banks	95,520,009	53,637,000	-	-	-
Customers' accounts at amortized cost	5,169,828,129	680,007,000	32,424,000	9,122,000	-
Other borrowings	22,309,510	82,943	-	-	382,067,955
	5,287,657,648	733,726,943	32,424,000	9,122,000	382,067,955
					6,444,998,546

C. Market Risk

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

Exposure to foreign exchange risk:

Below is the carrying value of assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end:

	December 31, 2019					
	<u>LBP</u>	<u>USD</u>	<u>Euro</u>	<u>GBP</u>	<u>Other</u>	<u>Total</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
<u>ASSETS</u>						
Cash and Central Bank	851,700,744	1,011,909,044	94,930,594	731,646	-	1,959,272,028
Deposits with banks and Financial institutions	446,318	13,190,071	20,016,368	2,337,216	5,379,188	41,369,161
Loan to a bank	2,078,252	-	-	-	-	2,078,252
Investments at fair value through profit or loss	5,180,551	25,405,282	5,521,886	-	-	36,107,719
Loans and advances to customers	741,377,916	1,296,621,101	35,115,221	4,660	(1,517,911)	2,071,600,987
Investments at amortized cost	992,897,494	1,220,914,742	-	-	-	2,213,812,236
Investments at fair value through other comprehensive income	58,483,730	38,942,718	69,432	-	-	97,495,880
Customers' liability under acceptances	-	15,349,432	10,700,471	-	1,938,145	27,988,048
Assets acquired in satisfaction of loans	11,985,064	71,990,977	-	-	-	83,976,041
Right-of-use assets	1,726,879	20,615,833	-	-	6,881	22,349,593
Property and equipment	94,881,950	-	-	-	-	94,881,950
Intangible assets	4,618,351	-	-	-	-	4,618,351
Other assets	18,122,224	12,659,198	599,753	19,975	93,881	31,495,031
Assets classified as held-for-sale	-	-	21,732,835	-	-	21,732,835
Total Assets	<u>2,783,499,473</u>	<u>3,727,598,398</u>	<u>188,686,560</u>	<u>3,093,497</u>	<u>5,900,184</u>	<u>6,708,778,112</u>
<u>LIABILITIES</u>						
Deposits from banks	111,355,615	24,364,839	38,025,843	-	-	173,746,297
Customers' accounts	1,771,846,930	3,346,845,218	185,083,516	3,062,938	3,673,357	5,310,511,959
Liability under acceptances	-	15,591,648	10,802,519	-	1,938,145	28,332,312
Other borrowings	317,888,463	29,937,640	-	-	-	347,826,103
Lease liability	1,801,913	20,263,923	-	-	18	22,065,854
Other liabilities	45,215,672	20,683,604	372,931	494	11,373	66,284,074
Provisions	18,648,628	617,501	1,209,617	-	-	20,475,746
Liabilities directly associated with assets classified as held for sale	-	-	769,393	-	-	769,393
Total Liabilities	<u>2,266,757,221</u>	<u>3,458,304,373</u>	<u>236,263,819</u>	<u>3,063,432</u>	<u>5,622,893</u>	<u>5,970,011,738</u>
Currency to be received	-	683,574	-	-	-	683,574
Currency to be delivered	-	-	(590,412)	-	(89,765)	(680,177)
	<u>-</u>	<u>683,574</u>	<u>(590,412)</u>	<u>-</u>	<u>(89,765)</u>	<u>3,397</u>
Net assets	<u>516,742,252</u>	<u>269,977,599</u>	<u>(48,167,671)</u>	<u>30,065</u>	<u>187,526</u>	<u>738,769,771</u>

	December 31, 2018					
	LBP LBP'000	USD LBP'000	Euro LBP'000	GBP LBP'000	Other LBP'000	Total LBP'000
ASSETS						
Cash and Central Bank	846,384,571	787,398,507	2,641,252	1,544,457	-	1,637,968,787
Deposits with banks and Financial institutions	1,388,000	67,202,885	207,197,103	4,867,395	8,403,282	289,058,665
Loan to a bank	2,757,003	-	-	-	-	2,757,003
Investments at fair value through profit or loss	5,478,099	44,527,436	5,460,708	-	-	55,466,243
Loans and advances to customers	929,937,137	1,478,852,351	15,401,815	140,495	(1,669,559)	2,422,662,239
Investments at amortized cost	1,163,839,026	1,410,598,868	-	-	-	2,574,437,894
Investments at fair value through other comprehensive income	62,168,124	51,269,760	70,990	-	-	113,508,874
Customers' liability under acceptances	-	11,709,001	18,499,484	-	1,731,361	31,939,846
Assets acquired in satisfaction of loans	12,352,944	71,508,402	-	-	-	83,861,346
Property and equipment	89,895,039	-	-	-	-	89,895,039
Intangible assets	4,342,575	-	-	-	-	4,342,575
Other assets	16,234,774	18,305,274	(8,622,530)	41,767	4,063	25,963,348
Assets classified as held-for-sale	-	-	1,297,343,966	-	-	1,297,343,966
Total Assets	<u>3,134,777,292</u>	<u>3,941,372,484</u>	<u>1,537,992,788</u>	<u>6,594,114</u>	<u>8,469,147</u>	<u>8,629,205,825</u>
LIABILITIES						
Deposits from banks	22,243,138	87,269,241	39,644,630	-	-	149,157,009
Customers' accounts	2,133,718,438	3,433,602,744	311,518,402	6,660,656	5,880,889	5,891,381,129
Liability under acceptances	-	11,936,107	18,650,633	-	1,739,866	32,326,606
Other borrowings	374,220,800	30,239,608	-	-	-	404,460,408
Other liabilities	47,975,207	30,517,639	423,167	5,868	11,113	78,932,994
Provisions	19,588,524	337,914	-	-	-	19,926,438
Liabilities directly associated with assets classified as held for sale	-	-	1,172,758,271	-	-	1,172,758,271
Total Liabilities	<u>2,597,746,107</u>	<u>3,593,903,253</u>	<u>1,542,995,103</u>	<u>6,666,524</u>	<u>7,631,868</u>	<u>7,748,942,855</u>
Currency to be received	-	10,080,373	11,091,739	-	10,330,267	31,502,379
Currency to be delivered	-	(18,668,145)	(2,467,695)	-	(10,330,214)	(31,466,054)
	<u>-</u>	<u>(8,587,772)</u>	<u>8,624,044</u>	<u>-</u>	<u>53</u>	<u>36,325</u>
Net assets	<u>537,031,185</u>	<u>338,881,459</u>	<u>3,621,729</u>	<u>(72,410)</u>	<u>837,332</u>	<u>880,299,295</u>

The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars and Euros. As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are valued at the official exchange rate, whereas there is high volatility and significant variance in the multiple unofficial exchange rates in the parallel markets that have emerged since the start of the economic crisis and the de-facto capital control on foreign currency withdrawals and transfers overseas, and therefore, management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognized in the financial statements once the official exchange rate is changed by the relevant authorities.

Interest rate risk

Interest rate risk represents exposures to instruments whose values vary with the level of volatility of interest rates. These instruments include, but are not limited to, loans, debt securities, certain trading-related assets and liabilities, deposits, borrowings and derivative instruments. Interest rate repricing gap is used to estimate the impact on earnings of an adverse movement in interest rates.

Exposure to Interest rate risk

Below is a summary of the Group's interest rate gap position on major financial assets and liabilities reflected at carrying amounts at year end by repricing time bands:

	Weighted Average Interest Rate %	December 31, 2019					Total LBP'000
		Not Subject to Interest LBP'000	Less than 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	
FINANCIAL ASSETS							
Cash and Central Bank	6.09	207,873,028	89,696,000	93,386,000	242,758,000	329,262,000	1,959,272,028
Deposits with banks and financial institutions	0.35	1,521,400	39,847,761	-	-	-	41,369,161
Loan to a bank	2.96	18,252	-	2,060,000	-	-	2,078,252
Investment securities at fair value through profit or loss	1.31	-	15,456,000	4,558,290	16,093,429	-	36,107,719
Loans and advances to customers	8.88	128,935,668	570,581,545	124,542,045	325,417,199	317,503,105	2,071,600,987
Investment securities at amortized cost	7.37	43,151,435	65,602,000	72,348,500	266,431,000	59,775,000	2,213,812,236
Investment securities at fair value through other comprehensive income	5.11	19,450,880	1,207,000	47,650,000	18,171,000	11,017,000	97,495,880
		<u>400,950,663</u>	<u>782,390,306</u>	<u>344,544,835</u>	<u>868,870,628</u>	<u>717,557,105</u>	<u>6,421,736,263</u>
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	9.9	59,421,904	104,274,393	10,050,000	-	-	173,746,297
Customer's deposits and credit balances	6.81	458,197,959	3,737,775,000	867,797,000	220,455,000	25,759,000	5,310,511,959
Lease Liability	8.5	-	1,097,045	906,468	4,767,622	4,101,473	22,065,854
Other borrowings	0.84	2,638	-	397,485	-	-	347,826,103
		<u>517,622,501</u>	<u>3,843,146,438</u>	<u>879,150,953</u>	<u>225,222,622</u>	<u>29,860,473</u>	<u>5,854,150,213</u>

Weighted Average Interest Rate %	December 31, 2018					
	Not Subject to Interest LBP'000	Less than 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000
	Total LBP'000					
FINANCIAL ASSETS						
Cash and Central Bank	5.71	141,633,296	138,690,000	36,180,491	133,414,000	288,233,000
Deposits with banks and financial institutions	0.53	229,781,938	59,276,727	-	-	-
Loan to a bank	2.56	25,003	-	2,732,000	-	-
Investment securities at fair value through profit or loss	3.81	15,379,953	3,395,000	16,602,290	20,089,000	-
Loans and advances to customers	7.45	117,253,253	757,446,000	162,181,000	391,001,000	332,919,000
Investment securities at amortized cost	6.87	33,318,436	122,682,000	168,716,000	280,354,000	220,167,928
Investment securities at fair value through other comprehensive income	4.17	20,084,084	-	15,104,000	62,021,000	15,220,790
		557,475,963	1,081,489,727	401,515,781	886,879,000	856,540,718
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	3.40	4,104,968	91,415,041	53,637,000	-	-
Customer's deposits and credit balances	5.37	418,405,129	4,751,423,000	680,007,000	32,424,000	9,122,000
Other borrowings	1.16	195,388	22,114,124	82,943	-	-
		422,705,485	4,864,952,165	733,726,943	32,424,000	9,122,000

Weighted average interest rate with Central Bank of Lebanon is normalized to exclude the impact of the assets under leverage arrangements.

D. Other Operational Risks

Litigation Risk

Litigation risk arises from pending or potential legal proceedings against the Group (Note 42) and in the event that legal issues are not properly dealt with by the Group. Litigation that may arise, whether from lawsuits or from arbitration proceedings, may affect the operations of the Group as well as its results.

Since October 17, 2019, and as a result of the de-facto capital control and other measures adopted by Lebanese banks imposing various restrictions of free flow of customers' funds deposited with the banking sector, the Group has been subject to an increased litigation risk. Management is monitoring and assessing the impact of existing and/or potential litigation and claims against the Group in relation to these restrictive measures taking into consideration prevailing laws, regulations and local banking practices. Although there are uncertainties with respect to outcomes of any litigation in connection with the adoption of the various restrictive measures, management considers that any associated claims are unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

42. COMMITMENTS AND CONTINGENCIES

The Bank is defendant in several lawsuits, whereby the aggregate amount claimed by the plaintiffs is around LBP8.6billion.

In 2017, the Bank's accounts and tax returns for the years 2012 till 2014 (inclusive) were subject to examination by the tax authorities which resulted in a preliminary assessment of LBP2.99billion. A final decision was reached in 2018 where the Bank settled LBP2.8billion. The Bank's tax returns for the years 2015 till 2019 inclusive are still subject to review by the relevant tax authorities. Any additional tax liability depends on the outcome of such reviews.

Moreover, in 2017, the Bank's social security declarations for the years 2013 till October 2017 were reviewed resulting in an additional liability of LBP1billion which was settled during 2017 against provision for risk and charges. The Bank's social security declarations for the remaining period is still subject to review by the relevant social security authorities. Any additional social security liability depends on the outcome of such reviews.

43. CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by Central Bank of Lebanon.

Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch.

The Group's capital is split as follows:

Tier I capital : Comprises share capital (common and preferred), premium on preferred shares, reserves from appropriation of profits, retained earnings after deductions for intangible assets and other regulatory adjustments.

Cumulative unfavorable change in fair value of assets designated at fair value through other comprehensive income are deducted from Tier I Capital.

Tier II capital : Comprises 50% of the cumulative favorable change in fair value for investments classified at fair value through other comprehensive income and other regulatory reserves.

The Group's consolidated capital adequacy ratio was as follows:

	December 31,	
	2019	2018
	LBPmillion	LBPmillion
Common equity Tier I	365,759	617,358
Additional Tier I capital	152,787	152,787
	518,546	770,145
Tier II capital	57,255	39,545
Total regulatory capital	575,801	809,690
Credit risk	5,303,935	3,802,962
Market risk	57,220	49,500
Operational risk	319,843	354,408
Risk-weighted assets and risk-weighted off-balance sheet items	5,680,998	4,206,870
Equity Tier I ratio	6.44%	14.67%
Tier I capital ratio	9.13%	18.31%
Risk based capital ratio - Tier I and Tier II capital	10.14%	19.25%

The Central Bank of Lebanon issued an intermediary circular # 527 dated September 18, 2019, amending the risk weights in the capital adequacy ratio computation. Moreover, subsequent to the financial position date, the Central Bank of Lebanon issued another intermediary circular # 543 dated February 3, 2020 related to Capital Adequacy Framework. Main changes are summarized as follows:

- Risk weight applied on Central Bank of Lebanon exposure in foreign currencies (including certificates of deposit) is set at 150% instead of 50% (excluding short term placements and certificates of deposit with original maturity less than one year which were kept at 50%).
- Capital conservation buffer is set at 2.5% instead of 4.5%. In case this buffer falls below 2.5%, banks are required to reconstitute common equity Tier I ratio in a maximum period of three years according to an approved plan by the Banking Control Commission.

- The new minimum capital ratios are as follows:

	<u>%</u>
Common Equity Tier I Ratio	7.0
Tier I ratio	8.5
Total Capital ratio	10.5

- Banks are prohibited from distributing any dividends in case their Capital Ratios are below the following:

	<u>%</u>
Common Equity Tier I Ratio	7.0
Tier I ratio	10.0
Total Capital ratio	12.0

- Increasing regulatory expected credit losses for all resident financial assets including bank's exposures to Central Bank of Lebanon in foreign currencies.

On August 26, 2020 the Central Bank of Lebanon issued intermediate circular no. 567 in which, among other things, it amends the regulatory ECL on foreign placements with the government to 45% and allows the constitution of the regulatory ECL progressively over a period of five years, noting that the BDL central council may accept to extend the term to ten years for banks that manage to complete the 20% cash contribution to capital before December 31, 2020.

44. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

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

As a result of the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector in Lebanon, is experiencing, as described in Note 1, management is unable to produce reasonable estimation of the fair value of financial assets and liabilities concentrated in Lebanon as the measurement of their fair value is either (i) dependent on prices quoted in a market that is severely inactive and illiquid; or (ii) determined using cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

45. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group carries on transactions with subsidiaries and related parties, balances of which are disclosed in the statement of financial position in Notes 6, 8, 9, 17, 18 and 19 and in the statement of profit or loss in Notes 28, 29, 34, and 35.

Remuneration to executive management paid during 2019 amounted to LBP3.7billion (LBP2billion in 2018).

46. EVENTS AFTER THE END OF THE REPORTING PERIOD

- i. The existence of Novel Coronavirus (Covid-19) was confirmed in January 2020 in mainland China and has subsequently spread to many other countries around the world. This event has caused widespread disruptions to the business, with a consequential negative impact on economic activity. The Bank considers this event to be a non-adjusting event after the reporting period and therefore has not made any adjustments to the financial statements as a result of this matter. The effect of Covid-19 on the Bank will be incorporated in the determination of the Bank's estimates in 2020, knowing that the uncertainties caused by COVID-19, will require the Bank to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") and revise the forecast used as part of the assessment for the going concern as well.
- ii. Subsequent to the financial position date, on the March 7, 2020, the Lebanese Government has announced its decision to default on its 6.375% US\$1,200,000,000 bonds due March 9, 2020 and on all the remaining outstanding maturities in foreign currencies. Refer to Note 1.
- iii. Subsequent to the financial position date, on August 4, 2020, a devastating deadly explosion occurred in the Beirut seaport resulting in severe property damages and loss of lives. Refer to Note 1.

47. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2019 were approved by the Board of Directors in its meeting held on September 17, 2020.