

ANNUAL REPORT 2018



OUR VISION

To be a reference in the financial services industry making complex banking simple and bringing the best to you.

OUR VALUES

- We do what we say;
- We do it with integrity;
- We are performance driven;
- We promote gender equality;
- We are responsible corporate citizens.

OUR MISSION

To provide a wide range of state-of-the-art, innovative and competitive financial products and services, in a simple and efficient way, leveraging innovation, technology and excellence, in order to deliver what matters to our customers, shareholders, employees and community.

FOUR PILLARS

Four pillars will constantly guide our development and will always remain our focal point:

- Professionalism;
- Innovation;
- Excellence;
- Technology.

TABLE OF CONTENT

04 Chairman's Letter	20 Customer Care and Quality Assurance	33 Consolidated Statement of Profit or Loss and Other Comprehensive Income
05 Corporate Governance	22 Corporate Social Responsibility Achievements	34 Consolidated Statement of Changes in Equity
06 Shareholders' Structure	24 Financial Highlights	35 Consolidated Statement of Cash Flows
07 Board of Directors	27 Auditor's Report	37 Notes to the Consolidated Financial Statements
13 Committees	28 Independent Auditor's Report	39 Impact of change in classification and measurement
15 Organization Chart	30 Consolidated Statement of Financial Position	95 Brilliant Lebanese Awards
16 Loans to Related Parties	32 Consolidated Statement of Profit or Loss	97 Awards
17 Internal Control		99 BLC Bank Network
18 Risk Management		
18 Internal Audit		
19 Compliance		

CHAIRMAN'S LETTER



Dear Stakeholders,

2018 was a year filled with movement and challenges. We faced a difficult time and came across a threatening economic situation. However, we proved once again that we are up to this challenge. I am delighted to say that BLC Bank met these challenges and fulfilled business objectives, while leaving a positive impact in our surrounding environment.

Our vision is to be a reference in the financial services industry making complex banking simple and bringing the best to you. We treasure our engagement with each stakeholder, aiming thus at meeting their demands, satisfying their needs & exceeding their expectations. Our clients, employees and shareholders, each occupy the center of our attention and the core of our focus.

It is worth mentioning that BLC Bank has been playing a key role in promoting gender equality. As the first bank in the region committed to women's economic empowerment, BLC Bank has developed internal and external programs to become the Bank and employer of choice for Lebanese women. We are also the first bank in the Middle East and North Africa region to join and contribute to the Global Banking Alliance for Women and to commit to the UN Women Empowerment Principles and SDG#5 that promotes gender equality.

Our unwavering belief that determination and consistency are essential in driving growth, expanding capabilities and unleashing opportunities in the Lebanese market is translated through our support to Lebanese entrepreneurs, SMEs and our dedication to women economic empowerment. Through Brilliant Lebanese Awards (BLA) launched in 2012, first of its kind awards in the MENA region, BLC Bank has been playing a pivotal role in sustaining the Lebanese economy and increasing the national GDP. We believe in Lebanese achievements and we never gave up on our outstanding entrepreneurs and Lebanese businesses. Despite the challenging economic situation, we are committed to continuously support this often overlooked sector, trusting their contribution to the Lebanese economy. Due to the prominence of tech industry, we added in 2018 "The Tech Innovation of the Year" award. Thus, we are increasing the chances of the Bank in honoring the success and contributions of Lebanese men and women from all over the country. In spite of everything, we still believe in a Brilliant Lebanon.

At BLC Bank, we aim at reaching new horizons and we remain devoted to the main pillars guiding our development: Professionalism, Innovation, Excellence and Technology. BLC Bank managed to maintain professional standards, preserving its position among the Lebanese leading banks and confirming its identity as a dynamic and innovative bank.

Being more resilient than ever, we witnessed a remarkable success, enriching hence our history with exceptional milestones. In October, we received a trophy from Oracle for being the first to implement the SuperCluster M8 in Lebanon, being the world's fastest engineered system while having the most advanced security features. In November, we received the GBA Women's Market Champion – 2018 Data Award for having reported extraordinarily high-quality sex-disaggregated data to GBA at the GBA Summit held in Jordan.

BLC Bank will never cease supporting Lebanese entrepreneurs, allowing the Lebanese economy to flourish despite these ever-changing circumstances and striving to make our beloved country a better place for upcoming generations.

Tomorrow's challenges are inevitable and must not be underestimated. However, our purpose is clear and we are firmly equipped to improve the economic cycle and relentlessly support our clients allowing communities to thrive.

On behalf of the Board of Directors, I would like to thank our valued stakeholders for placing their trust in BLC Bank. Your commitment motivates us to always go the extra mile and your loyalty inspires change in an increasingly complex world.

NADIM KASSAR
Chairman & General Manager

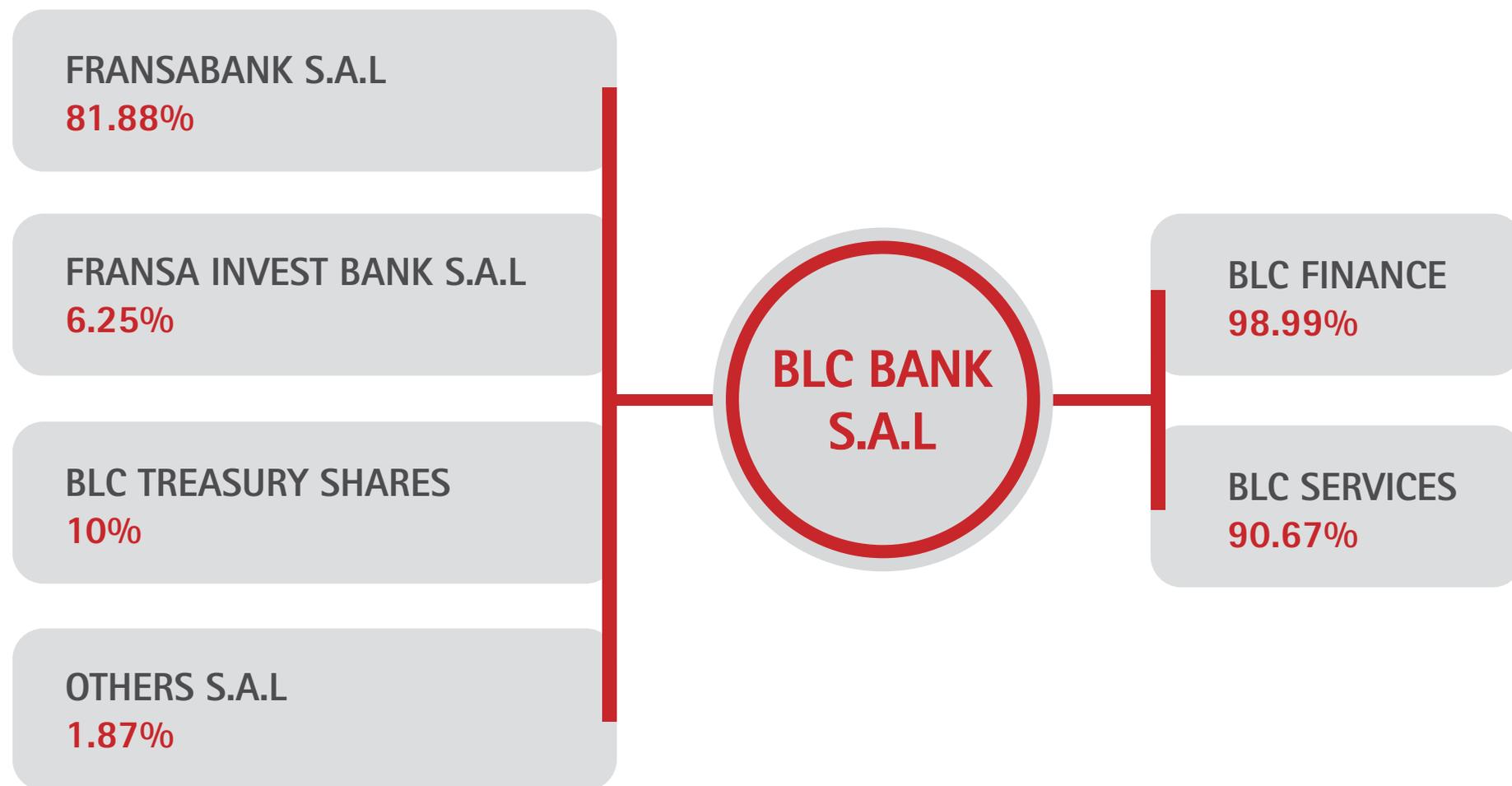
A handwritten signature in black ink, appearing to be 'Nadim Kassar', written over a faint circular watermark or background element.

05

***CORPORATE
GOVERNANCE***



SHAREHOLDERS' STRUCTURE



BOARD OF DIRECTORS BIOGRAPHIES



MR. NADIM KASSAR
Chairman and General Manager

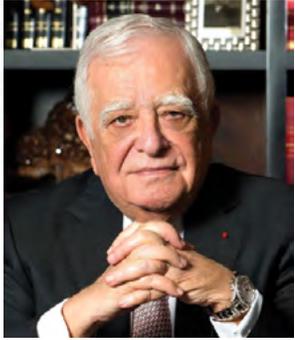
Mr. Nadim Kassar is the Chairman and General Manager of BLC Bank SAL. He was elected in 2019 as Vice-Chairman for the Association of Banks in Lebanon (ABL), where he was Board Member since 2001. In addition, he has been lately nominated Co-Chairman of Mastercard Middle East and Africa Advisory Board of Directors, while he occupied since 2005 the position of Board Member for Mastercard Incorporated Asia, Pacific, Middle East & Africa, APMEA Regional Board of Directors. In addition, he holds currently the following positions: General Manager of Fransabank SAL, Founder and Board Member of Fransa Invest Bank SAL (FIB), Founder and Chairman of Fransabank Al Djazaïr SPA, Board Member of Lebanese International Finance Executives (LIFE), Co-Manager of A.A. Kassar (France) SARL and General Manager of A.A. Kassar SAL. Mr. Kassar also is a Board Member of the following institutions: NetCommerce, Interbank Payment Network, IPN SAL, Credit Card Management, Founder and Board Member of the American Lebanese Chamber of Commerce (ALCC). He holds as well the position of Vice Chairman of Société Financière du Liban. His social activities includes the Makassed Philanthropic Islamic Association in Beirut as a Member of the Board of Trustees, a Member of the Lebanese-Chinese inter-parliamentary friendship committee, a Member of the Lebanese-Tunisian friendship committee and Treasurer of the Comité des Propriétaires- Ouyoun As Simane. Mr. Kassar is born in 1964 and holds a Bachelor's degree in Business Administration from the American University of Beirut.



MR. NABIL KASSAR
Vice Chairman

Mr. Nabil Kassar, born in 1970, holds a Bachelor's degree in Law from Saint Joseph University. With more than twenty years of experience in International Banking and Finance, Mr. Kassar is the Vice Chairman of BLC Bank SAL, a General Manager of Fransabank SAL and the Chairman General Manager of Fransa Invest Bank SAL (the investment arm of Fransabank SAL), as well as Fransa Land SAL and A.A. Kassar SAL (Holding).

He is also a Board Member of Bancassurance SAL and serving as Fransabank SAL Board Representative at Fransabank France SA and Fransabank El Djazaïr SPA. He is also a Shareholder in A.A. Kassar SAL and A.A. Kassar SAL (Offshore)"



MR. ADNAN KASSAR
Chairman and CEO Of Fransabank Group

Mr. Adnan Kassar is the Chairman and CEO of Fransabank Group. In 1980, he and his brother Adel acquired Fransabank and have lead the Bank ever since. He is also a member of the Board of Directors of BLC Bank SAL, and Fransabank (France) SA. He is also the Chairman of the Supervisory Board of Fransabank OJSC in Belarus. Mr. Kassar also served as Minister of Economy and Trade in Lebanon from 2004 to 2005 and Minister of State in Lebanon from 2009 to 2011. He was the first Arab businessman elected Chairman of the International Chamber of Commerce and headed the World Business Organization from 1999 to 2000. He is also former President of the Lebanese Federation of Chambers of Commerce, Industry and Agriculture in Lebanon and headed this federation for over thirty years (1972 to 2002). He is the Honorary President of the Lebanese Economic Organizations and the Honorary Chairman of the Union of Arab Chambers which groups millions of companies and associations from the 22 member Arab countries. He is the Honorary Chairman of the Silk Road Chamber of International Commerce (SRCIC) and Honorary Chairman of the United Nations Continental Maritime Silk Road Cities Alliances, both titles presented to him in 2016. Born in 1930, Mr. Kassar holds a Bachelor's degree in Law from Université Saint Joseph, Beirut and an Honorary Doctorate from the Lebanese American University. Mr. Kassar has received global awards and high distinguished decorations from many Heads of States and International Organizations, including the Oslo Business for Peace Award in 2014, and the "China Arab Outstanding contribution" award from China's President Xi in 2016.



MR. ADEL KASSAR
Deputy Chairman and CEO Of Fransabank Group

Mr. Adel Kassar's career spans over more than six decades. He currently leads as the Deputy Chairman and Chief Executive Officer of Fransabank SAL and the Chairman of the Board of Directors of Fransabank (France) SA. He is also Chairman of the Board of Directors and General Manager of Bancassurance SAL and Lebanese Leasing Company SAL. He is a member of the Supervisory Board of Fransabank OJSC in Belarus and member of the Board of Directors of BLC Bank SAL. He is a former Chairman of the Banks Association in Lebanon and the Honorary Consul General of the Republic of Hungary in Lebanon. Born in 1932, Mr. Kassar holds a degree in Lebanese and French Law from Université Saint Joseph.



ME. WALID DAOUK
Board Member

Me. Walid Daouk is an accomplished lawyer in Lebanon specializing in commercial, civil, and property laws. In 1981, he started his practice as associate in Takla Et Trad law firm thereafter became a partner and Vice Chairman of the International Affairs Commission at the Beirut Bar Association, in 2005, followed by becoming a member of its Arbitration Commission, in 2008. In 2011, he was appointed Minister of Information and per interim Minister of Justice until 2014. Today, Me. Daouk is a member of the Board of numerous local and international banking, real estate trading, and insurance corporations, including Fransabank SAL (Lebanon), Fransabank (France) SA, Fransabank El Djazaïr SPA (Algeria), BLC Bank SAL (Lebanon), Tourism and Hotel Development Company SAL, Beirut Waterfront Development SAL, among many others. In 1994, he was appointed the Commissioner of the Lebanese Government at the Beirut Stock Exchange. Twenty four years ago, Me. Daouk was one of the founders of Ajjalouna and has been a member of its Board of Trustees ever since, followed by joining the board of Dar Al Aytam in 2005. He is also a member of the board of Trustees of three major education institutions in Lebanon: College Louise Wegman since 2005, International College since 2009, and Université Saint Joseph since 2012. He was appointed member of the Board of Directors of the Council for Development and Reconstruction of Lebanon (CDR 2001–2004). Born in 1958, Me. Daouk holds a Bachelor's degree in Lebanese Law and a Master's degree in French Law from Université Saint Joseph and prepared a degree in Business Management from Beirut University College.



MR. MANSOUR BTEISH
Board Member

Mr. Mansour Bteish joined Fransabank SAL in 1974. Over the course of 45 years, Mr. Bteish held various management positions and headed major central departments . He was appointed General Manager of Fransabank SAL as of 1st January 2005 and remained in this position until 31st January 2019 when he was nominated Lebanese Minister of Economy and Trade. Mr. Bteish is currently a member of the Board of Directors of subsidiaries in Lebanon and abroad: Fransa Invest Bank, BLC Bank SAL, Lebanese Leasing Company, Fransabank (France), Fransabank El Djazaïr SPA (Algeria) and United Capital Bank (Sudan). Born in 1954, Mr. Bteish holds a Bachelor's degree in Business Administration and a Master's degree in Money and Banking from Université Saint Joseph-Beirut.



MR. NAZEM EL KHOURY
Board Member

Mr. Nazem el Khoury served as a parliament Member from 2000 till 2005. Three years later, he was appointed Political Advisor to the President of the Republic of Lebanon, and in 2011, he was assigned Minister of environment. Mr. El Khoury was also the Coordinator of the Steering Committee for the national dialogue held at the Presidential Palace. Currently, he is Chairman of the Tourism and Hotel Development Company SAL, and Chairman of BLC services SAL. He is also a Board member of BLC Bank SAL.

Mr. El Khoury was former Board member of AL Ahli International Bank SAL Former Chairman of Lebano-German Insurance Company SAL. He was the founder of Harbour Insurance and of other Insurance ventures in Lebanon and The Middle-East.

Parellel to his business and political work, Mr. El Khoury was heavily engaged in several academic institutions and social organizations.

He was Secretary-treasurer of The Board of Trustees of The Lebanese-American University (LAU) for over two decades. He is a founding Member of Notre Dame University (NDU) and former Secretary-Treasurer of its Board. On the social side, he is Chairman of the Board of Trustees of Y.M.C.A. Lebanon.

Mr. El Khoury also served as former Vice President of the Lebanese Cooperative for Development and former member of the board of directors of the Lebanese Red Cross and Caritas.

Born in 1946, Mr. El Khoury holds a Bachelor's degree in Political Sciences and Public Administration from the American University of Beirut, as well as an Insurance Diploma from the Chartered Insurance Institute in London.



MR. HENRI DE COURTIVRON
Board Member

Mr. Henri de Courtivron has over 40 years of experience in business and finance. He joined Indosuez Bank in 1977 and was appointed at various management positions within the international network of the Bank in Singapore and in London and seconded to its affiliate Bank in Saudi Arabia, Banque Saudi Fransi, before returning to the Head Office in Paris. In 2007, he became General Manager of Fransabank (France) SA and held this role for over six years. Currently, he serves as a member of the Bank's Board, the Chairman of the Audit Committee and a member of the Corporate Governance Committee. In 2015, he was elected as a Consular Judge at the Paris Commercial Court. Born in 1950, Mr. Courtivron graduated from Ecole Supérieure de Commerce de Paris and holds a degree in Economic Sciences from PARIS X University.



ME. ZIYAD BAROUD
Board Member

Me. Ziyad Baroud is the former Minister of Interior and Municipalities (MoIM) of the Republic of Lebanon from 2008 till 2011. Under his leadership, the MoIM was awarded the 2010 United Nations Public Service Award First Prize. Prior to his appointment as Minister, Me. Baroud held a number of leading positions. He was elected in 2004 Secretary General of the Lebanese Association for Democratic Elections. In 2005, he was a member of the Lebanese National Commission on Electoral Law. He has served as a Board Member of the Lebanese Chapter of Transparency International and of the Lebanese Center for Policy Studies. He is currently member of the Board of Trustees of Notre Dame University. Me. Baroud has received several awards, including the "Grand Officier de L'Ordre National du Cèdre", and the French "Officier de la Légion d'Honneur". An attorney at law, Managing Partner at HBD-T Law Firm and arbitrator, Me. Baroud lectures at the Faculty of Law of Université Saint Joseph and has a number of publications on subjects related to local governance, decentralization, human rights, and other political and legal issues. He also worked as a Senior Advisor with Booz and Co. and is the consultant to various UN Agencies in Lebanon. Born in 1970, Me. Baroud has a law degree from Université Saint Joseph and pursued his doctoral studies in Paris.



MR. SARKIS D. YOGHOURTDJIAN
Board Member

Mr. Yoghourtdjian is currently a Senior Advisor for The Financial Integrity Network (FIN) in Washington, DC. In 1984, he started his career with the Federal Reserve Bank of Chicago and was a senior Commissioned Bank Examiner. He joined the Board of Governors of the Federal Reserve System in late 1989 rising through its ranks to become Assistant Director for Banking Supervision and ultimately being appointed as Advisor. Mr. Yoghourtdjian served as an Advisor to the IMF and a Consultant to the World Bank. Mr. Yoghourtdjian also served as Advisor to the Bank for International Settlements' (BIS) Financial Stability Institute. He held several positions such as Co-Chairman of the Advisory Group of the Asia Pacific Economic Cooperation (APEC) Financial Regulators' Initiative, Chairman of the Consultative Group of the Middle East and North Africa Financial Regulators' Initiative, member of the Board of the Toronto Leadership Center's Banking Advisory Board. He also worked at Bank One and taught at Gateway College in Wisconsin. Mr. Yoghourtdjian has received global awards including: University of Wisconsin's Distinguished Alumni Achievement Award, Federal Reserve Board's Special Achievement Award, the highest Medal of Honor for his notable services in the establishment and modernization of the Central Bank of the Republic of Armenia. In addition, he is the first non-Arab to be conferred the Union of Arab Banks' "Lifetime Achievement Award".



MR. MOHAMAD ALI BEYHUM (Mandate starting July 2019)
Board Member

Mr. Mohamed Ali Beyhum started his 30-year banking career at Irving Trust in New York and spent 5 years with The Bank of New York, NY. He was then appointed Vice President and Senior Representative of The Bank of New York in their regional office in Beirut. In 2005, he joined Bankmed Group and was responsible for the strategic expansion and business development in the MENA region and the overall restructuring of the organization. In 2010, he was appointed as Executive General Manager at Bankmed Group and served on the boards of various banking group entities until 2018. In the 2nd quarter of 2019, he was elected as the Chairman of Valpre Capital. Born in 1963 Mr. Beyhum holds a Master's degree in Industrial Management from Columbia University, New York and a Bachelor of Engineering in Mechanical Engineering from the American University of Beirut.

1. ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is entrusted with the duty of ensuring the proper management of the Bank in the best interest of its shareholders, depositors and other stakeholders, in accordance with applicable laws and regulations. This duty is not subject to any delegation and is proper to the Board who shall assume the final responsibility towards the shareholders and all stakeholders regardless of whether the Board constitutes special committees or empowers other persons or entities to undertake specific tasks or responsibilities. The members of the Board are made aware of the text of laws related to the civil and criminal responsibilities that they will assume while carrying out their duties.

2. MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors recognizes the importance of implementing sound corporate governance policies and has taken the necessary actions to comply with the new requirements of the Central Bank.

During the year 2018, in fulfilling its overall duties, the Board of Directors met twelve times and took several decisions, inter alia:

- Approved the implementation of the new accounting standard "IFRS9"
- Approved the sale of the bank shares in USB Bank PLS to Astro Bank Limited and the purchase of 10% of BLC Bank listed shares
- Approved the issuance of preferred shares series "E"
- Approved the redemption of preferred shares series "C"
- Approved the election of the Chairman General Manager Mr. Nadim Kassar
- Approved the nomination of Mr. Bassam Hassan as General Manager (CEO)
- Approved the election of Mr. Nabil Kassar as Vice-Chairman

3. COMPOSITION OF THE BOARD OF DIRECTORS DURING 2018 UNTIL TODAY

Mr. Nadim Kassar

Mr. Nabil Kassar

Mr. Adnan Kassar

Mr. Adel Kassar

Me. Walid Daouk

Mr. Mansour Bteish

Mr. Nazem El Khoury

Mr. Henri de Courtivron

Me. Ziyad Baroud

Mr. Sarkis Yoghourtdjian

Mr. Mohamad Ali Beyhum

- Executive members: two
- Non-Executive members: five
- Independent members: four

4. CHANGES IN THE COMPOSITION DURING 2018 UNTIL TODAY

Mr. Sarkis Yoghourtdjian elected as an independent board member in June 2018

Mr. Mohamad Ali Beyhum elected as an independent board member in July 2019

Resignation of:

Mr. Maurice Sehnaoui

Mr. Walid Ziadeh

Mrs. Youmna Ziadeh

5. CLASSIFICATION CRITERIA FOR DETERMINING NON-EXECUTIVE DIRECTORS

A non-executive Board member is the one who:

- a. has no executive function at the Bank;
- b. is not assigned with any executive tasks in the Bank or at any of its subsidiaries in Lebanon or abroad;
- c. does not currently perform any consultative work to the "Executive Senior Management" or has not carried out any assignment during the past two (2) years preceding his/her nomination as a board member.

NOTA: Under the terms of BDL circular 118, a Board Member, who is nominated at any of the Bank's foreign subsidiaries, will not be considered "Executive" in case the laws in the foreign country where this subsidiary operates, does not consider him as an executive member.

6. CLASSIFICATION CRITERIA FOR DETERMINING INDEPENDENT DIRECTORS

An independent Board member is the one who meets all of the following characteristics:

- a. is a Non-Executive Board Member.
- b. is not one of the major shareholders who own, directly or indirectly, more than 5% of the Bank's total shares or voting rights related to these shares; whichever is greater.
- c. is independent of any person from the Bank's "Executive Senior Management" and of its major shareholders in the sense that there is no work relationship with anyone of them currently or during the past two years preceding his/her nomination as a Board member.
- d. has no family-relationship with any of the major shareholders until the fourth degree.
- e. is not any of the Bank's debtors.

7. RESPONSIBILITIES OF THE CHAIRMAN OF THE BOARD

As per the Lebanese law, the Chairman of the Board is also the General Manager. The Chairman provides leadership to the Board and is responsible for the Board's effective overall functioning. He shall ensure that Board decisions are taken on a sound and well-informed basis and should encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed within the decision making process. The Chairman is responsible for implementing the Board's decisions and overseeing the daily business of the Bank. He may delegate all or part of his powers to the Vice Chairman. Also, the Chairman may suggest to the Board the appointment of one or more General Manager(s) and grant them powers to that effect, who shall act for account and under the full responsibility of the Chairman.

COMMITTEES

In the context of sound Corporate Governance principles as stipulated by the Central Bank basic circular 106 and the Organization for Economic Co-Operation and Development guidelines, the Bank has established two levels of committees:

A- BOARD COMMITTEES

The Board of Directors has established the following committees in order to assist the board in discharging its responsibilities:

Audit committee

Composition and service of the members of the Committee during 2018 until today:

1. Independent Board Member | Henri de Courtivron | Chairperson & Voting Member | Member since 2014
2. Non-Executive Board Member | Walid Daouk | Voting Member | Member since 2008
3. Non-Executive Board Member | Nabil Kassar | Voting Member | Member since 2008
4. Chief Audit Officer | Jean Chamoun | Non-voting Member-Secretary

Purpose of the Committee:

The Audit Committee assists the Board of Directors in fulfilling its duties towards shareholders especially in making sure that the Bank is adequately run as per the policies and procedures endorsed by the Board and in full compliance with existing rules and regulations especially those stipulated by the Central Bank (BDL) and the Bank Control Commission (BCC).

Risk management committee

Composition and service of the members of the Committee during 2018 until today:

1. Independent Board Member | Ziyad Baroud | Chairperson & Voting Member | Member since 2019
2. Chairman & General Manager | Nadim Kassar | Voting Member | Member since 2015
3. Non-Executive Board Member | Walid Daouk | Voting Member | Member since 2008
4. Non-Executive Board Member | Mansour Bteish | Voting Member | Member since 2013
5. Group Chief Risk Officer – FSB | Mona Khoury | Non-Voting Member
6. Chief Risk Officer | Carlos Lebbos | Non-Voting Member-Secretary

Purpose of the Committee:

The Risk Management Committee assists the Board of Directors in maintaining an adequate risk management framework and in monitoring the risk profile of the organization making sure that it is commensurate with the risk tolerance set forth by the board of directors.

Corporate governance committee

Composition and service of the members of the Committee during 2018 until today:

1. Non-Executive Board member | Walid Daouk | Chairperson & Voting Member | Member since 2014
2. Independent Board member | Henri de Courtivron | Voting Member | Member since 2014
3. Non-Executive board member | Nabil Kassar | Voting Member | Member since 2018
4. Chief Risk Officer | Carlos Lebbos | Non-voting Member – Secretary

Purpose of the Committee:

The Corporate Governance Committee promotes the fair and transparent relationship between the Bank, its Management, its Board of Directors, its Shareholders, customers, employees and any other Stakeholder.

Board credit committee

Composition and service of the members of the Committee during 2018:

1. Chairman & General Manager | Nadim Kassar | Chairperson & Voting Member | Member since 2013
2. Executive Board Member | Adel Kassar | Voting Member | Member since 2013
3. Head of concerned Group | Non-Voting Member
4. Head of Credit Management Group | Rabih Abi Ammar | Non-Voting Member – Secretary

Purpose of the Committee:

The Board Credit Committee and by virtue of a delegation from the BOD is entitled to approve, upgrade, downgrade, transfer to recovery, or transferring to the legal desk all credit lines having a weighted risk exceeding 5.0 million USD in compliance with the General Credit Policy of the Bank.

Remuneration committee

Composition and service of the members of the Committee during 2018 until today:

1. Independent Board Member | Henri de Courtivron | Chairperson & Voting Member | Member since 2014
2. Non-Executive Board Member | Walid Daouk | Voting Member | Member since 2014
3. Non-Executive Board Member | Nabil Kassar | Voting Member | Member since 2018
4. Head of HR Group | Souheil Younes | Non-voting Member – Secretary

Purpose of the Committee:

The Remuneration Committee assists the Board of Directors with respect to matters related to remuneration policies and procedures with a special focus on the remuneration policy of Senior Executive Management and incentive programs.

Anti Money Laundering and Combating the Finance of Terrorism Board Committee (AML/CFT Board Committee)

Independent Board Member	Sarkis Yoghourtdjian	Chairperson	Voting Member	Member since 2018
Non-Executive Board Member	Walid Daouk		Voting Member	Member since 2017
Non-Executive Board Member	Nabil Kassar		Voting Member	Member since 2017
Head of Compliance Group	Joseph Saab		Non-voting member-Secretary	

Purpose of the Committee:

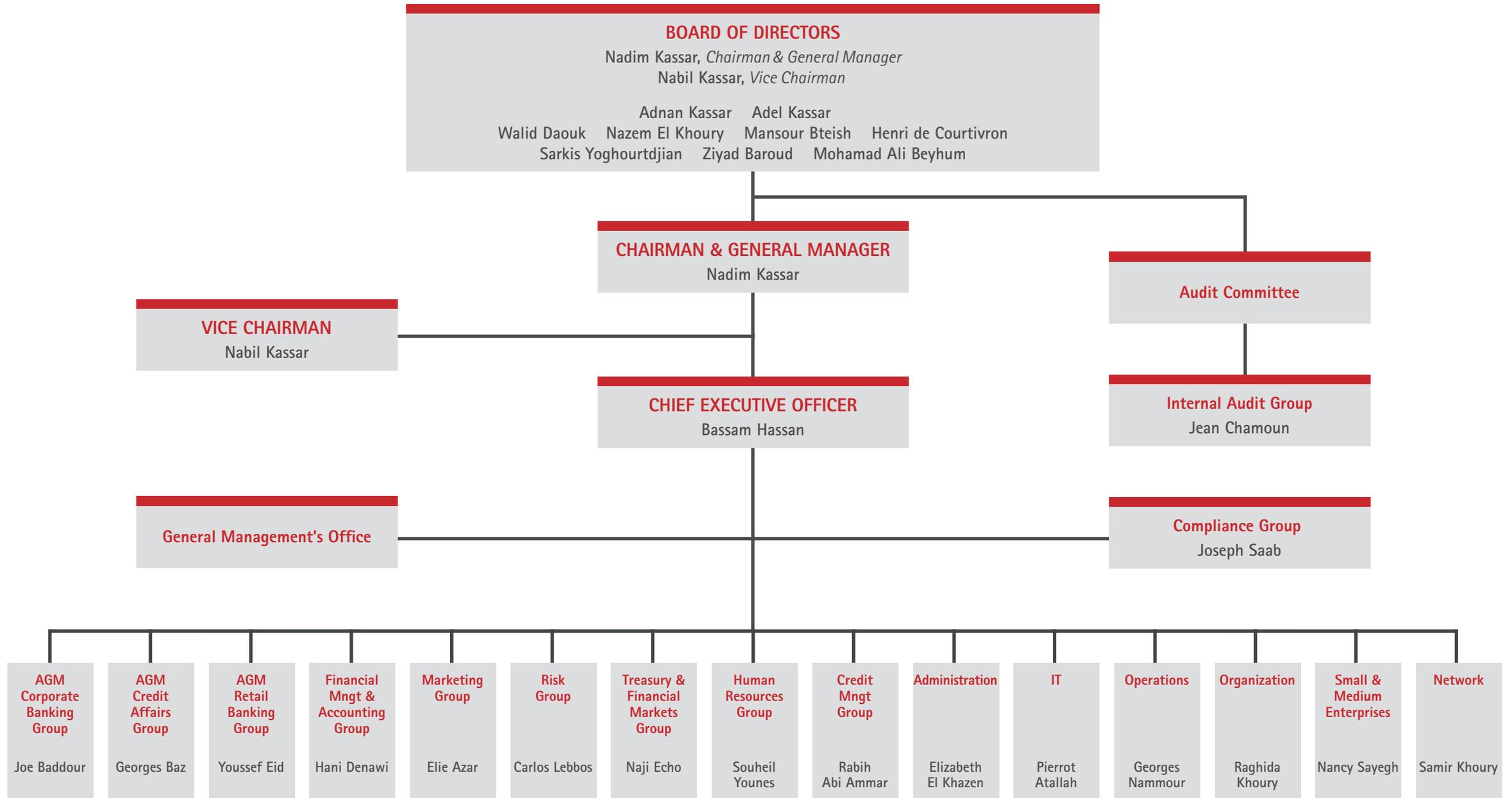
The AML/CFT Board Committee supports the Board of Directors in its functions and supervisory role with respect to fighting money laundering and terrorist financing and understanding the related risks, and assists it with making the appropriate decisions in this regard.

B- MANAGEMENT COMMITTEES

The Management committees are executive in nature aiming mainly at insuring a balanced approach to running the institution avoiding excessive concentration of power in individuals or functions. The Management Committees in BLC Bank comprise the following:

1. Executive Committee
2. Management Committee
3. Central Credit Committee
4. Junior Credit Committee
5. Watch List & Staging Committee
6. Recovery Committee
7. Real Estate Committee
8. Asset & Liabilities Committee
9. Working Assets & Liabilities Committee
10. Operational Risk & IT Security Committee
11. Products Committee
12. Human Resources Committee
13. Purchasing Committee
14. Marketing Committee & CSR Committee

ORGANIZATION CHART



LOANS TO RELATED PARTIES

BLC Bank has adopted a policy on Credits to Related Parties to comply with Article # 152 of the Code of Money and Credit, BDL Circular # 132 and the Corporate Governance Code; this policy is approved by the Corporate Governance Committee and the Board of Directors.

For the purposes of this policy related parties are defined as:

1. The Shareholders or Connected Group of Shareholders owning, directly or indirectly, at least 5% of shares or voting rights in BLC Bank or less than 5% in case they have an influence due to the size of other shareholdings.
2. The Board Members in BLC Bank, in Subsidiaries in Lebanon and abroad, or in entities owning at least 20% of shares or voting rights in BLC Bank or less than 20% in case they have an influence due to the size of other shareholdings.
3. The General Managers, Deputy General Managers, Assistant General Managers, Principle Managers (such as Managers of Financial Control, Credits, Treasury...), Risk Manager, Compliance Manager and Internal Audit Manager as in point 2 above. For this category, the first housing loan for acquiring a principal residence, the car loan for one time every 5 years and the Charge cards are not considered as credits to related parties.
4. The family members of all above (parents, children, brothers and sisters) if they are depending from them.
5. The Companies owned directly or indirectly by the above starting a shareholding or voting rights from 20%, or less if they have a significant influence.
6. The individuals or companies guaranteed by any of the above.
7. The subsidiaries and associates in Lebanon or abroad excluding banks and financial institutions.

By delegation from the Board of Directors, the Board Credit Committee approves Credits to Related Parties up to an aggregate amount of 1% of consolidated Tier 1 of BLC bank Group in Lebanon after deduction of participations in Abroad Banks and Financial Institutions.

The Board of Directors shall approve the Credits to Related Parties in excess of the above 1% threshold and up to an aggregate amount of 2% of consolidated Tier 1 of BLC Bank Group in Lebanon after deduction of participations in Abroad Banks and Financial Institutions. These credits in excess of the above 1% threshold are subject to a preapproval from the shareholders assembly and should be covered with tangible guarantees or bank guarantee or a guarantee from a financial institution in Lebanon.

Where a member of the Board Credit Committee or the Board of Directors is a related party to a transaction submitted for review, he/she should declare his/her interest and should be excused from participating in the review and approval process.

In determining whether to approve, ratify, or reject a Credit to Related Party, the Board Credit Committee or the Board of Directors, as appropriate, shall take into account, among other factors whether the Credit is entered into on terms no less favorable to the Bank than the terms generally available to a non-related party under the same or similar circumstances.

The total credit exposure to related parties is within the regulatory limits as at 31/12/2018.

17 *INTERNAL CONTROL*



RISK MANAGEMENT

The main functions of the Risk Management at BLC Bank are divided amongst the "Credit Risk", the "Market & Liquidity Risks", the "Governance & Risk Reporting", the "Operational Risk" and the "Information Security":

Credit risk

The Credit Risk function is responsible for preparing & updating bank's policies related mainly to Credit, Internal Rating and Capital Markets, and insuring their accurate implementation and compliance with the regulatory requirements & Basel directives. This function is in charge of monitoring the credit portfolio through preparing periodic reports to cater for concentration risk & clients' arrears, as well as reviewing loss events and issuing corrective actions and conducting Stress Tests. On the other hand, this function monitors margin trading for securities and derivatives transactions conducted on behalf of clients. The Credit Risk function assesses the various banks' products & issues recommendation regarding their performance, profitability and implementation. Also, it is responsible for the administration, control of internal credit rating and trend analysis.

Market and liquidity risks

The Market & Liquidity Risks function maintains a framework for managing financial risks in accordance with Basel requirements and local regulations. This function manages various risks that the Bank is exposed to such as liquidity, interest rate risks, and foreign currency risk relating to the proprietary securities portfolio of the Bank. The function is also assessing contingency plans for stressful conditions affecting liquidity, earnings and capital and it assists in monitoring the capital adequacy ratio of the Bank and makes recommendations in respect thereof.

Governance and risk reporting

The Governance & Risk Reporting function is responsible for preparing and updating bank's policies mainly related to Corporate Governance, Credits to Related Parties, Stress Tests and Impairment under IFRS 9 and insuring their accurate implementation. This function is in charge of preparing the Consolidated Risk Management Report, the Internal; Capital Adequacy Assessment, the Benchmarking Analysis and other portfolio management reports

It is also responsible for the follow up and implementation of Basel & the Regulator's requirements and directives.

Operational risk

The Operational Risks function has the responsibility of progressively integrating the Bank's business lines into the Bank's Operational Risk Management framework. The function has procedures for loss data collection and reporting of current incidents. It analyses the data and incidents and follows up on the implementation of actions. It ensures as well that reported issues include sufficient information to assist Management in the decision making process. Worth noting that critical matters are escalated immediately to Management; this ensures quick decisions and corrective actions accordingly. The Operational Risks function has set a primary goal to continuously train the Bank's employees to apply the standard procedures of the incidents reporting system as its effectiveness depends on the collaboration of the various business units of the Bank. In addition, the ORM developed a risk and control self-assessment framework to identify, assess, and analyze in coordination with the business lines, inherent risks in the Bank's processes taking into consideration the controls in place. Moreover, the Operational risk developed business continuity plans for critical business processes during adverse events

Information security

The Information Security function is responsible for protecting the integrity, confidentiality and availability of information, its supporting processes, systems and networks from various external and internal threats. The function works on achieving its objectives by promoting an information security culture across the Bank through an information security awareness program, setting security policies and procedures and overseeing their proper implementation, putting in place manual and automated controls to mitigate IT risks, and investigating incidents making sure that measures are taken to prevent their reoccurrence. The Information Security function also covers the disaster recovery aspect of the business continuity plans.

INTERNAL AUDIT

The Internal Audit Group at the Bank is an independent, objective and consulting function reporting to the Board of Directors through the Audit Committee. The Internal Audit Group was established to examine and evaluate the activities of the Bank and assess whether the latter's operations are conducted in accordance with the Standard Operating Procedures, applicable Laws, regulations, and International Standards.

The Internal Audit Group has adopted a risk-based approach that focuses on the key business risks. This approach entails assessing the risk of the Bank's auditable universe and then including it in the annual audit plan based on a risk scoring mechanism. The Internal Audit Group has also developed an Internal Audit Methodology that governs the procedures followed while performing the internal audit work. The methodology ensures a high-level standard of internal audit work that helps the Bank accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

COMPLIANCE

OVERVIEW

Compliance is a prevalent business concern because of an ever-increasing number of regulations that require banks and financial institutions to be vigilant about maintaining a full understanding of their regulatory compliance environment.

While Management is the owner of Compliance to foster the adequate enterprise-wide culture, compliance remains everyone's responsibility within the Bank.

The Bank is committed to conduct business in conformity with the highest ethical standards and in adherence with the local laws and regulations as well as applicable international standards.

The Bank maintains adequate measures including policies and procedures sufficient to ensure compliance of the Bank and stakeholders with the obligations under the regulatory system in which the Bank operates and for managing and addressing the financial crimes and risks that the Bank may encounter.

The effective management of compliance risks within BLC Bank Group depends heavily on the high level of cooperation between the Compliance and relevant business and support functions with regard to the timely exchange of information and follow-up on corrective actions.

COMPLIANCE ROLE AND RESPONSIBILITIES

BLC Bank has an independent compliance function – Group Compliance – that is responsible for setting the Compliance framework for ensuring that the Group business and support functions comply with applicable laws, regulations, standards and internal policies and for providing advice on mitigating key compliance risks. The head of Group Compliance reports directly to the BOD Compliance and AML/CFT Committee and the General Manager. The role and responsibilities of the compliance function can be summarized as follows:

- Manage the compliance risks faced by BLC Bank's Group entities and report on this activity to the BOD AML/CFT and Compliance Committee.
- Advise Board of Directors, Management and relevant Bank functions on applicable laws and regulations and ensure follow-up on proper handling and compliance.
- Ensure compliance with the applicable laws and regulations.
- Ensure compliance with the tax reporting laws and requirements.
- Ensure compliance with applicable sanctions requirements.
- Ensure that a Compliance training and education program is in place to promote an appropriate compliance culture, awareness and understanding of compliance standards, procedures and guidelines and of Compliance-relevant issues.
- Ensure that protection of data confidentiality and avoidance of conflict of interest are respected.
- Promote and engage in ethical conduct.
- Ensure the presence and efficiency of a whistle blowing policy and procedure.

COMPLIANCE CHARTER

In line with basic BDL circular 128, BLC Bank has established a Compliance function that comprises:

- A legal compliance unit in charge of identifying and preventing legal and regulatory risks.
- An Anti-Money Laundering (AML) /Combating Financing of Terrorism (CFT) Compliance unit in charge of verifying compliance with AML/CFT procedures, laws and regulations in force.

Compliance shall exert its activities and responsibilities under the direct supervision of the General Manager. Compliance submits periodic reports that outline the departmental performance, suspicious cases, and violations in addition to corrective actions taken in accordance with the instructions of the Compliance and AML/CFT policies in force to Senior Management, and a dedicated Board Compliance and AML/CFT Committee.

ANTI-MONEY LAUNDERING/COMBATING THE FINANCING OF TERRORISM (AML/CFT)

The evolution of the banking industry leveraged by a remarkable advance in modern technology raised the bar of the challenges that the financial industry is facing with money laundering activities and the financing of terrorism. In this regard, BLC Bank Group has developed an AML/CFT Policy aiming at setting, within the Group, the essential standards for preventing the misuse of its facilities for the laundering of money or for the purpose of financing terrorist activities. BLC Bank is committed to full compliance with all applicable international and local laws and requirements related to the prevention of money laundering and terrorist financing.

The Policy's essential standards are as follows:

- **Promoting a Know Your Customer (KYC) practice as a cornerstone principle for BLC Bank Group business ethics and practices:**

- Gathering and documenting relevant customer identification data, along with the background information and the purpose of the transaction prior to any transaction of any type.
- Applying a risk based approach in dealing with customers and consequently retaining and documenting customer due diligence information relevant to each customer's AML/CFT risk level.

- **Applying due diligence measures while establishing and maintaining correspondent relations:**

- Determining from publicly available sources of information the reputation of a respondent institution including whether the institution itself or any of its major shareholders or executives has been subject to a money laundering or terrorist financing investigation or other regulatory action.
- Assessing the respondent institution's anti-money laundering and combating financing of terrorism policies and systems on a periodic basis.

- **Monitoring and Reporting Suspicious Transactions/Activity:**

- Promoting a culture of vigilance whereby all bank employees are diligent in monitoring unusual or suspicious transactions or activities and duly reporting those activities to the compliance function of the bank as per applicable procedures.
- Instating detailed escalation procedures to ensure full transparency vis-à-vis both the compliance function of the bank, the compliance committee, and the Special Investigation Commission (SIC) when needed.
- Protection of the Bank's staff and delegates reporting suspicious transactions or activity who may not be prosecuted or sued, neither collectively nor individually, for any civil or criminal liability related to the discharging of their duties, including offences specified by the Banking Secrecy Law of September 3, 1956, except in case this secrecy is disclosed.
- Commitment of the Bank's General Management to address the legitimate communication of unusual or suspicious activity and ensure employee confidentiality.

- **Trainings and awareness sessions:**

- Promoting an adequate compliance culture through focused training on the compliance concepts and the risks and pitfalls that might face the bank in case those concepts are not duly observed.
- Attending and delivering regular AML/CFT trainings, awareness sessions, inductions and workshops to existing and new employees.
- Considering this responsibility as a shared one as it lies on the shoulders of top management at the first place, the compliance function, the human resources, and the bank employees.



20 *CUSTOMER CARE
& QUALITY ASSURANCE*



CUSTOMER CARE AND QUALITY ASSURANCE

EXCELLENCE IN SERVING OUR CUSTOMERS

We put the customer at the heart of what we do

- Listen to our customers' needs, accept their complaints and act on their feedback in a timely and professional manner
- Create and develop innovative and flexible solutions to meet our customers' diversified and evolving needs
- Promote a friendly and warm environment to our customers

We deliver quality through our experienced & professional people

- Provide our people with adequate trainings to continuously develop and improve their competencies in support of objectives and business strategy
- Recognize and reward our people for remarkable achievements and performance
- Operate with integrity, privacy and equality
- Ensure efficiency and productiveness in our interactions as we recognize that customers' time is valuable

We manage and measure performance proactively

- Measure success against customer expectations
- Review the performance of our processes and continuously improve them through effective analysis prompt
- Fulfill on our commitment to timely and quality service

We deal with transparency

- Communicate clearly and openly with customers to assist them in making appropriate and informed decisions
- Keep our people informed and updated on goals and strategic objectives

We are committed to our community

- Seek to establish an eco-friendly working environment
- Contribute to the well-being of our society
- Provide equal opportunities to our people

ACTIVITIES AND INDICATORS

Customer Care and Quality Assurance Group was established in 2015 in compliance with the requirements of BDL Circular 134 and BCCL Circular 281 reporting directly to the General Manager after merging the Quality Assurance function created in 2012.

The Group is responsible for the implementation and monitoring of the Quality system throughout the Bank (Internal & External Mystery Shopping Programs, Satisfaction Surveys, NPS Surveys, Customers Experience, Premises Control,...) participates in the implementation of improvement actions and drafting of the Standard Operating Procedures (SOPs), as well as contributes in the training program and intervenes when necessary.

The Group is responsible of managing and handling customers' complaints, Inquiries and Branches Quality Visits:

- 344 complaints were received and solved in 2018 in compliance with BDL Circular 134 BCCL 281.
- 381 inquiries were received in 2018 and channeled to the concerned Units.
- 112 Quality Visits were performed covering the entire Bank network.

The Bank finalized in 2018 the implementation of BDL Circular 458 related to disabled persons; making the Bank accessible to all disabled persons, treating and servicing them in a transparent and fair way.

In 2018, the Group developed and drafted Policies and Procedures related to:

- The Business Ethics and Customer Protection.
- The Handbook of Rules and Directives for customers with disability.
- Capital Market Authority (CMA) Complaint Feedback Management.

The Group also proposed in Q4 2018 a new queuing system and client identification which will be implemented in 2019.

BLC Bank Quality programs revolve around the Bank Commitment to deliver what matters to our customers; On Time, Right from the First Time & Better Every Time.

22

***CORPORATE SOCIAL
RESPONSIBILITY
ACHIEVEMENTS***



CORPORATE SOCIAL RESPONSIBILITY

OUR PROMISE TO BE MINDFUL CORPORATE CONTRIBUTORS:

Surveying performance and execution is not only measured by statistical edges, we at BLC Bank have willingly volunteered to concentrate not just on the financial effect of our activities, but also on the outcomes our institution has on our country and community.

By ensuring our practices are in accordance with our qualities and set of accepted rules, we plan to be dynamic performers in a more mindful, more sustainable ecosystem that incorporates every area around us by insuring their rights are secured and desires are met.

By maintaining corporate governance and ensuring economic advancement, BLC Bank expects to lead its activities in a moral way when managing both people and organizations. From asserting controls to overseeing risks at all times while ensuring our offering is constantly innovative, we infuse our values and qualities in all that we do.

This is what made BLC Bank one of Lebanon's most powerful performers of progress, accordingly turning into a leader institution in women financial empowerment and SME support. Notwithstanding offering business visionaries and entrepreneurs a genuine monetary help, BLC Bank has built up a set of non-financial services that empower their businesses to flourish by allowing them access to new markets, budgetary instruction, tutoring and exposure.

We believe it's fundamental to partner with likeminded organizations that endeavor to maintain similar qualities, our procurement policy pushes for a differing pool of suppliers including women and SMEs, given that they should all meet a lot of conditions identified with ethics and green practices.

Besides, since our employees are our best partners in most of our projects, everything begins by valuing them and their well-being by helping them achieve their maximum capacity. From the minute one joins BLC Bank, they are upheld through straightforward strategies, modified projects, learning and development openings, family medical advantages and educational tuitions and fees. Thusly, we endeavor to make the BLC Bank workforce as diverse as possible by insuring the needs of all of our talents and assuring a safe workplace as well as off-premises corporate activities.

We additionally invest in the community we serve and are resolved to help address the needs of the numerous local organizations in Lebanon by means of donations and sponsorship programs. Our involvement mainly spins around four pillars i.e.: capacity-building, women empowerment, environmental initiatives, and innovation. This approach that asserts holistic commitment striving for a more modernizing, eco-friendly, and bold Lebanon.

We welcome you to learn more by visiting our CSR report which will give you more insights on this key part of our strategy.



24 *FINANCIAL
HIGHLIGHTS*

BLC BANK'S 2018 PERFORMANCE AND MAIN ACHIEVEMENTS

Despite the continuous political disorder and the inadequate macroeconomic conditions, BLC Bank was able to achieve reasonable stability at the level of profitability and on the balance sheet level while minimizing its concentration risk and deposit's volatility.

With regard to profits, if we consider the previous tax law applied, net profits increased by 11.4% compared to 2017. Nevertheless, due to the large impact of the new tax law of \$11 M in additional dues, net profits closed at \$ 41 m, 11% below the 2017 results.

Otherwise, net commissions increased by +2% compared to December 2017.

On the balance sheet side, during 2018, BLC Bank maintained its customers' deposits base at \$3.9 B, unchanged compared to 2017. Concentration risk was minimized though as customers' deposits, below \$1 M (considered the stable and sustainable deposit base), increased by 2.3% on a yearly basis.

However, loans to customers slightly increased by 0.4%, despite a decrease in the market by 1.02% compared to 2017, noting that SME loans increased by 1%.

Total assets increased by 0.6%, to reach USD 4.98 billion (excluding assets held for sale) as at 31.12.2018. Furthermore, BLC Bank's net spread reached 1.81% as at December 2018, standing among the best in the sector.

As far as liquidity is concerned and same as other Lebanese banks, liquidity was affected following the political crisis; yet, BLC Bank recovered back and its liquidity ratio reached 17.8% as at 31 December 2018, which is above the 10% required by the regulator.

BLC Bank's Capital Adequacy Ratio reached 19.25% compared to a regulatory requirement of 15% as at 31 December 2018 reflecting the solidity of its capital structure and a clear growth potential.

In an unsteady financial landscape, with consumer behaviors and expectations shifting in ways challenging the banking sector, BLC Bank preserved its customer centric strategy, offering thus a broad array of financial and non-financial services. During this year, BLC Bank renewed its promise in supporting small and medium size enterprises and women. Empowering them led to sustain stable activities on both the retail and the corporate levels with its personal, car and business loans.

Because BLC Bank goes beyond providing financial services to offering non-financial support, several plans were implemented falling under the Bank's overall strategy. On one hand, road shows were conducted across Lebanese regions and conferences were organized. On the other hand, Business Power Sessions were arranged on a monthly basis, covering a wide scope of topics.

Subsequently, BLC Bank pursued its volunteer mentorship programs for other GBA member banks, highlighting its role as an international reference for best practice and an advocate for the economic empowerment of women. This remarkable commitment was translated in the GBA Women's Market Champion where BLC Bank received the 2018 Data Award for having reported extraordinarily high-quality sex-disaggregated data to GBA at the GBA Summit held in Jordan.

It is worth mentioning as well that BLC Bank received a trophy from Oracle for being the first to implement the SuperCluster M8 in Lebanon, being the world's fastest engineered system while having the most advanced security features.

Conforming to the Bank's belief in the primordial role Lebanese entrepreneurs play in our economy, BLC Bank celebrated entrepreneurs' achievements through the Brilliant Lebanese Awards. BLC Bank placed entrepreneurs (both male and female) in the limelight by conducting the sixth edition of the Brilliant Lebanese Awards. The Business of the Year, Women Entrepreneur of the Year and People Choice Award were announced in a TV event broadcasted live delivering on its promise to honor and promote successful Lebanese entrepreneurs.

FINANCIAL HIGHLIGHTS & RATIOS (BLC BANK S.A.L.)

in USD Mio.	2018	2017	2016	2015	2014
Total Assets	5,058	5,032	5,109	5,105	4,643
Net Loans	1,607	1,601	1,506	1,520	1,485
Deposits	3,908	3,919	4,047	3,943	3,550
Shareholders' Equity	571	546	566	496	474
Net Interest Income (Including interest on FV Securities)	97.2	115.8	109.1	109.9	105.4
Net Financial Revenues	118.8	135.4	144.8	131.2	122.6
Provision for Credit Losses (Net of Write Backs)	4.7	(2.1)	(0.9)	(3.0)	(3.2)
Operating Expenses	(70.0)	(68.0)	(65.4)	(64.9)	(61.5)
Earning Before Tax	46.1	56.5	56.4	54.0	53.8
Net Income	40.6	45.4	44.4	44.4	44.1
Spread (Net Interest Income / Average assets)	1.93%	2.28%	2.14%	2.26%	2.34%
Return on Average Assets	0.80%	0.89%	0.87%	0.91%	1.73%
Return on Average Equity	7.27%	8.16%	8.36%	9.15%	9.68%
Capital Adequacy	19.25%	18.85%	16.40%	14.73%	15.18%
Net Loans to Deposit	41%	41%	37%	39%	42%
Cost to Income	58.7%	48.8%	50.3%	49.8%	47.9%
Growth in Total Assets	0.5%	-1.5%	0.1%	10.0%	6.5%
Branches	42	41	41	41	41
Staff Employed	858	853	805	786	749

27 *AUDITORS REPORT*

- o INDEPENDENT AUDITORS' REPORT*
- o CONSOLIDATED FINANCIAL STATEMENTS*
 - o CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 - o CONSOLIDATED STATEMENT OF PROFIT OR LOSS
 - oo CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
 - oo CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 - oo CONSOLIDATED STATEMENT OF CASH FLOWS
 - oo NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BT 30714/DTT

INDEPENDENT AUDITORS' REPORTTo the Shareholders
BLC Bank S.A.L.
Beirut, Lebanon***Opinion***

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter**Adoption of IFRS 9: Financial Instruments**

The Group adopted IFRS 9 Financial Instruments (as revised in July 2014) including impairment requirements on its mandatory effective date of implementation on January 1, 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the consolidated financial statements. As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures and recorded an adjustment of LBP103billion to the opening retained earnings in the consolidated statement of changes in equity as at January 1, 2018.

The changes required to processes, systems and controls to comply with IFRS 9 were significant, as the standard requires a fundamental change to the way and when credit losses are recognised and how these are measured by changing the impairment model from an Incurred Loss model to an Expected Credit Loss (ECL) model.

The related risks identified are summarized as follows:

- Judgements, assumptions and estimates, which includes adopting a 'default' definition and methodologies for developing PDs at origination, lifetime-PDs, loss given default (LGD); and (exposure at default EAD) and macroeconomic models.
- Inadequate data, as well as lack of uniformity in the data is used which makes it difficult to develop models which are sufficient for IFRS 9 impairment requirements.
- Inappropriate segmentation of portfolios is used to develop risk parameters.
- The number and range of forward-looking scenarios are not representative of an appropriate range of possible outcomes.
- Significant increases (or reductions) in credit risk (movements between Stage 1, Stage 2 and Stage 3) are not completely or accurately identified on a timely basis.
- Assumptions incorporated in the ECL model are not updated on a timely basis.

The Notes 3, 4 and 41 to the consolidated financial statements include disclosures on the Group's judgments, assumptions, estimates and methodologies adopted as well as information about impairment of the Group's financial assets.

Other Information

Management is responsible for the other information included in the Annual Report. The other information does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

How our audit addressed the key audit matter

We updated our understanding of the Group's adoption of IFRS 9 and identified the internal controls including entity level controls adopted by the Group for the accounting, processes and systems under the new accounting standard.

In addition, our work performed includes the below procedures:

- Evaluate the appropriateness of key technical decisions, judgments and accounting policy elections made by the Group to ensure compliance with IFRS 9 impairment requirements.
- Evaluate the reasonableness of management's key judgements and estimates made in the ECL calculation, including but not limited to the selection of methods, models, assumptions and data sources.
- Evaluate the appropriateness and testing the mathematical accuracy of the ECL model applied.
- Test the controls related to the credit impairment process and verified the integrity of data used as input to the models.
- Evaluate post model adjustments and management overlays in order to assess the reasonableness of these adjustments.
- Assess the reasonableness of forward looking information incorporated into the impairment calculations.
- Assessment on whether significant increase in credit risk (SICR) indicators are present for the financial assets portfolio based on IFRS 9 and the possible implications on the ECL staging and expected provisioning.
- Credit file classification supports the staging of relevant exposures, on a sample basis.
- Assess whether the disclosures appropriately disclose and address the uncertainty, which exists when determining the expected credit losses. In addition, we assessed whether the disclosure of the key judgements and assumptions made was sufficiently clear.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs, within the framework of local banking laws, will always detect a material misstatement when it exists.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

Beirut, Lebanon
June 3, 2019

DFK Fiduciaire du Moyen Orient

Deloitte & Touche
Deloitte & Touche

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Cash and Central Bank	5	1,678,793,293	1,330,561,560
Deposits with banks and financial institutions	6	289,058,665	156,870,470
Loan to a bank	7	2,757,003	3,528,263
Investment securities at fair value through profit or loss	9	55,466,243	130,568,469
Loans and advances to customers	8	2,422,662,239	2,412,843,769
Investment securities at amortized cost	9	2,574,437,894	3,068,805,305
Investment securities at fair value through other comprehensive income	9	113,508,874	15,438,093
Customers' liability under acceptances	10	31,939,846	55,659,396
Assets under leverage arrangement with the Central Bank of Lebanon	11	133,182,980	90,979,500
Assets acquired in satisfaction of loans	12	83,861,346	82,496,873
Property and equipment	13	89,895,039	80,941,511
Intangible assets	14	4,342,575	1,517,430
Deferred assets	15	-	7,821,948
Other assets	16	25,999,673	22,989,775
		7,505,905,670	7,461,022,362
Assets classified as held for sale	17	1,297,343,966	1,380,267,902
Total Assets		8,803,249,636	8,841,290,264
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:	36		
Letters of guarantee and standby letters of credit		149,012,881	153,795,420
Letters of credit		9,375,750	25,883,531
Forward exchange contracts		31,502,379	218,928,810
FIDUCIARY ACCOUNTS	37	14,313,713	16,981,988
ASSETS UNDER MANAGEMENT	38	14,285,795	15,646,005

LIABILITIES	Notes	December 31, 2018	December 31, 2017
		LBP'000	LBP'000
Deposits from banks	18	149,157,009	67,494,144
Customers' accounts	19	5,891,381,129	5,908,204,095
Liability under acceptances	10	32,326,606	55,659,396
Other borrowings	20	445,284,914	419,897,188
Leverage arrangements with Central Bank of Lebanon	11	133,182,980	90,979,500
Other liabilities	21	78,932,994	195,497,794
Provisions	22	19,926,438	10,606,328
		6,750,192,070	6,748,338,455
Liabilities directly associated with assets classified as held for sale	17	1,172,758,271	1,249,041,760
Total liabilities		7,922,950,341	7,997,380,205
EQUITY			
Capital	23	213,650,000	213,650,000
Preferred shares	24	152,786,633	165,825,001
Reserves	25	176,028,131	162,086,938
Regulatory reserve for assets acquired in satisfaction of loans	25	62,192,827	58,517,962
Brought forward retained earnings		201,383,390	160,707,116
Cumulative change in fair value of investments at fair value through other comprehensive income		5,978,157	5,689,720
Property revaluation surplus		-	382,481
Cumulative currency translation adjustments		-	212,501
Net profit for the year		61,748,513	70,007,916
Equity attributable to equity holders of the Bank		873,767,651	837,079,635
Non-controlling interests		6,531,644	6,830,424
Total equity		880,299,295	843,910,059
Total Liabilities and Equity		8,803,249,636	8,841,290,264

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Continuing operations:	Notes	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Interest income		476,248,405	445,153,584
<i>Less: Tax on interest</i>		<i>(14,236,906)</i>	<i>(282,420)</i>
Interest income, net of tax	27	462,011,499	444,871,164
Interest expense	28	(328,530,906)	(293,659,357)
Net interest income		133,480,593	151,211,807
Fee and commission income	29	30,663,421	30,290,975
Fee and commission expense	30	(3,221,814)	(3,506,673)
Net fee and commission income		27,441,607	26,784,302
Net interest and other gain/(loss) on investment securities at fair value through profit or loss	31	4,527,410	5,057,477
Other operating income	32	5,837,600	4,607,493
Net financial revenues		171,287,210	187,661,079
Write back of/(allowance for) expected credit losses, net	8, 41	7,077,923	(3,177,342)
Direct write-off on loans and advances, net		(19,822)	69,400
Net financial revenues after net expected credit losses		178,345,311	184,553,137
Net gain on disposal of property and equipment and properties acquired in satisfaction of loans	12	597,111	6,076,850
Allowance for risks and charges	22	(4,011,000)	(3,660,488)
Staff costs	33	(67,455,554)	(63,719,273)
General and administrative expenses	34	(31,987,051)	(31,343,988)
Depreciation and amortization	13, 14	(6,399,721)	(7,617,031)
Profit before income tax		69,089,096	84,289,207
Income tax expense	21	(7,277,359)	(14,601,275)
Profit for the year from continuing operations		61,811,737	69,687,932
Discontinued operations:			
Adjustments on disposal group carrying amount	17	10,606,424	19,001,229
Loss from discontinued operations	17	(10,606,424)	(18,604,979)
Profit for the year from discontinued operations		-	396,250
Profit for the year		61,811,737	70,084,182
Attributable to:			
Equity holders of the Bank		61,748,513	70,007,916
Non-controlling interests		63,224	76,266
		61,811,737	70,084,182

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Profit for the year		61,811,737	70,084,182
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net change in fair value of investments at fair value through other comprehensive income	9	2,777,490	(2,068,343)
Deferred tax asset/(liability)	21	(472,174)	173,196
Gain on revaluation of property		-	38,589
		2,305,316	(1,856,558)
<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)	9	(3,556,185)	-
Deferred tax asset	21	415,390	-
Currency translation adjustments		(212,501)	(84,577)
		(3,353,296)	(84,577)
Total other comprehensive loss		(1,047,980)	(1,941,135)
Total comprehensive income for the year		60,763,757	68,143,047
Attributable to:			
Equity holders of the Bank		60,700,533	68,028,192
Non-controlling interests		63,224	114,855
		60,763,757	68,143,047

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

	Capital LBP'000	Preferred Shares and Premiums LBP'000	Legal Reserve LBP'000	Free Reserves and General Reserves for Performing Loans LBP'000	Reserve for General Banking Risks LBP'000	Non- Distributable Reserve LBP'000	Special Reserve for Loans and advances LBP'000	Regulatory Reserve for Assets Acquired in Satisfaction of Loans LBP'000	Property Revaluation Surplus LBP'000	Cumulative Currency Translation Adjustments LBP'000	Cumulative Change in Fair Value of Investment Securities LBP'000	Brought Forward Retained Earnings LBP'000	Profit for the year LBP'000	Total LBP'000	Non- Controlling Interests LBP'000	Total Equity LBP'000
Balance – January 1, 2017	213,100,000	248,737,501	7,524,317	52,629,972	64,965,120	-	3,403,478	46,864,450	337,959	(141,625)	7,719,455	148,864,828	71,223,552	865,229,007	5,970,107	871,199,114
Allocation of 2016 profit	-	-	6,708,766	13,000,000	10,827,982	-	700,000	15,058,624	-	-	-	24,928,180	(71,223,552)	-	-	-
Transfer to retained earnings upon liquidation of a subsidiary	-	-	(353,093)	-	(174,891)	-	-	-	-	-	(134,588)	662,572	-	-	-	-
Transfer to other liabilities (Note 21)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,349)	(11,349)
Transfer between legal and regulatory reserve	-	-	-	3,405,112	-	-	-	(3,405,112)	-	-	-	-	-	-	-	-
Capital increase (Note 24)	550,000	-	-	(550,000)	-	-	-	-	-	-	-	-	-	-	-	-
Redemption of preferred shares B (Note 25)	-	(82,912,500)	-	-	-	-	-	-	-	-	-	-	-	(82,912,500)	-	(82,912,500)
Dividends paid to Preferred shares (Note 26)	-	-	-	-	-	-	-	-	-	-	-	(13,937,887)	-	(13,937,887)	-	(13,937,887)
Deferred tax on future dividends distribution of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(190,077)	-	(190,077)	-	(190,077)
Difference in exchange	-	-	-	-	-	-	-	-	44,522	439,156	-	114,276	-	597,954	743,728	1,341,682
Other adjustments	-	-	-	-	175	-	-	-	-	(453)	-	265,224	-	264,946	13,083	278,029
Total comprehensive income for the year 2017	-	-	-	-	-	-	-	-	-	(84,577)	(1,895,147)	-	70,007,916	68,028,192	114,855	68,143,047
Balance – December 31, 2017	213,650,000	165,825,001	13,879,990	68,485,084	75,618,386	-	4,103,478	58,517,962	382,481	212,501	5,689,720	160,707,116	70,007,916	837,079,635	6,830,424	843,910,059
Effect of IFRS 9 adoption (note 2)	-	-	-	-	-	-	-	-	-	-	-	(103,399,141)	-	(103,399,141)	-	(103,399,141)
Reversal of deferred contribution to retained earnings (Note 21)	-	-	-	-	-	-	-	-	-	-	-	103,399,141	-	103,399,141	-	103,399,141
Allocation of 2017 profit	-	-	6,856,543	-	524,692	-	700,000	3,833,849	-	-	-	58,092,832	(70,007,916)	-	-	-
Reallocation of reserves and other transfers	-	-	-	(68,485,084)	(76,143,078)	150,488,120	-	(158,984)	-	-	-	(5,700,974)	-	-	-	-
Redemption of preferred shares C (Note 24)	-	(52,762,500)	-	-	-	-	-	-	-	-	-	-	-	(52,762,500)	-	(52,762,500)
Issuance of preferred shares E (Note 24)	-	39,724,132	-	-	-	-	-	-	-	-	-	-	-	39,724,132	-	39,724,132
Dividends paid to Preferred shares (Note 26)	-	-	-	-	-	-	-	-	-	-	-	(11,193,187)	-	(11,193,187)	-	(11,193,187)
Deferred tax on future dividends distribution of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(92,718)	-	(92,718)	-	(92,718)
Transfer to retained earnings	-	-	-	-	-	-	-	-	(382,481)	-	-	382,481	-	-	-	-
Adjustments on disposal group carrying amount	-	-	-	-	-	-	-	-	-	-	-	(718,332)	-	(718,332)	-	(718,332)
Difference in exchange and other adjustments	-	-	-	-	-	-	-	-	-	-	-	(93,828)	-	(93,828)	(362,004)	(455,832)
Effect of ECL on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	1,123,916	-	-	1,123,916	-	1,123,916
Total comprehensive income for the year 2018	-	-	-	-	-	-	-	-	-	(212,501)	(835,479)	-	61,748,513	60,700,533	63,224	60,763,757
Balance – December 31, 2018	213,650,000	152,786,633	20,736,533	-	-	150,488,120	4,803,478	62,192,827	-	-	5,978,157	201,383,390	61,748,513	873,767,651	6,531,644	880,299,295

The accompanying notes 1 to 46 form an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Cash flows from operating activities:			
Net profit for the year		61,811,737	70,084,182
Adjustments for:			
(Write back) of ECL / impairment of loans and advances to customers, net	41	(7,077,923)	22,956,542
Depreciation and amortization	13, 14	6,399,721	9,179,296
Change in fair value of investment properties		-	1,279,361
Allowance for risk and charges	22	4,011,000	3,660,488
Provision for end-of-service indemnities (net)	22	2,578,474	742,004
(Write-back) / allowance for provision for loss on foreign currency position	22	(66,527)	183,113
Unrealized loss / (gain) on investments at fair value through profit or loss	31	51,346	(12,040,444)
Income tax expense	21	7,277,359	14,601,275
Loss / (gain) on disposal of property and equipment		60,845	(985,373)
Gain on disposal of property acquired in satisfaction of loans	12(a)	(657,956)	(5,091,477)
Adjustments on disposal group carrying amount		-	(1,957,697)
Dividend income	31, 32	(2,149,366)	(1,525,169)
Interest expense	28	328,530,906	307,007,919
Interest income	27, 31, 39	(457,077,878)	(481,907,687)
		(56,308,262)	(72,869,565)
Net increase in loans and advances to customers	39	(77,051,076)	(250,422,797)
Net decrease in investments at fair value through other comprehensive income	39	15,532,995	100
Net decrease in investments at fair value through profit or loss	39	53,265,547	24,839,344
Net decrease in investments at amortized cost	39	384,143,986	199,516,467
Net (decrease) / increase in customers' deposits		(21,429,762)	61,149,127
Net decrease in compulsory deposits with Central Bank		5,310,600	79,500,487
Net decrease in margin with banks		(1,567,800)	-
Net increase in term deposits with Central Bank		(333,395,862)	(452,275,749)
Net decrease in term deposits with a related bank		22,796,789	8,309,664
Net increase in deposits from banks		80,644,700	28,135,364
Net (increase) / decrease in other assets		(3,009,898)	1,989,490
Net (decrease) / increase in other liabilities		(5,414,196)	17,741,310
Proceeds from disposal of property acquired in satisfaction of loans	39	836,662	8,951,332
Settlements from provisions	22	(1,807,681)	(1,925,634)
		62,546,742	(347,361,060)
Income tax paid		(12,265,957)	(39,564,748)
Dividends received from investments at fair value through profit or loss	31	430,386	96,289
Dividends received from investments at fair value through other comprehensive income	32	1,718,980	1,428,880
Interest paid		(322,913,241)	(304,377,276)
Interest received		452,704,723	500,737,201
Net cash generated from / (used in) operating activities		182,221,633	(189,040,714)

CONSOLIDATED STATEMENT OF CASH FLOWS

Continued	Notes	December 31, 2018 LBP'000	December 31, 2017 LBP'000
Cash flows from investing activities:			
Proceeds from disposal of property and equipment		1,555	2,227,009
Acquisition of property and equipment		(14,485,193)	(26,827,859)
Acquisition of intangible assets		(3,755,601)	(909,819)
Net cash used in investing activities		(18,239,239)	(25,510,669)
Cash flows from financing activities:			
Dividends paid	26	(11,193,187)	(13,937,887)
Issuance of preferred shares	24	39,724,132	-
Redemption of preferred shares series C (in 2018) and A and B (in 2017)	24	(52,762,500)	(82,912,500)
Net decrease in loan to a bank		700,000	700,000
Net increase in other borrowings	20	25,395,022	99,467,183
Net cash generated from financing activities		1,863,467	3,316,796
Net increase / (decrease) in cash and cash equivalents		165,845,861	(211,234,587)
Effect of foreign currency fluctuation and other adjustments		5,453,868	639,861
Less: cash and cash equivalents of discontinued operations at end of year	8	-	(371,157,133)
Cash and cash equivalents beginning of year	39	341,119,651	922,871,510
Cash and cash equivalents end of year	39	512,419,380	341,119,651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

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:

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

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

During 2017, a term sheet was signed between the Bank's major shareholders, namely Fransabank S.A.L. and Sehnaoui group, whereby the Bank's investment in USB Bank PLC will be sold to Sehnaoui group who in turn will exit their investment at BLC Bank S.A.L. subject to certain terms and conditions including securing the regulators' approval in Cyprus and Lebanon.

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. The sale transaction is still pending the necessary approvals from the regulatory authorities and the completion of other formalities.

In conjunction with the sale, subsequent to the financial position date, BLC Bank S.A.L. bought-back 10% of its own shares that were owned by Sehnaoui Holding in an aggregate amount of USD 43 million and EUR 6.5 million.

Based on the above IFRS 5 "Non-current assets held for sale and discontinued operations" has been applied for the Cypriot entity in the preparation of the 2018 and 2017 year-end consolidated financial statements (Note 17).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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, 2018, have been adopted in these consolidated financial statements.

2.1.1 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are mandatorily effective for an accounting period that begins on or after January 1, 2018. Transition provisions of IFRS 9 allow an entity not to restate comparatives. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures about 2018.

IFRS 9 introduced new requirements for:

a. Classification and measurement of financial assets

The Group early adopted IFRS 9 (2009) and IFRS 9 (2010) with respect to classification and measurement requirements of its financial assets and financial liabilities.

On January 1, 2018 the Group adopted IFRS 9 (July 2014) and therefore reassessed the classification and measurement of its financial assets and financial liabilities that have not been derecognised as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently 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.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The impact on the classification of financial assets and their carrying amounts is disclosed under section (d).

b. Impairment of financial assets

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

The new impairment model applies to all financial assets measured at amortised cost (including debts instruments measured at FVTOCI). It also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVTOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

Stage 1 includes financial assets that did not experience a significant increase in credit risk since the initial recognition or that have low credit risk. For these assets, ECL are recognised on the gross carrying amount of the asset based on the expected credit losses that result from default events that are possible within 12 months after the reporting date. Interest is computed on the gross carrying amount of the asset.

Stage 2: Lifetime ECL

Stage 2 includes financial assets that have had a significant increase in credit risk (SICR) since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised.

The impact of the adoption of IFRS 9 impairment model on the Group's financial assets and their carrying values and equity is disclosed in section (d) below.

c. Hedge accounting

IFRS 9 incorporates new hedge accounting rules that align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

The existing hedging relationships continue to qualify and be effective under the IFRS 9 hedge accounting provisions and did not have any transition impact on the Group financial statements.

d. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held;
- The designation of certain investments in equity instruments not held for trading as at FVTOCI;
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

IMPACT OF CHANGE IN CLASSIFICATION AND MEASUREMENT

Except for the financial statement captions listed in the below table, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 (2014) as at January 1, 2018.

	Classification under IFRS 9 (2010) December 31, 2017		Reclassification	Re-measurement	Classification under IFRS 9 (2014) January 1, 2018	
	Category	Amount		ECL	Category	Amount
		LBP'000	LBP'000	LBP'000		LBP'000
Financial assets						
Cash and Central Bank	Amortized cost	1,330,561,560	-	(4,840,760)	Amortized cost	1,325,720,800
Deposits with banks and financial institutions	Amortized cost	156,870,470	-	(935,296)	Amortized cost	155,935,174
Customers' acceptance liability	Amortized cost	55,659,396	-	(425,618)	Amortized cost	55,233,778
Investment securities at fair value through profit or loss	FVTPL	130,568,469	79,690,795	-	FVTPL	210,259,264
Loans and advances to customers	Amortized cost	2,412,843,769	-	(71,221,621)	Amortized cost	2,341,622,148
Investment securities at amortized cost	Amortized cost	3,068,805,305	(200,010,907)	(25,487,882)	Amortized cost	2,843,306,516
Investment securities at fair value through other comprehensive income	FVTOCI	15,438,093	120,320,112	-	FVTOCI	135,758,205
		7,170,747,062	-	(102,911,177)		7,067,835,885
Financial liabilities						
Unutilized limit and off-balance sheet commitments		-	-	487,964		487,964
		-	-	487,964		487,964
Net impact on equity				(103,399,141)		

The increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model compared to IAS 39 incurred loss model amounts to LBP 103 billion.

2.1.2 IFRS 15 Revenue from contracts with customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 introduced a 5-step approach to revenue recognition. The impact of IFRS 15 is not material on the consolidated financial statements of the Group.

2.1.3 Other IFRSs and amendments

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

- Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28;
- Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures*: The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition;
- In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture;
- Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*: The interpretation addresses foreign currency transactions or parts of transactions where:
 - there is consideration that is denominated or priced in a foreign currency;
 - the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
 - the prepayment asset or deferred income liability is non-monetary.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

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

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

New and revised IFRSs

Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.

Amendments to IFRS 9 *Financial Instruments*:

Relating 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.

IFRS 16 *Leases*:

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

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.

Effective for Annual Periods Beginning on or After

January 1, 2019

January 1, 2019

January 1, 2019

January 1, 2019

New and revised IFRSs

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.

Amendment to IFRS 3 *Business Combinations* relating to definition of a business

Amendments to IAS 1 and IAS 8 relating to definition of material

IFRS 17 *Insurance Contracts*

IFRS 17 requires insurance liabilities to be measured at a current fulfillment 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 *Insurance Contracts* as of 1 January 2021.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011):

Relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2019. The application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases as described below.

Effective for Annual Periods Beginning on or After

January 1, 2019

January 1, 2020

January 1, 2020

January 1, 2021

Effective date deferred indefinitely. Adoption is still permitted.

IFRS 16 *Leases*

Impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for the Group will be January 1, 2019. The Group intends to apply the modified retrospective approach and will not restate comparative information for the period prior to date of adoption. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Group will make 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 apply to those leases entered or modified before January 1, 2019.

Impact on Lessee Accounting

Operating leases

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

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

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

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The Group is currently assessing the impact of adopting IFRS 16 and expects an increase in its assets and liabilities with no material impact on its retained earnings.

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;
- Investment properties;
- 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 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.

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.

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.

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. The Lebanese Pound exchange rate has been constant to the U.S. Dollar since many years.

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 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 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.

Recognised 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 Bank 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 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

Central Bank of Lebanon Circular # 143 dated November 7, 2017 prohibits recognition of day one profits on designated non-conventional transactions concluded between the Central Bank of Lebanon and banks and whose purpose is to secure yield adjustment to maturity on certain designated financial assets as part of the Central Bank's monetary policy. The Group recognized the designated financial assets at amortized cost. These non-conventional transactions with the Central Bank of Lebanon consist of non-transferable non-negotiable arrangements.

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:

Policy applicable before January 1, 2018:

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- significant or prolonged decline in fair value beyond one business cycle that occurred after the initial recognition of the financial asset or group of financial assets which impacted the estimated future cash flows of the investment.

For certain categories of financial asset, such as loans and advances, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information, as well as observable changes in national or local economic conditions that correlate with default on loans and advances.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or

loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Policy applicable after January 1, 2018:

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.

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.

Policy applicable before January 1, 2018:

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated statement of profit or loss in "Net results on financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of profit or loss.

Policy applicable after January 1, 2018:

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. LOANS AND ADVANCES

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are disclosed at amortized cost net of provision for credit losses.

N. 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:

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

The accompanying notes 1 to 46 form an integral part of the Consolidated Financial Statements.

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.

O. 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.

P. LEASING

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.

Q. 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 acquisition. 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.

R. 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.

S. DEFERRED ASSETS

Deferred assets on business acquisition and against contractual projected cash flows are stated at amortized cost. Such deferred assets are amortized over the period of related benefits deriving from the net return of the invested funds funded through committed structured medium term debt and major part in fiscal 2016 and 2017 from the yield earned on investments funded from the release of compulsory reserve, the purpose of which is to offset exceptional impairment losses. Amortization charge is treated as a yield adjustment to the interest income of the invested funds.

T. 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.

U. 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.

V. 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.

W. NET INTEREST INCOME

Policy applicable before January 1, 2018:

Interest income and expense are recognized on an accrual basis, taking into account the amount of the principal outstanding and the rate applicable, except for non-performing loans and advances for which interest income is only recognized upon realization. Interest income and expense include discount and premium amortization.

The accompanying notes 1 to 46 form an integral part of the Consolidated Financial Statements.

Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and liabilities at amortized cost;
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Policy applicable after January 1, 2018:

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 (loss)/income from financial assets 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. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

X. 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.

Y. NET (LOSS)/INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net 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.

Z. 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.

AA. Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if applicable.

BB. Income Tax

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

Current tax is the expected tax payable on the taxable profit for the year, using rates enacted at the financial position date. Income tax payable is reflected in the statement of financial position net of taxes previously settled in the form of withholding tax.

Interest earned on part of debt security was subject to withheld tax by the issuer. Up to October 26, 2017, this tax was deducted at year-end from the corporate income tax liability and accounted for as prepayment on corporate income tax and reflected as a part of income provisions. Effective October 27, 2017, and following the tax amendments to law No. 64, withheld tax on interest earned on inter-bank deposits and debt security is no more considered as prepayment on corporate income tax, and it is considered as deductible expense for the purpose of computing the corporate income tax. Withholding tax on interest was increased from 5% to 7%.

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

CC. 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.

DD. 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 banks 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:

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 41 for more details on ECL.

Going Concern:

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

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 weights will be updated on a yearly basis.

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.

Fair value measurement and valuation process:

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 44 for more details on fair value measurement.

Impairment Losses on Financial Instruments (Applicable before January 1, 2018):

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios, etc...), concentrations of risks, economic data and the performance of different individual groups.

5. CASH AND CENTRAL BANK

This caption consists of the following:

	December 31, 2018		December 31, 2017	
	Balance	of which Compulsory/ Regulatory Deposits	Balance	of which Compulsory/ Regulatory Deposits
	LBP'000	LBP'000	LBP'000	LBP'000
Cash on hand	33,200,339	-	37,772,770	-
Current accounts with Central Bank of Lebanon	102,282,325	75,346,929	96,458,747	80,657,529
Blocked accounts with Central Bank of Lebanon under Intermediary Circulars No. 313 and 483	40,824,506	-	44,520,984	-
Term placements with Central Bank of Lebanon	1,491,939,251	576,666,236	1,144,234,499	249,557,580
Accrued interest receivable	17,440,545	-	7,574,560	-
	1,685,686,966	652,013,165	1,330,561,560	330,215,109
Expected credit losses (Note 41)	(6,893,673)	-	-	-
	1,678,793,293	652,013,165	1,330,561,560	330,215,109

Balances with Central Bank are classified under stage 1.

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.

Blocked accounts with the Central Bank of Lebanon under Intermediate Circulars No. 313 and 483 represent transitory deposits to be granted to the Bank's customers, pursuant to certain conditions, rules and mechanism following Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments against facilities granted from the Central Bank of Lebanon (Note 20). These deposits and facilities earn/bear a 1% interest rate that is computed annually.

During 2017, the Group was exempted from compulsory reserves in foreign currency, for one year, up to USD 200 million. During 2018, the Group's exemption period from compulsory reserves in foreign currency up to USD 200 million was concluded (Note 15).

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Purchased checks	496,981	5,538,192
Current accounts with banks and financial institutions	219,754,019	115,554,294
Current accounts with the parent bank	3,545,626	4,395,963
Current accounts with related banks and financial institutions	644,433	215,120
	224,441,059	125,703,569
Term placements with banks and financial institutions	43,118,250	5,000,000
Term placements with a related bank	17,269,830	22,796,789
Blocked margins with banks and financial institutions	4,859,803	3,292,003
	65,247,883	31,088,792
Accrued interest receivable	4,746	78,109
	289,693,688	156,870,470
Expected credit losses (Note 41)	(635,023)	-
	289,058,665	156,870,470

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Resident	5,401,797	15,787,593
Non-resident	284,291,891	141,082,877
	289,693,688	156,870,470

During the year 2017, the Group entered in repurchase agreements with a resident financial institution. The agreement consisted of loans granted to the resident financial institution, backed by Lebanese Government Bonds in U.S. Dollar and Lebanese treasury bills in Lebanese Pounds. The loans are short term in nature and matured during 2017. Interest income for the year 2017 amounted to LBP 731 million (nil in 2018) recorded under "Interest income from deposits with banks and financial institutions" in the consolidated statement of profit or loss (Note 27).

7. LOAN TO A BANK

This caption consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Regular performing account	2,800,000	3,500,000
Accrued interest receivable	22,412	28,263
	2,822,412	3,528,263
Expected credit losses (Note 41)	(65,409)	-
	2,757,003	3,528,263

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 LBP 700 million 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, 2018		
	Carrying Amount	Expected Credit Losses	Net Amount
	LBP'000	LBP'000	LBP'000
Performing Loans—Stages 1 and 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
	2,303,093,121	(18,671,039)	2,284,422,082
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
	242,137,595	(124,872,963)	117,264,632
	2,545,230,716	(143,544,002)	2,401,686,714
Accrued interest receivable	20,975,525	-	20,975,525
Total	2,566,206,241	(143,544,002)	2,422,662,239

	December 31, 2017		
	Carrying Amount	Impairment Allowance	Net Amount
	LBP'000	LBP'000	LBP'000
Performing Loans			
Retail customers:			
Housing loans	588,007,913	-	588,007,913
Personal loans	261,269,348	-	261,269,348
Car loans	127,920,420	-	127,920,420
Credit cards	15,200,123	-	15,200,123
Educational loans	17,701,065	-	17,701,065
Staff loans	9,231,930	-	9,231,930
Private banking	9,563,580	-	9,563,580
Small and medium enterprises	320,580,428	-	320,580,428
Corporate	943,619,092	-	943,619,092
	2,293,093,899	-	2,293,093,899
Non-performing loans:			
Substandard	29,481,059	-	29,481,059
Doubtful	108,891,193	(38,593,832)	70,297,361
Bad	44,618,319	(44,616,137)	2,182
	182,990,571	(83,209,969)	99,780,602
	2,476,084,470	(83,209,969)	2,392,874,501
Accrued interest receivable	19,969,268	-	19,969,268
Total	2,496,053,738	(83,209,969)	2,412,843,769

The carrying value of loans and advances to customers includes accidentally temporary debtors with carrying value amounting to LBP 10.9 billion as at December 31, 2018 (LBP 8.6 billion as at December 31, 2017).

Loans granted to related parties amounted to LBP 12.6 billion as at December 31, 2018 (LBP 11.8 billion as at December 31, 2017).

9. INVESTMENT SECURITIES

	December 31, 2018			December 31, 2017		
	C/V of			C/V of		
	LBP LBP'000	FCY LBP'000	Total LBP'000	LBP LBP'000	FCY LBP'000	Total LBP'000
Financial assets at fair value through profit or loss	5,478,099	49,788,675	55,266,774	57,643,648	71,087,614	128,731,262
Accrued interest receivable	-	199,469	199,469	1,324,593	512,614	1,837,207
	5,478,099	49,988,144	55,466,243	58,968,241	71,600,228	130,568,469
Financial assets at fair value through other comprehensive income	61,376,141	50,667,665	112,043,806	14,318,131	1,119,962	15,438,093
Accrued interest receivable	791,984	673,084	1,465,068	-	-	-
	62,168,125	51,340,749	113,508,874	14,318,131	1,119,962	15,438,093
Financial assets at amortized cost	1,128,931,836	1,393,400,020	2,522,331,856	1,382,405,598	1,637,147,150	3,019,552,748
Accrued interest receivable	34,907,190	17,198,848	52,106,038	29,643,232	19,609,325	49,252,557
	1,163,839,026	1,410,598,868	2,574,437,894	1,412,048,830	1,656,756,475	3,068,805,305

A. Investments at Fair Value Through Profit or Loss:

	December 31, 2018			December 31, 2017		
	C/V of			C/V of		
	LBP LBP'000	FCY LBP'000	Total LBP'000	LBP LBP'000	FCY LBP'000	Total LBP'000
Quoted equities	-	3,111,818	3,111,818	-	3,527,270	3,527,270
Equity securities (unquoted)	934,214	1,592,725	2,526,939	940,194	1,444,161	2,384,355
Lebanese government bonds	-	-	-	-	20,614,069	20,614,069
Foreign Eurobonds	-	39,623,424	39,623,424	-	39,924,436	39,924,436
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	52,157,336	-	52,157,336
Mutual Funds	4,543,885	5,460,708	10,004,593	4,546,118	5,577,678	10,123,796
	5,478,099	49,788,675	55,266,774	57,643,648	71,087,614	128,731,262
Accrued interest receivable	-	199,469	199,469	1,324,593	512,614	1,837,207
	5,478,099	49,988,144	55,466,243	58,968,241	71,600,228	130,568,469

Investments at fair value through profit or loss include an amount of LBP 2.5 billion as at December 31, 2018 (LBP 2.4 billion as at December 31, 2017) representing the Bank's share in startups established based on co-sharing agreement with the regulator providing the funding.

B. Investments at Fair Value through Other Comprehensive Income:

	December 31, 2018			December 31, 2017		
	C/V of			C/V of		
	LBP LBP'000	FCY LBP'000	Total LBP'000	LBP LBP'000	FCY LBP'000	Total LBP'000
Equity securities (Unquoted)	17,079,305	1,132,908	18,212,213	14,318,131	1,119,962	15,438,093
Lebanese government bonds	-	49,534,757	49,534,757	-	-	-
Lebanese treasury bills	44,296,836	-	44,296,836	-	-	-
	61,376,141	50,667,665	112,043,806	14,318,131	1,119,962	15,438,093
Accrued interest receivable	791,984	673,084	1,465,068	-	-	-
	62,168,125	51,340,749	113,508,874	14,318,131	1,119,962	15,438,093

	December 31, 2018				December 31, 2017			
	Cost	Fair Value	Cumulative Change in Fair Value	Accrued Interest Receivable	Cost	Fair Value	Cumulative Change in Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Equity securities (Unquoted)	8,579,941	18,212,213	9,767,162	-	8,583,309	15,438,093	6,989,672	-
Lebanese government bonds	53,609,203	49,534,757	(4,074,446)	673,084	-	-	-	-
Lebanese treasury bills	43,778,575	44,296,836	518,261	791,984	-	-	-	-
	105,967,719	112,043,806	6,210,977	1,465,068	8,583,309	15,438,093	6,989,672	-

C. INVESTMENTS AT AMORTIZED COST:

Financial assets at amortized cost:

	December 31, 2018									
	LBP Base Accounts					F/Cy Base Accounts				
	Amortized Cost	Expected Credit Losses (ECL)	Net Carrying Amount	Fair value	Accrued Interest Receivable	Amortized Cost	Expected Credit Losses (ECL)	Net Carrying Amount	Fair value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	365,247,252	(2,241,995)	363,005,257	366,686,900	6,426,036	-	-	-	-	-
Lebanese government bonds	-	-	-	-	-	1,082,378,885	(13,816,396)	1,068,562,489	895,369,813	14,160,450
Certificates of deposit issued by Central Bank of Lebanon	763,592,346	(1,995,830)	761,596,516	658,099,573	28,403,873	276,999,637	(1,759,831)	275,239,806	232,620,167	2,338,644
Corporate bonds and asset backed securities	4,350,000	(19,937)	4,330,063	4,427,281	77,281	49,825,254	(227,529)	49,597,725	50,525,008	699,754
	1,133,189,598	(4,257,762)	1,128,931,836	1,029,213,754	34,907,190	1,409,203,776	(15,803,756)	1,393,400,020	1,178,514,988	17,198,848

	December 31, 2017					
	LBP Base Accounts			F/Cy Base Accounts		
	Amortized Cost	Fair value	Accrued Interest Receivable	Amortized Cost	Fair value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	788,019,504	783,831,731	14,925,852	-	-	-
Lebanese government bonds	-	-	-	1,335,669,051	1,237,359,195	16,870,851
Certificates of deposit issued by Central Bank of Lebanon	590,036,094	582,361,504	14,649,890	295,749,599	260,157,153	2,659,654
Corporate bonds and asset backed securities	4,350,000	4,417,490	67,490	5,728,500	5,807,320	78,820
	1,382,405,598	1,370,610,725	29,643,232	1,637,147,150	1,503,323,668	19,609,325

Lebanese treasury bills and Certificates of deposit issued by Central Bank of Lebanon amounting to LBP 56.25 billion and LBP 6.29 billion, respectively (Lebanese treasury bills in the amount of LBP 356 billion in 2017) are pledged against soft loans and credit facilities funded by the Central Bank of Lebanon (Note 20).

During 2017, Lebanese Government bonds amounting to LBP 302 billion were pledged against the release of the compulsory reserve (Note 5).

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

Remaining Period to Maturity	December 31, 2018							
	LBP				C/V of F/Cy			
	Nominal Value	Amortized Cost	Fair Value (Excluding Accrued Interest Receivable)	Average Coupon Rate	Nominal Value	Amortized Cost	Fair Value (Excluding Accrued Interest Receivable)	Average Coupon Rate
LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000	LBP'000	%	
Lebanese treasury bills:								
Up to one year	153,081,074	153,278,150	154,273,125	7.01	-	-	-	-
1 year to 3 years	96,120,000	96,603,961	96,643,507	7.06	-	-	-	-
3 years to 5 years	72,725,000	73,302,478	71,487,973	6.36	-	-	-	-
5 years to 10 years	24,803,020	26,574,244	23,717,571	8.45	-	-	-	-
Above 10 years	15,124,490	15,488,419	14,138,688	10.50	-	-	-	-
	361,853,584	365,247,252	360,260,864		-	-	-	
Lebanese Government bonds:								
Up to one year	-	-	-	-	45,432,277	45,396,907	44,735,941	5.91
1 year to 3 years	-	-	-	-	183,566,009	183,750,237	174,730,839	7.34
3 years to 5 years	-	-	-	-	52,536,375	51,221,849	44,829,111	6.06
5 years to 10 years	-	-	-	-	419,178,465	421,516,638	329,670,252	6.47
Above 10 years	-	-	-	-	380,289,488	380,493,254	287,243,220	7.02
	-	-	-		1,081,002,614	1,082,378,885	881,209,363	
Certificates of deposit issued by Central Bank of Lebanon:								
Up to one year	-	-	-	-	38,592,000	38,547,996	38,263,582	5.30
3 years to 5 years	15,000,000	15,738,075	15,590,407	8.24	91,203,750	90,565,891	77,974,262	6.12
5 years to 10 years	33,000,000	35,913,990	31,101,972	9.02	105,525,000	105,525,000	81,525,449	6.75
Above 10 years	703,000,000	711,940,281	583,003,321	9.54	42,360,750	42,360,750	32,518,230	6.85
	751,000,000	763,592,346	629,695,700		277,681,500	276,999,637	230,281,523	
Corporate Bonds & Asset backed securities:								
5 years to 10 years	4,350,000	4,350,000	4,350,000	7.83	49,825,254	49,825,254	49,825,254	6.86
	4,350,000	4,350,000	4,350,000		49,825,254	49,825,254	49,825,254	

December 31, 2017

Remaining Period to Maturity	LBP				C/V of F/Cy			
	Nominal Value	Amortized Cost	Fair Value (Excluding Accrued Interest Receivable)	Average Coupon Rate	Nominal Value	Amortized Cost	Fair Value (Excluding Accrued Interest Receivable)	Average Coupon Rate
	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000	LBP'000	%
Lebanese treasury bills:								
Up to one year	262,800,000	263,069,732	263,999,928	7.77	-	-	-	-
1 year to 3 years	275,181,074	276,070,596	273,915,184	7.31	-	-	-	-
3 years to 5 years	167,467,423	167,371,607	157,019,015	6.49	-	-	-	-
5 years to 10 years	79,367,020	81,507,569	73,971,752	7.68	-	-	-	-
	784,815,517	788,019,504	768,905,879		-	-	-	
Lebanese Government bonds:								
Up to one year	-	-	-	-	62,635,118	62,687,681	61,104,862	5.15
1 year to 3 years	-	-	-	-	158,961,343	159,365,547	153,002,553	6.10
3 years to 5 years	-	-	-	-	135,308,678	135,264,553	132,090,316	7.60
5 years to 10 years	-	-	-	-	400,826,160	403,319,931	360,240,845	6.42
Above 10 years	-	-	-	-	574,793,168	575,031,339	514,049,768	7.00
	-	-	-		1,332,524,467	1,335,669,051	1,220,488,344	
Certificates of deposit issued by Central Bank of Lebanon:								
1 year to 3 years	42,000,000	41,831,484	41,220,256	7.60	57,888,000	57,474,225	55,596,819	5.30
3 years to 5 years	49,000,000	48,587,728	48,737,753	7.80	45,978,750	45,164,624	41,307,947	5.80
5 years to 10 years	379,000,000	384,714,877	375,010,562	8.37	90,450,000	90,450,000	68,258,266	6.57
Beyond 10 years	110,000,000	114,902,005	102,743,043	9.02	102,660,750	102,660,750	92,334,467	6.81
	580,000,000	590,036,094	567,711,614		296,977,500	295,749,599	257,497,499	
Corporate Bonds & Asset backed securities:								
5 years to 10 years	4,350,000	4,350,000	4,350,000	7.83	5,728,500	5,728,500	5,081,317	6.21
	4,350,000	4,350,000	4,350,000		5,728,500	5,728,500	5,081,317	

During 2018, the Group 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 LBP'000
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	(530,452,800)
		(881,989,290)
Term placements with Central Bank of Lebanon	Amortized cost	203,602,000
Lebanese treasury bills	Amortized cost	15,124,490
Certificates of deposit issued by Central Bank of Lebanon	Amortized cost	673,000,000
		891,726,490

During 2017, the Group exchanged certificates of deposit in Lebanese Pound with the Central Bank of Lebanon having a nominal value of LBP 95 billion classified as amortized cost against a time deposit with the Central Bank of Lebanon in U.S. Dollar amounting to USD 63 million maturing in years 2027, 2032 and 2037.

Also, during 2017, the Group entered into swap transactions of certificates of deposit issued by Central Bank of Lebanon in U.S. Dollar with a nominal value of USD 81 million (c/v LBP 121.9 billion) concluded simultaneously with the acquisition of Lebanese Government bonds in U.S. Dollar with a nominal value of USD 81 million maturing in years between 2027 and 2037. The Group classified USD 80.66 million at amortized cost and USD 140 thousand at fair value through profit or loss.

10. 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.

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Term placements with Central Bank of Lebanon	44,337,000	43,141,110
Lebanese Treasury bills	88,845,980	47,838,390
	133,182,980	90,979,500

Assets under leverage arrangement consist of term placements with the Central Bank of Lebanon and Lebanese Treasury bills in LBP originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP, 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,	
	2018	2017
	LBP'000	LBP'000
Term placements with Central Bank of Lebanon in US Dollar	73,038,375	73,038,375
Term placements with Central Bank of Lebanon in LBP originated from the sale of foreign currency	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	-
	105,988,375	73,038,375

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 25).

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

	Cost	Impairment Allowance	Carrying Value
	LBP'000	LBP'000	LBP'000
Balance January 1, 2017	95,013,260	(9,047,077)	85,966,183
Foreclosures	390,545	-	390,545
Disposals	(4,263,166)	403,311	(3,859,855)
Balance December 31, 2017	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

Gain on disposal of assets acquired in satisfaction of loans during the year amounted to LBP 658 million, recorded under "Net gain on disposal of property and equipment and properties acquired in satisfaction of loans" in the consolidated statement of profit or loss (LBP 5 billion in 2017).

13. PROPERTY AND EQUIPMENT

	Balance January 1, 2018	Additions	Disposals and Adjustments	Transfer Between Accounts	Transfer to Intangible Assets	Balance December 31, 2018
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost/Revaluation:						
Owned 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
	116,822,517	3,275,431	(196,469)	2,753,620	-	122,655,099
Accumulated depreciation	(51,649,309)	(5,370,171)	134,069	-	-	(56,885,411)
Allowance for impairment of owned properties	(65,308)	-	-	-	-	(65,308)
	(51,714,617)	(5,370,171)	134,069	-	-	(56,950,719)
Advance payments	15,833,611	11,209,762	-	(2,753,620)	(99,094)	24,190,659
Carrying value	80,941,511	-	-	-	-	89,895,039

Advance payments as at December 31, 2018 include an amount of LBP 21 billion paid on account for the acquisition of plots 4731 and 4732 in Achrafieh to be used for the purpose of expanding the head office (LBP 13 billion in 2017).

	Balance January 1, 2017	Additions	Disposals and Adjustments	Reclass Transfer Between Accounts	Transfer to Intangible Assets	Effect of Classifying the Cypriot Entity as Held for Sale	Balance December 31, 2017
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost/Revaluation:							
Owned properties	68,298,838	-	(1,202,877)	-	-	(5,901,484)	61,194,477
Computer hardware	20,783,374	433,214	(585,685)	108,718	-	(5,391,964)	15,347,657
Machines and equipment	6,368,556	287,796	(171,507)	(28,036)	-	(472,413)	5,984,396
Furniture and fixtures	7,574,398	105,134	(159,427)	2,231	-	(1,814,962)	5,707,374
Vehicles	1,054,615	43,130	(33,979)	-	-	(260,515)	803,251
Freehold and leasehold improvements	30,978,795	2,665,622	(4,816)	426,440	-	(6,280,679)	27,785,362
Building held under finance lease	6,807,776	-	-	-	-	(6,807,776)	-
	141,866,352	3,534,896	(2,158,291)	509,353	-	(26,929,793)	116,822,517
Accumulated depreciation	(57,224,276)	(6,711,662)	916,655	-	-	11,369,974	(51,649,309)
Allowance for impairment of owned properties	(65,308)	-	-	-	-	-	(65,308)
	(57,289,584)	(6,711,662)	916,655	-	-	11,369,974	(51,714,617)
Advance payments	1,109,820	15,557,073	-	(509,353)	(323,929)	-	15,833,611
Carrying value	85,686,588	-	-	-	-	-	80,941,511

14. INTANGIBLE ASSETS

The movement of intangible assets was as follows during 2018 and 2017:

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

	Carrying Value January 1, 2017	Additions	Amortization for the Year	Transfer from Advance Payments Under Property and Equipment	Effect of Assets Held for Sale Adjustments	Carrying Value December 31, 2017
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Computer software	2,695,618	358,162	(870,194)	323,929	(990,085)	1,517,430
Key Money	35,175	-	(35,175)	-	-	-
	2,730,793	358,162	(905,369)	323,929	(990,085)	1,517,430

15. DEFERRED ASSETS

This caption consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Deferred assets against future cash flows	-	7,821,948
	-	7,821,948

Deferred assets against future cash flows correspond to the Bank's Cypriot subsidiary's carried over losses incurred since the crisis in Cyprus occurred up to December 31, 2015. These deferred assets are offset against future economic benefits derived from the low yield funding amounting to LBP 300 million provided by the Central Bank of Lebanon which was redeemed and replaced by exemption from compulsory reserves up to USD 200 million during 2016 (Note 5). Proceeds of the loan and the compulsory reserves are invested in fixed income securities. The return on these debt securities is appropriated to deferred assets.

The movement of deferred assets against future cash flows during the years 2018 and 2017 was as follows:

	2018 Counter Value in LBP	2017 Counter Value in LBP
	LBP'000	LBP'000
Net carrying value as at January 1,	7,821,948	26,935,864
Write down during the year	7,821,948	(15,773,541)
Write-off against regulatory deferred liability (Note 21)	-	(3,340,375)
Net carrying value as at December 31,	-	7,821,948

16. OTHER ASSETS

This caption consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Prepayments	9,579,243	9,030,548
Commission receivable	347,393	275,444
Sundry debtors	11,536,712	8,957,219
Regulatory blocked deposit (a)	4,500,000	4,500,000
Fair value of forward exchange contracts	36,325	226,564
	25,999,673	22,989,775

(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, as disclosed under Note 1, the associated assets and liabilities of USB Bank PLC were consequently classified as held for sale as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Assets classified as held for sale	1,297,343,966	1,380,267,902
Liabilities directly associated with assets classified as held for sale	1,172,758,271	1,249,041,760

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,	
	2018	2017
	LBP'000	LBP'000
Cash and Central Bank	349,945,680	319,064,067
Deposits with banks and financial institutions	31,257,384	55,396,674
Investment securities at amortized cost	5,265,192	-
Investment securities at fair value through profit or loss	187,468,507	256,595,744
Loans and advances to customers	535,505,836	572,545,744
Stock of property	103,458,337	107,290,829
Investment properties	22,094,380	21,663,240
Property and equipment	20,965,211	21,733,444
Intangible assets	1,287,286	1,541,742
Other assets	4,204,050	5,435,189
Deferred assets adjustments to reach fair value less cost to sell	35,892,103	19,001,229
Total Assets	1,297,343,966	1,380,267,902

Deposits from banks	-	2,492,959
Customers' accounts	1,143,614,288	1,226,523,935
Other liabilities	28,136,242	19,976,063
Provisions	1,007,741	48,803
Total Liabilities	1,172,758,271	1,249,041,760

The result of the discontinued operations of USB Bank PLC included in the statement of profit or loss is set out below. The comparative profit and cash flows from discontinued operations has been re-presented in conformity with IFRS 5.

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Profit for the year from discontinued operations		
Net interest income	31,516,713	35,302,624
Net fee and commission income	3,740,331	3,171,433
(Loss)/income from securities at fair value through profit or loss	(1,710,142)	12,534,476
Allowance for impairment for loans and advances (net)	(10,629,504)	(33,898,883)
Other income/expense (net)	(33,523,822)	(35,714,629)
Loss for the year from discontinued operations	(10,606,424)	(18,604,979)
Adjustments on disposal group carrying amount	10,606,424	19,001,229
	-	396,250

	Year Ended December 31,	
	2018	2017
	LBP'000	LBP'000
Cash flows from discontinued operations		
Net cash inflows from operating activities	-	223,797,291
Net cash outflows from investing activities	-	(8,287,547)
Net cash inflows	-	215,509,744

In its meeting held on August 16, 2018, the Board of Directors resolved to sell its investment in USB Bank PLC (classified as an entity held for sale) to AstroBank Limited. The sale transaction is expected to be completed during 2019 following the necessary approvals from the regulatory authorities and the completion of other formalities. In conjunction with the sale, subsequent to year end, BLC Bank S.A.L. bought-back 10% of its common shares, that were owned by Sehnaoui Holding, in an aggregate amount of USD 43 million and Euro 6.5 million.

18. DEPOSITS FROM BANKS

This caption consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Current deposits of banks and financial institutions	1,107,519	1,404,837
Current deposits of related banks	-	5,654
Short term deposits	94,099,861	28,227,189
Short term deposits with parent bank	52,762,500	37,687,500
Accrued interest payable	1,187,129	168,964
	149,157,009	67,494,144

19. CUSTOMERS' ACCOUNTS

Customers' accounts at amortized cost are detailed as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Deposits:		
Current/demand deposits	562,520,064	617,276,248
Term deposits	4,988,485,508	4,934,211,037
Collateral against loans and advances	183,803,982	201,678,740
Margins and other accounts:		
Margins for irrevocable import letters of credit	3,837,059	7,545,473
Margins on letters of guarantee	25,981,252	25,732,900
Other margins	63,297,400	52,707,786
Blocked accounts	19,495,653	14,754,457
Term deposits escrow account (a)	-	14,944,039
Accrued interest payable	43,960,211	39,353,415
Total	5,891,381,129	5,908,204,095

(a) During 2017, the Bank offered 400,000 Tier I Non-Cumulative Perpetual Redeemable "Series E" preferred shares, at an issue price of USD 100 per share with a nominal value of LBP 1,000 each that were issued during 2018. As at December 31, 2017, LBP 15 billion were subscribed by customers and booked under term deposits escrow account.

Customers' deposits include related party deposits detailed as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Demand deposits	2,124,027	2,474,541
Term deposits	48,453,147	36,412,484
Collateral against loans and advances	594,425	49,718
Margins on letters of guarantee	1,500	11,450
Accrued interest payable	696,201	500,439
	51,869,300	39,448,632

Brackets of deposits were as follows:

	December 31, 2018				
	LBP		F/Cy		Total
	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	
	LBP'000	%	LBP'000	%	LBP'000
Less than LBP 250 million	687,790,164	32	630,879,635	17	1,318,669,799
Between LBP 250 million and LBP 1.5 billion	709,562,126	33	1,059,620,176	28	1,769,182,302
Above LBP 1.5 billion	736,366,147	35	2,067,162,881	55	2,803,529,028
	2,133,718,437	100	3,757,662,692	100	5,891,381,129

	December 31, 2017				
	LBP		F/Cy		Total
	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	
	LBP'000	%	LBP'000	%	LBP'000
Less than LBP 250 million	744,662,834	32	569,022,903	16	1,313,685,737
Between LBP 250 million and LBP 1.5 billion	774,541,763	33	961,005,310	27	1,735,547,073
Above LBP 1.5 billion	826,375,273	35	2,032,596,012	57	2,858,971,285
	2,345,579,870	100	3,562,624,225	100	5,908,204,095

Deposits from customers include coded deposit accounts in the aggregate amount of LBP 106 billion as at December 31, 2018 (LBP 87 billion as at December 31, 2017). 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 LBP 20 billion and LBP 205 billion respectively as at December 31, 2018 (LBP 7 billion and LBP 184 billion respectively as at December 31, 2017).

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
	Average Balance of Deposits	Average Interest Rate	Average Balance of Deposits	Average Interest Rate	
	LBP'000	%	LBP'000	%	
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
2016	2,538,000,000	5.69	4,373,000,000	3.22	285,665,273

20. OTHER BORROWINGS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Soft loans from Central Bank of Lebanon (a)	17,734,000	17,734,000
Borrowings from Central Bank of Lebanon (b)	422,892,461	396,163,236
Other borrowings	4,463,067	5,797,270
	445,089,528	419,694,506
Accrued interest payable	195,386	202,682
	445,284,914	419,897,188

(a) On March 29, 2012, the Group was granted a soft loan in the amount of LBP 17.7 billion by the Central Bank of Lebanon for a period of 7 years maturing on March 21, 2019. This loan is collateralized by Lebanese treasury bills (Note 9).

(b) Outstanding facilities granted from the Central Bank of Lebanon in the amount of LBP 423 billion (LBP 396 billion as at December 31, 2017) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans the Group has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. This facility is collateralized by Lebanese treasury bills (Note 9).

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Up to 1 year	22,392,453	5,999,952
1 to 3 years	-	17,734,000
Over 5 years	422,892,461	396,163,236
	445,284,914	419,897,188

The movement of other borrowings is detailed as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Balance, beginning of year	419,694,506	411,206,823
Additions	26,729,225	15,812,553
Settlements	(1,334,203)	(7,324,870)
Balance, end of year	445,089,528	419,694,506

The accompanying notes 1 to 46 form an integral part of the Consolidated Financial Statements.

21. OTHER LIABILITIES

This caption consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Withheld taxes	3,517,952	3,265,928
Deferred tax liability on accrued interest receivable	1,711,492	1,711,492
Deferred tax liability on future dividend distribution of subsidiaries	630,155	537,437
Deferred tax liability on other comprehensive income	1,222,148	1,165,364
Other deferred taxes	1,639,605	1,639,606
Due to the National Social Security Fund	762,172	744,130
Checks and incoming payment orders in course of settlement	18,054,110	23,982,388
Blocked capital subscriptions for companies under incorporation	414,764	419,764
Accrued expenses	12,408,482	10,497,900
Financial guarantees	654,419	634,793
Payable to personnel and directors	7,518,849	6,516,885
Sundry accounts payable	22,597,480	25,174,972
Income tax liability (b)	6,982,132	10,691,994
Deferred income	807,885	913,548
Payable to non-controlling interests of a subsidiary under liquidation	11,349	11,349
Regulatory deferred liability (a)	-	107,590,244
	78,932,994	195,497,794

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:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Balance January 1	107,590,244	117,511,478
Offset against retained earnings upon adopting IFRS 9	(103,399,141)	-
Write off against deferred assets (Note 15)	-	(3,340,375)
Write off against goodwill	-	(6,580,859)
Transfer to provision for risks and charges	(4,191,103)	-
Balance December 31	-	107,590,244

During 2017, goodwill resulted from acquiring control of USB Bank PLC (Cyprus) in 2011 was fully impaired against the regulatory deferred liability after classifying the Cypriot entity as held for sale (refer to Note 1).

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Profit before tax from continuing operations	69,089,096	84,289,207
Income tax on enacted applicable rates	12,631,627	15,590,743
Effect of non-deductible expense and non-taxable income	(5,354,268)	(989,468)
Income tax expense	7,277,359	14,601,275
Less: Tax paid in advance	-	(7,183,238)
Other consolidated adjustments	(295,227)	3,273,957
Income tax liability	6,982,132	10,691,994

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 LBP 2.99 billion. A final decision was reached during 2018 where the Bank settled LBP 2.8 billion against the additional income tax liability account. The Bank's tax returns for the years 2015 till 2018 inclusive are still subject to review by the relevant tax authorities. Any additional tax liability depends on the outcome of such reviews.

22. PROVISIONS

Provisions consist of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Provision for staff end-of-service indemnity (a)	7,440,023	6,231,478
Provision for risk and charges (b)	11,850,310	4,085,959
Provision for expected credit losses on unutilized limits and off-balance sheet commitments	413,741	-
Provision for loss on foreign currency position	222,364	288,891
	19,926,438	10,606,328

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Balance January 1	6,231,478	5,876,375
Additions - net (Note 33)	2,578,474	742,004
Settlements	(1,369,929)	(386,901)
Balance December 31	7,440,023	6,231,478

Additions are netted by LBP 1.1 billion representing estimated interest income accumulated by the Lebanese National Social Security Fund (LBP 1.1 billion during 2017).

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Balance January 1	4,085,959	1,964,204
Additions	4,011,000	3,660,488
Transfer from regulatory deferred liability (Note 21)	4,191,103	-
Settlements	(437,752)	(1,538,733)
Balance December 31	11,850,310	4,085,959

23. SHARE CAPITAL

On September 12, 2017, the Extraordinary General Assembly of shareholders resolved to increase the Bank's capital by LBP 550 million through issuing 550,000 common shares having a par value of LBP 1,000 each which was subscribed through transferring LBP550million from general reserves as a result of the redemption of all series "B" preferred shares. This capital increase was approved by the Central Council of the Central Bank of Lebanon on November 29, 2017. Hence, at December 31, 2018 and 2017, the Bank's ordinary share capital consist of 213,650,000 fully paid share of LBP 1,000 per value each.

As at December 31, 2018 and 2017, the Bank has a fixed exchange position in the amount of USD 122,508,656, 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 December 17, 2018, the Extraordinary General Assembly of shareholders resolved to increase the Bank's Capital by LBP 350 million through issuing 350,000 common shares having a per value of LBP 1,000 each which was subscribed through transferring LBP 350 million from general reserves as a result from the redemption 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.

24. PREFERRED SHARES

Tier I Non-Cumulative Perpetual Redeemable preferred shares

	Issue Date	Number of Shares	Expected Annual Return	December 31,	
				2018	2017
	Year		%	LBP'000	LBP'000
Series "C"	2013	350,000	6.75	-	52,762,501
Series "D"	2016	750,000	6.75	113,062,500	113,062,500
Series "E"	2018	263,510	7.00	39,724,133	-
				152,786,633	165,825,001

The above shares are Tier I Non-Cumulative Perpetual Redeemable preferred shares at an issue price of USD 100 per share with a nominal value of LBP 1,000 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.

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

25. RESERVES

	December 31,	
	2018	2017
	LBP'000	LBP'000
Legal reserve (a)	20,736,533	13,879,990
Reserve for general banking risks (b)	-	75,618,386
Special reserve for loans and advances (c)	4,803,478	4,103,478
Free reserves	-	52,485,084
General reserve for performing loans (d)	-	16,000,000
Non-distributable reserve (e)	150,488,120	-
	176,028,131	162,086,938
Regulatory reserve for assets acquired in satisfaction of loans (Note 12)	62,192,827	58,517,962
	238,220,958	220,604,900

(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) The reserve for general banking risks was constituted according to Lebanese banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve was constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution. During 2018, this reserve was transferred to non-distributable reserve account. (Refer to (e) below).

(c) 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 LBP 4.8 billion (LBP 4.1 billion as at December 31, 2017) to special reserve for the uncovered portion of its doubtful debts outstanding as at June 30, 2003 and not yet resolved.

(d) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Bank is required to transfer from net profit to general reserve for performing loans the equivalent of:

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015;
- 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

During 2018, this reserve was transferred to non-distributable reserve account (Refer to (e) below).

(e) In compliance with article 16 of the basic circular no. 143 issued by the Central Bank of Lebanon, the Bank transferred the reserve for general banking risks and the general reserve for performing loans to a non-distributable reserve account.

26. DIVIDENDS PAID

The Bank's General Assembly held on May 31, 2018 resolved to distribute preferred shares earnings in the amount of LBP 11 billion.

The Bank's General Assembly held on June 29, 2017 resolved to distribute preferred shares earnings in the amount of LBP 14 billion.

27. INTEREST INCOME

This caption consists of the following:

	2018		2017	
	Interest Income LBP'000	Withheld Tax LBP'000	Total LBP'000	Total LBP'000
Interest income from:				
Deposits with Central Bank	91,855,698	(6,385,537)	85,470,161	59,797,915
Deposits with banks and financial institutions	1,479,455	-	1,479,455	2,730,749
Deposits with a related bank	52,333	-	52,333	459,489
Loan to a bank	75,714	(5,472)	70,242	93,812
Investment securities (excluding FVTPL)	205,104,978	(7,845,897)	197,259,081	207,877,320
Loans and advances to customers	177,247,122	-	177,247,122	167,848,990
Loans and advances to related parties	433,105	-	433,105	461,874
Interest realized on non-performing loans and advances to customers	-	-	-	5,575,007
Other	-	-	-	26,008
	476,248,405	(14,236,906)	462,011,499	444,871,164

28. INTEREST EXPENSE

This caption consists of the following:

	December 31,	
	2018 LBP'000	2017 LBP'000
Interest expense on:		
Deposits and borrowings from banks	2,376,343	4,185,237
Deposits from Parent Bank	626,802	3,047,989
Revolving loans and facilities granted from Central Bank of Lebanon	4,637,338	3,977,764
Customers' accounts	317,896,398	280,216,593
Customers' accounts - related parties	2,851,963	2,088,342
Other borrowings	142,062	143,432
	328,530,906	293,659,357

29. FEE AND COMMISSION INCOME

This caption consists of the following:

	December 31,	
	2018 LBP'000	2017 LBP'000
Commission on documentary credits	1,410,349	1,237,192
Commission on letters of guarantee	1,698,980	1,619,232
Commission on transactions with banks	104,947	107,850
Service fees on customers' transactions	9,649,057	9,459,324
Commission on loans and advances	11,095,275	10,906,725
Commission earned on insurance policies	4,868,495	5,174,555
Commissions on capital market customers' transactions (Note 38)	525,464	747,377
Other	1,310,854	1,038,720
	30,663,421	30,290,975

30. FEE AND COMMISSION EXPENSE

This caption consists of the following:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Brokerage fees	799,932	1,132,323
Commission on transactions with banks and financial institutions	672,974	681,313
Commission paid to car dealers	884,701	901,905
Other	864,207	791,132
	3,221,814	3,506,673

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Interest income (net of withheld tax)	4,167,064	5,678,317
Dividends received	430,386	96,289
Net unrealized loss	(51,346)	(717,469)
Net realized (loss)/gain	(18,694)	340
	4,527,410	5,057,477

32. OTHER OPERATING INCOME

	December 31,	
	2018	2017
	LBP'000	LBP'000
Dividend income from investments at fair value through other comprehensive income	1,718,980	1,428,880
Foreign exchange gain	1,835,975	2,192,259
Miscellaneous income	2,282,645	986,354
	5,837,600	4,607,493

33. STAFF COSTS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Salaries	40,506,227	39,166,083
Board of directors' remunerations	2,549,978	4,031,154
Social security contributions	6,490,347	5,994,574
Provision for staff end-of-service indemnities (Note 22)	2,578,474	742,004
Other staff benefits and costs	15,330,528	13,785,458
	67,455,554	63,719,273

34. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31,	
	2018	2017
	LBP'000	LBP'000
Fees and taxes	1,622,203	1,135,903
Rent and building services	4,062,352	3,777,132
Legal and professional fees	3,106,983	2,718,436
Telephone and postage	1,299,525	1,416,142
Maintenance and repairs	6,659,930	5,238,626
Electricity and water	971,606	911,008
Heat, light and power	770,234	626,044
Insurance	667,635	697,540
Advertising and publicity	4,394,256	4,923,191
Public relations and entertainment	494,475	724,906
Printing and stationery	546,616	576,105
Subscriptions	1,613,056	2,300,111
Travel	744,163	568,008
Donations	15,933	146,999
Software implementation fees	117,937	119,810
Credit card expenses	899,697	957,830
Money transport	798,414	1,178,346
Cleaning	795,433	781,790
Guards expenses	600,219	593,553
Miscellaneous expenses	1,806,384	1,952,508
	31,987,051	31,343,988

Legal and professional fees include an amount of LBP 226 million representing various services provided by the parent bank during 2018 and 2017.

35. EARNINGS PER SHARE

The following table shows the income and share data used in the basic and diluted earnings per share calculation:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Net profit	61,748,513	70,007,916
Less dividends to preferred shares	(11,193,187)	(13,937,887)
	50,555,326	56,070,029
Weighted average number of common shares	213,650	213,148
Diluted earnings per share in LBP	237	263

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, 2018 and 2017 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 represents BLC Income Fund 1 whose total assets outstanding as at December 31, 2018 amount 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 2018 amounted to LBP 126 million (LBP 124 million in 2017) are recorded under "Commissions on capital market customers' transactions" (Note 29).

39. CASH AND CASH EQUIVALENTS

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Cash on hand	33,200,339	37,772,770
Deposits with Central Bank (excluding compulsory deposits)	67,759,902	60,322,202
Term placements with Central Bank (with original maturity of less than 3 months)	126,630,000	112,321,110
Purchased checks	496,981	5,538,192
Current accounts with correspondents	219,754,019	115,554,294
Current accounts with related banks and financial institutions	644,433	215,120
Current accounts with the parent bank	3,545,626	4,395,963
Term placements with correspondents (with original maturity of less than 3 months)	43,118,250	5,000,000
Term placements with a related party (with original maturity of less than 3 months)	17,269,830	-
	512,419,380	341,119,651

Major non-cash transactions excluded from the statement of cash flows for the years ended December 31, 2018 and 2017 are summarized as follows:

- Negative change in fair value of investments as at fair value through other comprehensive income of LBP 779 million and related deferred tax liability of LBP 472 million (Negative change in fair value of LBP 2billion and related deferred tax liability of LBP 173 million during 2017);
- Assets and investment properties acquired in satisfaction of loans in the amount of LBP 1.54 billion (LBP 391 million in 2017);
- Transfer of LBP 99 million from property and equipment to intangible assets (LBP 324 million in 2017);
- Reversal of regulatory deferred contribution in the amount of LBP 103 billion against retained earnings;
- Net transfers from investments held at amortized cost and investments at fair value through profit or loss in the amount of LBP 93 billion and LBP 20 billion respectively, to investments at fair value through other comprehensive income in the amount of LBP 113 billion;
- Deferred charges in the amount of LBP 7.8 billion were written-off against interest income in the amount of LBP 9 billion in 2018. (Deferred charges in the amount of LBP 16 billion were written-off against interest income in the amount of LBP 18 billion;

- Write-off of deferred charges in the amount of LBP 3.3 billion and goodwill in the amount of LBP 6.58 billion against regulatory deferred liability in 2017;
- Transfer of LBP 4.2 billion from regulatory deferred contribution to provision for risks and charges.

40. COLLATERAL GIVEN

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

	December 31,				2017
	2018		Corresponding Facilities		
	Amount of Pledged Assets	Maturity Date	Amount of Facility	Nature of Facility	
	LBP'000		LBP'000	LBP'000	
Lebanese treasury bills	17,734,000	March 21, 2019	17,734,000	Soft loan from Central Bank of Lebanon	17,734,000
Lebanese Government bonds	-	-	-	Exemption of regulatory reserve with Central Bank of Lebanon	301,500,000
Certificates of deposit issued by the Central bank of Lebanon	6,292,235	June 9, 2029	25,721,246	Facilities from Central Bank of Lebanon	-
Lebanese treasury bills	38,512,320	Revolving	397,171,215	Facilities from Central Bank of Lebanon	338,512,320

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 and certificates of deposit issued by 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 categorise 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 utilisation 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 analysed 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).

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 realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation 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 amortisation profiles, early repayment or overpayment, changes in utilisation 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.

1. Maximum exposure to credit risk

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

	December 31, 2018		
	Gross Carrying Amount (Including Accrued Interest)	Expected Credit Losses	Net Carrying Amount
	LBP'000	LBP'000	LBP'000
Cash with Central Bank (Note 5)	1,652,486,627	(6,893,673)	1,645,592,954
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
	7,252,170,795	(172,710,301)	7,079,460,494
Financial Guarantees and other commitments	128,700,167	(413,741)	128,286,426

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

	Cash and 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 (note 2)	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

Balances with Central Bank are classified under stage 1.

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
	LBP'000
Gross carrying amount as at January 1, 2018	1,285,214,230
New financial assets originated or purchased	1,068,411,687
Net change in the carrying value of existing deposits	37,435,400
Financial assets that have been derecognised	(756,015,235)
Gross carrying amount as at December 31, 2018	1,635,046,082
Accrued interest receivable	17,440,545
	1,652,486,627

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

	Stage 1 12-month ECL
	LBP'000
Loss allowance as at January 1, 2018	4,840,760
New financial assets originated or purchased	5,330,679
Net change due to increase/decrease in credit risk and change in balance	(27,177)
Financial assets that have been derecognised	(3,250,589)
Loss allowance as at December 31, 2018	6,893,673

1.2) Deposits with banks and financial institutions

Deposits with banks and financial institutions are classified under stage 1.

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

	Stage 1 12-month ECL
	LBP'000
Gross carrying amount as at January 1, 2018	151,254,169
Changes due to modifications that did not result in derecognition	93,641,648
New financial assets originated or purchased	76,738,640
Financial assets that have been derecognised	(32,442,496)
Gross carrying amount as at December 31, 2018	289,191,961
Accrued interest receivable	4,746
	289,196,707

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

	Stage 1 12-month ECL
	LBP'000
Loss allowance as at January 1, 2018	850,195
New financial assets originated or purchased	419,243
Net change due to increase/decrease in credit risk and change in balance	39,472
Financial assets that have been derecognised	(673,887)
Loss allowance as at December 31, 2018	635,023

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
	LBP'000
Gross carrying amount as at January 1, 2018	3,500,000
Financial assets that have been derecognized	(700,000)
Gross carrying amount as at December 31, 2018	2,800,000
Accrued interest receivable	22,412
	2,822,412

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

	Stage 1 12-month ECL
	LBP'000
Loss allowance as at January 1, 2018	85,101
Net change due to change in balance	(19,692)
Loss allowance as at December 31, 2018	65,409

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, 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	2,091,698,195	192,723,887	117,264,632	2,401,686,714
Accrued interest receivable				20,975,525
				2,422,662,239

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

	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
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	2,098,082,230	205,010,891	242,137,595	2,545,230,716

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
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	1,949,780	(14,491,903)	(3,896,895)
New financial assets originated	1,635,671	2,551,327	4,895,062	9,082,060
Financial assets that have been derecognized	(1,176,294)	(1,433,156)	(13,463,303)	(16,072,753)
Loss allowance as at December 31, 2018	6,384,035	12,287,004	124,872,963	143,544,002

The movement of the allowance for impairment of collectively assessed loans and advances during 2017 was as follows:

	2017 LBP'000
Balance, January 1	(219,067,599)
Additions - Individually assessed loans	(15,105,713)
Write-back through profit or loss - Individually assessed loans	6,253,894
Write-back - collectively assessed loans	5,674,477
Effect of assets held for sale adjustments	138,598,943
Write-off	505,622
Effect of exchange rates changes	(71,518)
Transfer to off-balance sheet	1,925
Balance, December 31	(83,209,969)

1.5) Investment securities

Investment securities are mainly concentrated with the Lebanese public sector and are classified under stage 1.

The Bank does not have direct or indirect exposure to any sub-prime mortgage debts, collateralized debt obligations, real estate derivative investments, alternate real estate investments or guarantees arising from the same.

The movement of investment securities (excluding accrued interest) classified at amortized cost during 2018 and 2017 is as follows:

	2018		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance, January 1	1,382,405,598	1,637,147,150	3,019,552,748
Initial adoption of IFRS9 (Note 2)	(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	4,119,239	(1,337,304)	2,781,935
Balance, December 31	1,133,189,598	1,409,203,776	2,542,393,374

	2017		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance, January 1	1,552,707,678	1,714,199,927	3,266,907,605
Acquisition	207,295,876	19,978,427	227,274,303
Swaps	(95,000,000)	(211,050)	(95,211,050)
Redemption upon maturity	(281,137,881)	(95,098,179)	(376,236,060)
Sale	-	(1,763,711)	(1,763,711)
Amortization of discount/premium	(1,460,075)	41,736	(1,418,339)
Balance, December 31	1,382,405,598	1,637,147,150	3,019,552,748

The movement of investment securities at fair value through other comprehensive income (excluding accrued interest) during 2018 and 2017 is as follows:

	2018		
	LBP	F/CY	Total
	LBP'000	LBP'000	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	686,563
Balance, December 31	61,376,141	50,667,665	112,043,806

	2017		
	LBP	F/CY	Total
	LBP'000	LBP'000	LBP'000
Balance, January 1	16,409,998	1,087,882	17,497,880
Sale	(100)	-	(100)
Change in fair value	(2,091,868)	23,525	(2,068,343)
Effect of exchange rates changes	101	8,555	8,656
Balance, December 31	14,318,131	1,119,962	15,438,093

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, 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
	20,061,518	1,123,916

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, 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	28,140,559	3,799,287	31,939,846

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

	December 31, 2018		
	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	28,321,761	4,004,845	32,326,606

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

	December 31, 2018		
	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	181,201	205,559	386,760

Loan commitments and financial guarantees are classified as follows:

	December 31, 2018		
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Total
	LBP'000	LBP'000	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	127,675,642	610,784	128,286,426

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

	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
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	128,028,606	671,561	-	128,700,167

	December 31, 2018		
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Total
	LBP'000	LBP'000	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	393,282	20,459	413,741

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

	December 31,	
	2018	2017
	LBP'000	LBP'000
Corporate:		
Agriculture	55,251,455	54,632,158
Commerce	499,761,759	455,748,178
Construction and real estate	496,563,483	466,783,691
Individual	88,854,219	96,345,105
Industrial	154,477,455	152,844,755
Public Sector	8,656,489	7,206,354
Services	166,752,660	164,443,272
	1,470,317,520	1,398,003,513
Retail:		
Retail loans	1,074,913,196	1,078,080,957
Accrued interest receivable	20,975,525	19,969,268
	2,566,206,241	2,496,053,738

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, 2018		
	Total Balance	% to Total	Number of Counterparties
	LBP'000	%	
Less than LBP 5 billion	22,975,296	8	29
From LBP 5 billion to LBP 15 billion	23,508,595	8	3
From LBP 15 billion to LBP 30 billion	58,811,688	20	3
From LBP 30 billion to LBP 50 billion	184,398,109	64	3
	289,693,688	100	38

	December 31, 2017		
	Total Balance	% to Total	Number of Counterparties
	LBP'000	%	
Less than LBP 5 billion	30,395,741	19	34
From LBP 5 billion to LBP 15 billion	45,243,916	29	6
From LBP 15 billion to LBP 30 billion	38,121,643	25	2
From LBP 30 billion to LBP 50 billion	43,109,170	27	1
	156,870,470	100	43

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

	December 31, 2018		
	Carrying Amount	% to Total Amount	Number of Counterparties
	LBP'000	%	
Less than LBP 500 million	1,235,479,044	48	50,216
From LBP 500 million to LBP 5 billion	614,684,132	24	473
From LBP 5 billion to LBP 15 billion	369,804,686	15	46
Above LBP 15 billion	325,262,854	13	10
	2,545,230,716	100	50,745
Accrued interest receivable	20,975,525		
	2,566,206,241		

	December 31, 2017		
	Carrying Amount	% to Total Amount	Number of Counterparties
	LBP'000	%	
Less than LBP 500 million	1,249,792,931	50	51,193
From LBP 500 million to LBP 5 billion	613,424,331	25	464
From LBP 5 billion to LBP 15 billion	313,958,559	13	38
Above LBP 15 billion	298,908,649	12	9
	2,476,084,470	100	51,704
Accrued interest receivable	19,969,268		
	2,496,053,738		

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

	December 31, 2018			Carrying Values of Collaterals Received							
	Carrying Amount	Expected Credit Losses	Net Amount	Pledged Funds	Bank Guarantees	First & Second Degree Mortgage on Properties	Equity Securities	Dept Securities	Others	Total Guarantees	Lesser of Individual Exposure or Total Guarantees
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	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	3,333,098,949	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	91,599,459	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	152,080,993	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	20,642,782	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	3,597,422,183	1,712,422,689

	December 31, 2017			Carrying Values of Collaterals Received							
	Carrying Amount	Expected Credit Losses	Net Amount	Pledged Funds	Bank Guarantees	First & Second Degree Mortgage on Properties	Equity Securities	Dept Securities	Others	Total Guarantees	Lesser of Individual Exposure or Total Guarantees
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing	2,313,063,167	-	2,313,063,167	279,610,809	62,776,873	1,966,810,270	2,819,025	286,425	604,975,884	2,179,975,916	1,562,227,062
Substandard	29,481,059	-	29,481,059	303,833	516,746	37,520,632	-	-	5,867,702	27,891,822	24,069,321
Doubtful	108,891,193	(38,593,832)	70,297,361	285,744	4,616,744	123,134,930	-	-	5,673,495	67,227,933	95,715,172
Loss	44,618,319	(44,616,137)	2,182	52,619	1,399,700	1,858,847	-	-	16,299,831	18,027,048	11,748,430
	2,496,053,738	(83,209,969)	2,412,843,769	280,253,005	69,310,063	2,129,324,679	2,819,025	286,425	632,816,912	2,293,122,719	1,693,759,985

Overdue but not impaired loans as at December 31, 2018 and 2017 are as follows:

	2018	2017
	LBP'000	LBP'000
Between 60 and 90 days	26,672,384	27,352,000
Between 90 and 180 days	68,497,271	44,006,000
Between 180 and 360 days	4,916,520	7,570,000
Over 360 days	7,985,560	1,450,000
	108,071,735	80,378,000

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

	December 31, 2018					Total
	Lebanon	Middle East & Africa	North America	Europe	Other	
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS						
Cash and Central Bank	1,678,793,293	-	-	-	-	1,678,793,293
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	6,732,771,245	73,603,528	22,901,619	303,858,050	3,549,769	7,136,684,211
FINANCIAL LIABILITIES						
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	440,766,552	4,518,362	-	-	-	445,284,914
Total	5,278,436,222	718,909,757	76,736,972	356,685,876	55,054,225	6,485,823,052

	December 31, 2017					
	Lebanon LBP'000	Middle East & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
FINANCIAL ASSETS						
Cash and Central Bank	1,330,561,560	-	-	-	-	1,330,561,560
Deposits with banks and financial institutions	15,787,593	3,820,329	25,575,088	110,697,796	989,664	156,870,470
Loan to a bank	3,528,263	-	-	-	-	3,528,263
Investments at fair value through profit or loss	98,725,319	-	-	31,843,150	-	130,568,469
Loans and advances to customers	2,332,431,803	61,029,832	5,482,148	11,939,337	1,960,649	2,412,843,769
Investments at amortized cost	3,068,805,305	-	-	-	-	3,068,805,305
Investments at fair value through other comprehensive income	15,438,093	-	-	-	-	15,438,093
Total	6,865,277,936	64,850,161	31,057,236	154,480,283	2,950,313	7,118,615,929
FINANCIAL LIABILITIES						
Deposits from banks	38,787,951	23,654,049	9,097	5,043,047	-	67,494,144
Customers' accounts	4,855,042,983	595,260,713	93,820,838	313,229,423	50,850,138	5,908,204,095
Other borrowings	414,035,965	5,861,223	-	-	-	419,897,188
Total	5,307,866,899	624,775,985	93,829,935	318,272,470	50,850,138	6,395,595,427

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.

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.

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.

	December 31, 2018					Total
	Up to 3 Months	3 Months to 1 Year	1 Year to 3 Years	3 Years to 5 Years	Over 5 Years	
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Deposits from banks	95,520,009	53,637,000	-	-	-	149,157,009
Customers' accounts at amortized cost	5,169,828,129	680,007,000	32,424,000	9,122,000	-	5,891,381,129
Other borrowings	22,309,510	82,943	-	-	422,892,461	445,284,914
	5,287,657,648	733,726,943	32,424,000	9,122,000	422,892,461	6,485,823,052

	December 31, 2017					Total
	Up to 3 Months	3 Months to 1 Year	1 Year to 3 Years	3 Years to 5 Years	Over 5 Years	
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Deposits from banks	39,267,112	28,227,032	-	-	-	67,494,144
Customers' accounts at amortized cost	5,099,268,450	778,568,308	30,367,337	-	-	5,908,204,095
Other borrowings	5,071,429	928,523	17,734,000	-	396,163,236	419,897,188
	5,143,606,991	807,723,863	48,101,337	-	396,163,236	6,395,595,427

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.

Currency risk

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include investments in foreign currency denominated loans, foreign currency denominated securities, future cash flows in foreign currencies arising from foreign exchange transactions, and foreign currency denominated debt.

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, 2018					
	LBP	USD	Euro	GBP	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and Central Bank	887,209,077	787,398,507	2,641,252	1,544,457	-	1,678,793,293
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 under leverage arrangement with the Central Bank of Lebanon	133,182,980	-	-	-	-	133,182,980
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	3,308,784,778	3,941,372,484	1,537,992,788	6,594,114	8,469,147	8,803,213,311
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	415,045,306	30,239,608	-	-	-	445,284,914
Soft leverage arrangements with Central Bank of Lebanon	133,182,980	-	-	-	-	133,182,980
Other liabilities	47,975,206	30,517,640	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	2,771,753,592	3,593,903,254	1,542,995,103	6,666,524	7,631,868	7,922,950,341
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)
	-	(8,587,772)	8,624,044	-	53	36,325
Net assets	537,031,186	338,881,458	3,621,729	(72,410)	837,332	880,299,295

	December 31, 2017					
	LBP	USD	Euro	GBP	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and Central Bank	869,017,622	457,277,157	3,438,524	828,257	-	1,330,561,560
Deposits with banks and financial institutions	6,368,977	73,688,448	63,995,059	4,280,713	8,537,273	156,870,470
Loan to a bank	3,528,263	-	-	-	-	3,528,263
Investments at fair value through profit or loss	58,968,240	66,022,551	5,577,678	-	-	130,568,469
Loans and advances to customers	999,138,866	1,404,541,865	10,804,514	113,593	(1,755,069)	2,412,843,769
Investments at amortized cost	1,412,048,860	1,656,756,445	-	-	-	3,068,805,305
Investments at fair value through other comprehensive income	14,318,030	1,045,704	74,359	-	-	15,438,093
Customers' liability under acceptances	170,213	33,621,336	20,563,077	-	1,304,770	55,659,396
Assets under leverage arrangement with the Central Bank of Lebanon	90,979,500	-	-	-	-	90,979,500
Assets acquired in satisfaction of loans	12,497,800	69,999,073	-	-	-	82,496,873
Property and equipment	80,941,511	-	-	-	-	80,941,511
Intangible assets	1,517,430	-	-	-	-	1,517,430
Deferred assets	-	7,821,948	-	-	-	7,821,948
Other assets	136,702,752	(39,921,135)	(74,051,149)	18,765	13,978	22,763,211
Assets classified as held-for-sale	-	-	1,380,267,902	-	-	1,380,267,902
Total Assets	3,686,198,064	3,730,853,392	1,410,669,964	5,241,328	8,100,952	8,841,063,700
LIABILITIES						
Deposits from banks	66,151	67,237,221	181,243	-	9,529	67,494,144
Customers' accounts	2,345,579,868	3,277,069,166	274,155,993	5,060,163	6,338,905	5,908,204,095
Liability under acceptances	170,213	33,621,336	20,563,077	-	1,304,770	55,659,396
Other borrowings	414,035,965	5,861,223	-	-	-	419,897,188
Soft leverage arrangements with Central Bank of Lebanon	90,979,500	-	-	-	-	90,979,500
Other liabilities	160,406,616	34,322,111	676,160	63,571	29,336	195,497,794
Provisions	9,575,215	1,031,113	-	-	-	10,606,328
Liabilities directly associated with assets classified as held for sale	-	-	1,249,041,760	-	-	1,249,041,760
Total Liabilities	3,020,813,528	3,419,142,170	1,544,618,233	5,123,734	7,682,540	7,997,380,205
Currency to be received	-	121,543,368	74,702,511	-	22,682,931	218,928,810
Currency to be delivered	(120,600,000)	(74,788,957)	(632,307)	-	(22,680,982)	(218,702,246)
	(120,600,000)	46,754,411	74,070,204	-	1,949	226,564
Net assets	544,784,536	358,465,633	(59,878,065)	117,594	420,361	843,910,059

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, 2018						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	Over 5 Years LBP'000	
FINANCIAL ASSETS								
Cash and Central Bank	5.71	141,633,293	138,690,000	77,005,000	133,414,000	288,233,000	899,818,000	1,678,793,293
Deposits with banks and financial institutions	0.53	229,781,938	59,276,727	-	-	-	-	289,058,665
Loan to a bank	2.56	25,003	-	2,732,000	-	-	-	2,757,003
Investment securities at fair value through profit or loss	3.81	15,379,953	3,395,000	16,602,290	20,089,000	-	-	55,466,243
Loans and advances to customers	7.45	117,253,253	757,446,000	162,181,000	391,001,000	332,919,000	661,861,986	2,422,662,239
Investment securities at amortized cost	6.87	33,318,436	122,682,000	168,716,000	280,354,000	220,167,928	1,749,199,530	2,574,437,894
Investment securities at fair value through other comprehensive income	4.17	20,084,084	-	15,104,000	62,021,000	15,220,790	1,079,000	113,508,874
		557,475,960	1,081,489,727	442,340,290	886,879,000	856,540,718	3,311,958,516	7,136,684,211
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	3.40	4,104,968	91,415,041	53,637,000	-	-	-	149,157,009
Customer's deposits and credit balances	5.37	418,405,129	4,751,423,000	680,007,000	32,424,000	9,122,000	-	5,891,381,129
Other borrowings	1.16	195,385	22,114,124	82,943	-	-	422,892,462	445,284,914
		422,705,482	4,864,952,165	733,726,943	32,424,000	9,122,000	422,892,462	6,485,823,052

December 31, 2017

	Weighted Average Interest Rate %	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	4.98	133,939,951	331,527,919	6,815	-	21,155,500	843,931,375	1,330,561,560
Deposits with banks and financial institutions	0.89	129,073,681	27,796,789	-	-	-	-	156,870,470
Loan to a bank	2.67	28,263	3,500,000	-	-	-	-	3,528,263
Investment securities at fair value through profit or loss	4.57	18,854,278	4,844,493	60,054,576	-	31,138,292	15,676,830	130,568,469
Loans and advances to customers	7.51	99,780,603	388,778,792	239,521,715	330,075,704	425,668,208	929,018,747	2,412,843,769
Investment securities at amortized cost	6.52	59,331,057	59,019,624	266,737,789	534,741,852	396,388,512	1,752,586,471	3,068,805,305
Investment securities at fair value through other comprehensive income	-	15,438,093	-	-	-	-	-	15,438,093
		456,445,926	815,467,617	566,320,895	864,817,556	874,350,512	3,541,213,423	7,118,615,929
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	14.66	1,580,080	37,687,032	28,227,032	-	-	-	67,494,144
Customer's deposits and credit balances	4.70	459,184,726	4,640,083,724	778,568,308	30,367,337	-	-	5,908,204,095
Other borrowings	1.01	202,680	4,868,749	928,523	17,734,000	-	396,163,236	419,897,188
		460,967,486	4,682,639,505	807,723,863	48,101,337	-	396,163,236	6,395,595,427

42. COMMITMENTS AND CONTINGENCIES

The Bank is defendant in several lawsuits, whereby the aggregate amount claimed by the plaintiffs is around LBP 8.6 billion.

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 LBP 2.99 billion. A final decision was reached in 2018 where the Bank settled LBP 2.8 billion. The Bank's tax returns for the years 2015 till 2018 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 LBP 1 billion which was settled during 2017 against provision for risk and charges (Note 22). 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 LBP 10 billion for the head office and LBP 500 million 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.

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,	
	2018	2017
	LBPmillion	LBPmillion
Common equity Tier I	617,358	576,878
Additional Tier I capital	152,787	165,825
	770,145	742,703
Tier II capital	39,545	63,475
Total regulatory capital	809,690	806,178
Credit risk	3,802,962	3,807,122
Market risk	49,500	97,005
Operational risk	354,408	372,782
Risk-weighted assets and risk-weighted off-balance sheet items	4,206,870	4,276,909
Equity Tier I ratio	14.67%	13.49%
Tier I capital ratio	18.31%	17.37%
Risk based capital ratio - Tier I and Tier II capital	19.25%	18.85%

44. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	December 31, 2018					
	Note	Fair Value				Total
		Carrying Amount LBP'000	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	
Financial assets measured at fair value						
Investments at fair value through profit or loss:						
Quoted equity securities	9	3,111,818	3,111,818	-	-	3,111,818
Unquoted equity securities	9	2,526,939	-	-	2,526,939	2,526,939
Foreign Eurobonds	9	39,623,424	39,623,424	-	-	39,623,424
Mutual Funds	9	10,004,593	-	-	10,004,593	10,004,593
Unquoted equities at fair value through other comprehensive income:						
Bancassurance S.A.L.	9	12,216,347	-	-	12,216,347	12,216,347
Other unquoted equities	9	5,995,866	-	-	5,995,866	5,995,866
Lebanese Treasury bills	9	44,296,836	-	44,296,836	-	44,296,836
Lebanese Government bonds	9	49,534,757	49,534,757	-	-	49,534,757
		167,310,580	92,269,999	44,296,836	30,743,745	167,310,580
Financial assets measured at amortized cost						
Term placements with Central Bank of Lebanon		921,223,875		790,571,555		790,571,555
Loans and advances (net of allowances)	8	2,422,662,239	-	2,422,662,239	-	2,422,662,239
Lebanese Treasury bills	9	365,247,252	-	360,260,864	-	360,260,864
Lebanese Government bonds	9	1,082,378,885	881,209,363	-	-	881,209,363
Certificates of deposit issued by the Central Bank of Lebanon	9	1,040,591,983	230,281,523	629,695,700	-	859,977,223
Corporate bonds and asset-backed securities	9	54,175,254	-	-	54,175,254	54,175,254
		5,886,279,488	1,111,490,886	4,203,190,358	54,175,254	5,368,856,498

	December 31, 2017					
	Note	Fair Value				Total
		Carrying Amount LBP'000	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	
Financial assets measured at fair value						
Investments at fair value through profit or loss:						
Quoted equity securities	9	3,527,270	3,527,270	-	-	3,527,270
Unquoted equity securities	9	2,384,355	-	-	2,384,355	2,384,355
Lebanese Government bonds	9	20,614,069	-	20,614,069	-	20,614,069
Foreign Eurobonds	9	39,924,436	-	39,924,436	-	39,924,436
Certificates of deposit issued by the Central Bank of Lebanon	9	52,157,336	-	52,157,336	-	52,157,336
Mutual Funds	9	10,123,796	-	-	10,123,796	10,123,796
Unquoted equities at fair value through other comprehensive income:						
Bancassurance S.A.L.	9	9,899,308	-	-	9,899,308	9,899,308
Other unquoted equities	9	5,538,785	-	-	5,538,785	5,538,785
		144,169,355	3,527,270	112,695,841	27,946,244	144,169,355
Financial assets measured at amortized cost						
Term placements with Central Bank of Lebanon		865,086,875	-	810,063,457	-	810,063,457
Loans and advances (net of allowances)	8	2,412,843,769	-	2,407,714,889	-	2,407,714,889
Lebanese Treasury bills	9	788,019,504	-	768,905,879	-	768,905,879
Lebanese Government bonds	9	1,335,669,051	-	1,220,488,344	-	1,220,488,344
Certificates of deposit issued by the Central Bank of Lebanon	9	885,785,693	-	825,209,113	-	825,209,113
Corporate bonds and asset-backed securities	9	10,078,500	-	10,078,500	-	10,078,500
		6,297,483,392	-	6,042,460,182	-	6,042,460,182

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

The directors consider that the carrying amounts of cash, compulsory and other short term deposits with Central Bank of Lebanon, deposits from banks and accounts payable approximate their fair values due to the short-term maturities of these instruments. For customers' accounts, this is largely due to their short term contractual maturities.

Valuation techniques, significant unobservable inputs, and sensitivity of the input to the fair value

The following table gives information about how the fair values of financial instruments included in the consolidated financial statements, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

Financial Instruments	Date of Valuation	Valuation Technique and Key Input	Significant Unobservable Inputs
Lebanese treasury bills	December 31, 2018 & 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity	N/A
Certificates of deposit in LBP issued by Central Bank of Lebanon	December 31, 2018 & 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity	N/A
Certificates of deposit in foreign currencies issued by Central Bank of Lebanon	December 31, 2018 & 2017	Quoted prices for similar assets in active markets	N/A
Lebanese Government bonds	December 31, 2018 & 2017	Quoted prices for similar assets in active markets	N/A
Term placements with Central Bank of Lebanon	December 31, 2018 & 2017	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor. DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Foreign Eurobonds	December 31, 2018 & 2017	Quoted prices for similar assets in active markets	N/A
Mutual funds	December 31, 2018 & 2017	Net earnings of the fund	Net earnings
Bancassurance S.A.L.	December 31, 2018 & 2017	Multiple earnings	4.5 times earnings
Other unquoted equities at fair value through other comprehensive income	December 31, 2018 & 2017	N/A	N/A

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 27, 28, 33, and 34.

Remuneration to executive management paid during 2018 amounted to LBP 2 billion (LBP 4.4 billion in 2017).

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2018 were approved by the Board of Directors in its meeting held on May 15, 2019.

95

***BRILLIANT
LEBANESE
AWARDS***



BRILLIANT LEBANESE AWARDS

The Brilliant Lebanese Awards, launched in 2012, are the first Lebanese banking awards designed to honor entrepreneurs who have achieved excellence and success and demonstrated personal commitment to their business and community.

The Awards are composed of three main categories: "Business of the Year", "Woman Entrepreneur of the Year" and a new category added in 2018 "Tech Innovation of the Year" dedicated to any business activity that is based on digital or innovative technologies.

The winners selection is made following a 45-minutes deliberations in front of a professional impartial jury panel based on 4 criteria namely Creativity (30%), Performance & Financials (30%), Sustainability and Scalability (25%) and the Social Impact (15%). The jury shares their assessment and score during the ceremony broadcasted live on LBCI.

The jury includes representatives from the Central Bank of Lebanon, Berytech, Endeavor Lebanon, Kafalat, the International Finance Corporation IFC – World Bank group, the Lebanese American University, the American University of Beirut, the Lebanese League for Women in Business, Lebanese Business People in the World (RDCL World) as well as successful entrepreneurs with only one seat allocated to BLC Bank.

The Brilliant Lebanese Awards provides training; mentoring, networking opportunities and nationwide and global exposure across all media (TV, Digital, Press...) and the winners of each category receive a USD 30,000 cash prize and a free for life business account at BLC Bank. The finalists of the three categories combined will participate in an online competition whereby the public will be given the opportunity to elect the recipient of the People's Choice Award.

On Thursday November 15 2018, the 7th edition of the Brilliant Lebanese Awards was carried out during a gala dinner at Casino du Liban gathering high level invitees from the political, economic, social and media scenes.

The Brilliant Lebanese Awards for 2018 were given to "Screens international" founded by Joseph AKIKI as "the Business of the Year 2018"; "AMB contracting" founded by Rania Abou MOSLEH won "the Woman Entrepreneur of the Year 2018"; "Roadie Tuner" co-founded by Hassane SLAIBI was awarded as "the Tech Innovation of the Year 2018"; whereas "Blue Sound" for its owner Shadi S. SAAD won "The People's Choice award"

The Awards comes within BLC Bank's commitment to support SMEs and Women in Business providing them with full-fledged business solutions through financial and non-financial services, ranging from learning and development to market exposure, networking & mentoring. Moreover, BLC Bank reaffirmed its position as a leader in the women's segment through the We Initiative program, the first and only full holistic program for the women economic empowerment in Lebanon.



97 *AWARDS*



AWARDS

EXCELLENCE IN DIVERSIFIED BANKING SERVICES & PRODUCTS FROM WORLD UNION OF ARAB BANKERS

BLC Bank was honored by the World Union of Arab Bankers.

Dr. Joseph Torbey, Chairman and Mr. Wissam Fattouh, Secretary General of the WUOAB handed the Award "Excellence in Diversified Banking Services & Products" to Mr. Joe Baddour, AGM-Head of Corporate Banking Group,



الاتحاد الدولي للمصرفيين العرب
World Union of Arab Bankers



ORACLE: 1ST BANK TO IMPLEMENT THE SUPERCLUSTER M8 IN LEBANON

The Bank represented by Mr. Georges Deaibess, Head of Infrastructure, Database Admin, IT Support & Help Desk, received a trophy from Oracle (TAG) for being the first to implement the SuperCluster M8 in Lebanon at the "Developing Your Future-Proof Infrastructure. BLC Bank reached new heights with innovation and technology.

The SuperCluster M8 is the world's fastest engineered system that combines computer, networking, and storage hardware with virtualization, operating system, and management software while having the most advanced security features.

ORACLE



FINANCIAL ALLIANCE FOR WOMEN

BLC Bank received a trophy from the Chairman of Global Banking Alliance for Women Mrs. Inez Murray at GBA Summit in Jordan. This award was granted to BLC Bank for having gathered and reported extraordinarily high-quality sex-disaggregated data to the Global Banking Alliance for Women to better build out the business case for financial services providers strategically serve the Women's Market.

The Global Banking Alliance for Women is a group of financial institutions of 135 member countries driving women's wealth creation by providing institutions such as BLC Bank with global industry best practices and peer learning, keeping them ahead in serving their women customers.

FINANCIAL
ALLIANCE
FOR
WOMEN



99

***BLC BANK
NETWORK***



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