

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK AUDI sal

Adverse Opinion

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

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion" section of our report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

1. As disclosed in Note 52.3 to the consolidated financial statements, the Group holds assets with the Central Bank of Lebanon, a portfolio of Lebanese government treasury bills, a portfolio of loans to the private sector and other assets concentrated in Lebanon which represent 60% of the Group's total assets as at 31 December 2019. In addition, assets with the Central Bank of Lebanon include accumulated fair value adjustments from hedge accounting disclosed in Note 19 and other assets include a receivable from Central Bank of Lebanon recognized by the Group during 2019, based on the estimated present value of the future cash flows expected to be received from the leverage arrangements in local currency entered into with the latter against a simultaneous purchase of Lebanese government Eurobonds as further described in Notes 23, 29, and 31.

As disclosed in Note 1, the accompanying consolidated financial statements do not include adjustments, as required by IFRS, to the carrying amounts of the above assets and related disclosures that would result from the resolution of the uncertainties described in Note 1 and the future effects of the economic crisis and the restructuring plan. Also, as disclosed in Note 47, management was unable to produce faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements do not include the fair value disclosures required by IFRS.

Had such adjustments and disclosures been determined and made, as would have been required by IFRS had the uncertainties described in Note 1 been resolved, many elements and related disclosures in the accompanying consolidated financial statements would have been materially affected. The effects of the resolution of these uncertainties on the carrying amounts of the assets and the related disclosures in these consolidated financial statements have not been determined.

2. The events and conditions described in Note 1 and the matters described in paragraph 1 above, affect the liquidity, solvency and profitability of the Group and represent events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern and the accompanying consolidated financial statements do not include adequate disclosure of management's plan to deal with the events and conditions giving rise to the material uncertainty.

Basis for Adverse Opinion (continued)

3. As disclosed in Note 37 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried provisions for risks and charges of LBP 186 billion as at 31 December 2018 which do not meet the accounting criteria of IAS 37 (the "excess provisions"). This caused us to qualify our opinion on the consolidated financial statements relating to previous years affected by these regulatory requirements, as these transactions constitute a departure from International Financial Reporting Standards (IFRS). During 2019, these provisions were transferred to allowances for expected credit losses on balances with central banks, loans and advances to customers at amortised cost and financial assets held at amortised cost which also constitutes a departure from IFRS. This matter is linked to the matters described in paragraph 1 and the overall effects of departures from IFRS and the resolution of the uncertainties described in Note 1 on the elements of these consolidated financial statements have not been determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse 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 for the year ended 31 December 2019. Except for the matters described in the "Basis for Adverse Opinion" section of our report, we have determined that there are no other key audit matters to communicate in our report.

Other Information Included in the Group's 2019 Annual Report

Other information consists of the information included in the Group's Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. As described in the "Basis for Adverse Opinion" section of our report, the consolidated financial statements do not include adjustments to the carrying amounts of the assets concentrated in Lebanon and related disclosures as a result of the resolution of the uncertainties stated in Note 1. We have concluded that the other information is materially misstated for the same reasons with respect to the amounts or other items in the Group's 2019 Annual Report affected by the resolution of these uncertainties.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

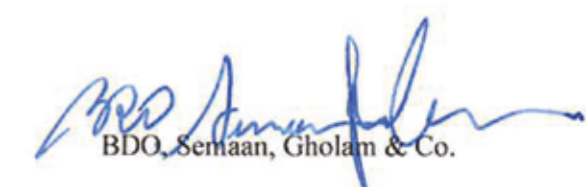
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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.



Ernst & Young

30 July 2020
Beirut, Lebanon



BDO, Semaan, Gholam & Co.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 LBP Million	2018 LBP Million
Interest and similar income	4	4,947,109	4,720,920
Interest and similar expense	5	(3,243,403)	(2,973,394)
Net interest income		1,703,706	1,747,526
Fee and commission income	6	338,457	388,074
Fee and commission expense	7	(56,143)	(55,737)
Net fee and commission income		282,314	332,337
Net gain on financial assets at fair value through profit or loss	8	2,875	123,521
Net (loss) gain on sale of financial assets at amortised cost	9	(2,260)	505
Non-interest revenues from financial assets at fair value through other comprehensive income	24	2,936	3,770
Share of profit of associates under equity method	25	9,275	831
Other operating income	10	21,889	43,800
Total operating income		2,020,735	2,252,290
Net impairment loss on financial assets	11	(1,871,778)	(265,241)
Net operating income		148,957	1,987,049
Personnel expenses	12	(495,987)	(550,771)
Other operating expenses	13	(327,937)	(407,603)
Depreciation of property and equipment and right-of-use assets	26	(87,013)	(61,397)
Amortisation of intangible assets	27	(24,529)	(22,541)
Impairment losses on non-current assets held for sale	28	(15,522)	-
Total operating expenses		(950,988)	(1,042,312)
Operating (loss) profit		(802,031)	944,737
Net (loss) gain on revaluation and disposal of fixed assets		(5,512)	436
(Loss) profit before tax		(807,543)	945,173
Income tax	14	(100,145)	(190,583)
(Loss) profit for the year		(907,688)	754,590
Attributable to:			
Equity holders of the parent		(912,177)	753,260
Non-controlling interest		4,489	1,330
		(907,688)	754,590
(Loss) earnings per share			
		LBP	LBP
Basic and diluted (loss) earnings per share	15	(2,289)	1,739

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 LBP Million	2018 LBP Million
(Loss) profit for the year		(907,688)	754,590
Other comprehensive (loss) that will be reclassified to the income statement in subsequent periods			
<i>Foreign currency translation</i>			
Exchange differences on translation of foreign operations		(47,752)	(380,162)
Loss reclassified to income statement		-	6,607
Net gain (loss) on hedge of net investments	19	2,212	(5,066)
Tax effects	14	-	527
Net foreign currency translation		(45,540)	(378,094)
<i>Cash flow hedge</i>			
Hedging net losses arising during the year	19	(4,408)	(31,508)
Loss reclassified to income statement	19	8,311	-
Tax effects	14	(1,829)	6,802
Net change in cash flow hedge		2,074	(24,706)
<i>Time value of hedging</i>			
Change in fair value of the time value of an option	19	-	5,816
Amortisation to profit or loss of cumulative gain arising on changes in fair value of the time value of option	19	-	6,899
Tax effects	14	-	(991)
Net change in time value of hedging		-	11,724
<i>Debt instruments at fair value through other comprehensive income</i>			
Change in fair value during the year	24	34,517	(9,697)
Gain reclassified to income statement	24	(847)	(564)
Tax effects	14	(7,481)	1,120
Net gain (loss) on debt instruments at fair value through other comprehensive income		26,189	(9,141)
Total other comprehensive loss that will be reclassified to the income statement in subsequent periods		(17,277)	(400,217)
Other comprehensive (loss) income that will not be reclassified to the income statement in subsequent periods			
<i>Remeasurement gains (losses) on defined benefit plans</i>			
Actuarial gain (loss) on defined benefits plans	37	4,549	(335)
Tax effects	14	(11)	68
Net remeasurement gains (losses) on defined benefit plans		4,538	(267)
<i>Equity instruments at fair value through other comprehensive income</i>			
Net unrealised gains		3,744	4,007
Tax effects	14	(109)	487
Net unrealised gains on equity instruments at fair value through other comprehensive income		3,635	4,494
<i>Revaluation of lands and buildings</i>			
Revaluation loss		(4,981)	-
Tax effects	14	(14,118)	-
Net loss on revaluation of lands and buildings		(19,099)	-
<i>Other gains</i>			
Share of other comprehensive income from associates		-	918
Net other gains		-	918
Total other comprehensive (loss) income that will not be reclassified to the income statement in subsequent periods		(10,926)	5,145
Other comprehensive (loss) for the year, net of tax		(28,203)	(395,072)
Total comprehensive (loss) income for the year, net of tax		(935,891)	359,518
Attributable to:			
Equity holders of the parent		(920,698)	452,985
Non-controlling interest		(15,193)	(93,467)
		(935,891)	359,518

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 LBP Million	2018 LBP Million
ASSETS			
Cash and balances with central banks	16	23,169,519	24,793,682
Due from banks and financial institutions	17	2,177,906	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	18	700,457	266,645
Derivative financial instruments	19	290,924	419,749
Financial assets at fair value through profit or loss	20	381,082	220,122
Loans and advances to customers at amortised cost	21	15,461,671	19,846,966
Loans and advances to related parties at amortised cost	22	140,489	153,671
Debtors by acceptances		657,579	414,625
Financial assets at amortised cost	23	12,318,944	17,788,534
Financial assets at fair value through other comprehensive income	24	1,154,893	1,257,435
Investments in associates	25	121,139	144,865
Property and equipment and right-of-use assets	26	997,186	877,701
Intangible assets	27	115,144	68,476
Non-current assets held for sale	28	289,989	193,721
Other assets	29	1,492,867	714,815
Deferred tax assets	14	87,126	108,879
Goodwill	30	42,422	42,413
TOTAL ASSETS		59,599,337	71,155,925
LIABILITIES			
Due to central banks	31	5,651,962	11,919,990
Due to banks and financial institutions	32	1,556,504	2,183,687
Due to banks under repurchase agreements	32	42,969	1,304
Derivative financial instruments	19	372,102	408,253
Customers' deposits	33	44,336,560	47,777,071
Deposits from related parties	34	276,310	396,114
Debt issued and other borrowed funds	35	1,393,639	1,293,689
Engagements by acceptances		657,579	414,625
Other liabilities	36	584,064	404,851
Current tax liabilities	14	28,325	114,960
Deferred tax liabilities	14	43,878	39,819
Provisions for risks and charges	37	178,819	342,794
TOTAL LIABILITIES		55,122,711	65,297,157
SHAREHOLDERS' EQUITY – GROUP SHARE			
Share capital – common shares	38	667,581	667,581
Share capital – preferred shares	38	10,020	10,020
Issue premium – common shares	38	883,582	883,582
Issue premium – preferred shares	38	894,480	894,480
Warrants issued on subsidiary shares	38	-	12,629
Cash contribution to capital	39	72,586	72,586
Non-distributable reserves	40	2,025,201	1,919,796
Distributable reserves	41	433,057	430,685
Treasury shares	43	(9,190)	(9,073)
Retained earnings		1,466,788	1,249,915
Other components of equity	44	(1,252,582)	(1,244,056)
Result of the year		(912,177)	753,260
		4,279,346	5,641,405
NON-CONTROLLING INTERESTS	45	197,280	217,363
TOTAL SHAREHOLDERS' EQUITY		4,476,626	5,858,768
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		59,599,337	71,155,925

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 LBP Million	2018 LBP Million
OPERATING ACTIVITIES			
(Loss) profit before tax		(807,543)	945,173
Adjustments for non-cash items:			
Depreciation and amortisation	26 & 27	111,542	83,938
Impairment of assets acquired in settlement of debt	28	15,522	-
Net gain (loss) on financial instruments at amortised cost	9	2,260	(505)
Net impairment losses on financial assets	11	1,871,778	265,241
Impairment of investments in associates	13	19,725	-
Share of net profit of associates	25	(9,275)	(831)
Net (loss) on disposal of assets acquired in settlement of debt		(222)	(7,567)
Net gain (loss) on sale or disposal of fixed assets		5,734	(436)
Provision for risks and charges		23,954	38,190
Write-back of provisions for risks and charges	10	(378)	(2,162)
Gain (loss) on revaluation of interest retained		325	(12,289)
		1,233,422	1,308,752
Changes in operating assets and liabilities:			
Balances with central banks, banks and financial institutions maturing in more than 3 months		(5,505,872)	2,951,595
Change in derivatives and financial assets held for trading		(74,906)	1,455,140
Change in loans and advances to customers and related parties		3,470,451	4,046,041
Change in other assets		76,502	12,801
Change in deposits from customers and related parties		(3,560,315)	(2,254,894)
Change in other liabilities		65,712	(18,634)
Cash (used in) from operations		(4,295,006)	7,500,801
Provisions for risks and charges paid		(15,926)	(29,530)
Taxation paid		(167,176)	(135,606)
Net cash (used in) from operating activities		(4,478,108)	7,335,665
INVESTING ACTIVITIES			
Change in financial assets – other than trading		2,066,067	(4,371,103)
Purchase of property and equipment and intangibles	26 & 27	(142,762)	(93,046)
Proceeds from sale of an associate		11,238	-
Proceeds from sale of property and equipment and intangibles		18,562	26,029
Net cash from (used in) investing activities		1,953,105	(4,438,120)
FINANCING ACTIVITIES			
Cancellation of preferred shares series "G"	38	-	(226,125)
Dividends paid	38	(393,228)	(395,322)
Treasury shares transactions		(175)	92,192
Debt issued and other borrowed funds	35	99,950	58,421
Lease liability payments	36	(42,177)	-
Net cash used in financing activities		(335,630)	(470,834)
CHANGE IN CASH AND CASH EQUIVALENTS			
		(2,860,633)	2,426,711
Net foreign exchange difference in respect of cash and cash equivalents		(42,265)	(322,320)
Cash and cash equivalents at 1 January		9,415,945	7,311,554
CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
	46	6,513,047	9,415,945
Operational cash flows from interest and dividends			
Interest paid		(3,248,411)	(2,857,676)
Interest received		4,811,722	4,464,066
Dividends received		2,158	3,206

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to the Equity Holders of the Parent														
	Share Capital - Common Shares	Share Capital - Preferred Shares	Issue Premium - Common Shares	Issue Premium - Preferred Shares	Warrants Issued on Subsidiary Shares	Cash Contribution to Capital	Non-distributable Reserves	Distributable Reserves	Treasury Shares	Retained Earnings	Other Components of Equity	Result of the Year	Total	Non-controlling Interests	Total Shareholders' Equity
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Balance at 1 January 2019	667,581	10,020	883,582	894,480	12,629	72,586	1,919,796	430,685	(9,073)	1,249,915	(1,244,056)	753,260	5,641,405	217,363	5,858,768
Impact of IFRS 16 at 1 January	-	-	-	-	-	-	-	-	-	(36,532)	-	-	(36,532)	(4,890)	(41,422)
Restated balance at 1 January 2019	667,581	10,020	883,582	894,480	12,629	72,586	1,919,796	430,685	(9,073)	1,213,383	(1,244,056)	753,260	5,604,873	212,473	5,817,346
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-	(912,177)	(912,177)	4,489	(907,688)
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	(8,521)	-	(8,521)	(19,682)	(28,203)
Total comprehensive loss	-	-	-	-	-	-	-	-	-	-	(8,521)	(912,177)	(920,698)	(15,193)	(935,891)
Appropriation of 2018 profits	-	-	-	-	-	-	137,403	-	-	222,629	-	(360,032)	-	-	-
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(330,478)	(330,478)	-	(330,478)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(62,750)	(62,750)	-	(62,750)
Cancellation of warrants	-	-	-	-	(12,629)	-	-	1,345	-	11,284	-	-	-	-	-
Sale of an associate	-	-	-	-	-	-	-	1,626	-	3,838	(5,464)	-	-	-	-
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	(5,459)	5,459	-	-	-	-
Treasury shares transactions	-	-	-	-	-	-	-	(58)	(117)	-	-	-	(175)	-	(175)
Transfer between reserves	-	-	-	-	-	-	(31,998)	(541)	-	32,539	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	(11,426)	-	-	(11,426)	-	(11,426)
Balance at 31 December 2019	667,581	10,020	883,582	894,480	-	72,586	2,025,201	433,057	(9,190)	1,466,788	(1,252,582)	(912,177)	4,279,346	197,280	4,476,626
Balance at 1 January 2018	664,783	12,472	883,582	1,118,153	12,629	72,586	1,719,917	430,592	(94,532)	1,249,004	(939,745)	811,217	5,940,658	372,603	6,313,261
Impact of IFRS 9 at 1 January	-	-	-	-	-	-	-	-	-	(201,073)	(1,220)	-	(202,293)	(58,945)	(261,238)
Restated balance at 1 January 2018	664,783	12,472	883,582	1,118,153	12,629	72,586	1,719,917	430,592	(94,532)	1,047,931	(940,965)	811,217	5,738,365	313,658	6,052,023
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	753,260	753,260	1,330	754,590
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	(300,275)	-	(300,275)	(94,797)	(395,072)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	(300,275)	753,260	452,985	(93,467)	359,518
Appropriation of 2017 profits	-	-	-	-	-	-	194,304	-	-	221,591	-	(415,895)	-	-	-
Redemption of preferred share series "G"	-	(2,494)	-	(223,631)	-	-	-	-	-	-	-	-	(226,125)	-	(226,125)
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(331,442)	(331,442)	-	(331,442)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(63,880)	(63,880)	-	(63,880)
Capital increase	2,798	42	-	(42)	-	-	(2,798)	-	-	-	-	-	-	-	-
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	2,816	(2,816)	-	-	-	-
Treasury shares transactions	-	-	-	-	-	-	6,640	93	85,459	-	-	-	92,192	-	92,192
Transfer between reserves	-	-	-	-	-	-	1,608	-	-	(1,608)	-	-	-	-	-
Other movements	-	-	-	-	-	-	125	-	-	(20,815)	-	-	(20,690)	(2,828)	(23,518)
Balance at 31 December 2018	667,581	10,020	883,582	894,480	12,629	72,586	1,919,796	430,685	(9,073)	1,249,915	(1,244,056)	753,260	5,641,405	217,363	5,858,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2019

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1.0. | CORPORATE INFORMATION

Bank Audi sal (the Bank) is a Lebanese joint stock company registered since 1962 in Lebanon under No. 11347 at the Register of Commerce and under No. 56 on the banks' list at the Bank of Lebanon ("BdL"). The Bank's head office is located in Bank Audi Plaza, Omar Daouk Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and London SEAQ.

1.1. MACROECONOMIC ENVIRONMENT

More than 60% of the Group's operations during 2019 took place in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis, as well as deep recession that have reached unprecedented levels.

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

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

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

The economy has been contracting at an accelerating pace since the last quarter of 2019 and the coronavirus affecting Lebanon and the

RESTRUCTURING OF THE BANKING SECTOR

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

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

The Bank, together with its subsidiaries (collectively "the Group"), provides a full range of Retail, Commercial, Investment and Private Banking activities through its headquarters as well as its branches in Lebanon, and its presence in Europe, the Middle East and North Africa.

The consolidated financial statements were authorised for issue in accordance with the Board of Directors' resolution on 29 July 2020.

whole world is contributing to further deterioration of the economic environment, disruption of businesses, rise of unemployment, and rise in poverty lines.

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

On 1 May 2020, the Lebanese Prime Minister and the Lebanese Finance Minister signed a request for aid from the International Monetary Fund (IMF). The government believes the Plan conveys good faith in the negotiations with the International Monetary Fund. Lebanon began detailed discussions with the IMF on 1 May 2020. Multilateral intervention is expected to catalyse additional external support and unlock part of the USD 11 billion in pledges from international donors made in 2018 in the "Conférence Economique pour le Développement par les Réformes et avec les Entreprises (CEDRE)", as well as other external financial support to cover the net external financial needs for a gradual economic recovery and successful restructuring of the government's foreign currency debt.

depositors could be offered voluntarily (for part of their deposits):

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

Banks will be asked to propose to the authorities and relevant supervisory bodies business plans and restructuring/recapitalisation plans including mergers with or acquisitions by other domestic and foreign banks to

address their structural funding issues and generate synergies. The new capital base will be rebuilt via capital raising in the market and a conversion of some deposits into shares. Fresh liquidity will be provided to the reorganised banking sector.

1.2. REGULATORY ENVIRONMENT

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

- Intermediary Circular 532 issued on 4 November 2019, requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and to increase the regulatory capital by 20% of the common equity Tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020.
- Intermediary Circular 534 issued on 19 November 2019, extending the deadline for reaching the 25% ratio of "net loans granted in LBP/net deposits in LBP" from 31 December 2019 to 31 December 2020. Banks that expect to be unable to reach the said ratio within the set time limit may refer to BdL Central Council before 31 December 2020.
- Intermediary Circular 536 issued on 4 December 2019, stating that the Central Bank of Lebanon will settle the interest on banks' term deposits and certificates of deposit in USD 50% in USD and 50% in LBP. As for the deposits received or renewed after 4 December 2019, banks have to comply with the following interest rates:
 - 5% for deposits in foreign currencies; and
 - 8.5% for deposits in LBP.

Type of Financial Instrument

Type of Financial Instrument	Maximum Loss Rate
Exposures to Central Bank of Lebanon in foreign currencies	Up to 1.89%
Exposures to Central Bank of Lebanon in Lebanese Pounds	0%
Lebanese government securities in foreign currencies	Up to 9.45%
Lebanese government securities in Lebanese Pounds	0%

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

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

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

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

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

- Intermediary Circular 542 issued on 3 February 2020, requiring that the ratios of expected credit losses for the years 2019 and 2020 on LBP and foreign currency-denominated investment portfolio at the Central Bank of Lebanon, including certificates of deposit and investments in Lebanese Treasury bills denominated in LBP and foreign currency, not to exceed the regulatory expected credit losses ratios calculated as per BdL Basic Circular 44 related to the "Capital Adequacy Ratio".

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

- Basic Circular 149 issued on 3 April 2020, announcing the creation of a special unit at the Central Bank of Lebanon to conduct FOREX operations as per the market rate. Money dealers (of "type A") may adhere to this unit, upon Central Bank of Lebanon's discretion. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations, abrogating Article 18 which was introduced by Intermediary Circular 546 to Basic Circular 3 related to money dealers.

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

• Intermediary Circular 552 issued on 22 April 2020, requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for the clients who are not able to pay their dues, due to the current economic situation as assessed by the bank. The new loans are to be granted up to 5 years starting 30 June 2020 and provided, among others, that these

1.3. PARTICULAR SITUATION OF THE GROUP

As indicated in Note 2.5, assets and liabilities in foreign currency as of 31 December 2019 were valued at the official exchange rate of 1,507.5 USD/LBP. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official exchange rate: parallel exchange markets with high volatility, recently issued BdL circulars, estimation exchange rates detailed in the Plan, in addition to a wide range of exchange rates adopted for commercial transactions currently undertaken in the Lebanese territory. These financial statements do not include adjustments from any future change in the official exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognised in these financial statements once the revamping of the peg is implemented by the Lebanese government. FX currency mismatch is detailed in Note 53 to these financial statements.

Loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortised cost (excluding Lebanese government Eurobonds) are recorded in these financial statements based on the guidelines issued on 4 February 2020 by BdL in its Intermediary Circular 543 (refer to above). Accordingly, these financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit losses model. The impact is expected to be pervasive and will be reflected in the financial statements once the debt restructuring has been defined conclusively by the government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. With respect to Lebanese government Eurobonds held by the Group at 31 December 2019, Management recorded expected credit losses on these financial assets based on the cash flows that the Group expects to receive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognised loss allowances, as well as their staging, are detailed in Note 52 to these financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. Management is undergoing massive deleveraging by reducing its assets size and has set up a centralised and specialised remedial function to proactively review and manage the quality of these assets. Loss allowances on the Group's portfolio of these private loans have been estimated and recorded based on the best available information at the reporting date, about past events, current conditions and forecasts of economic conditions combined with expert judgments. The exercise being carried out by Management is expected to reveal additional embedded losses in its private loans portfolios. The impact is expected to be pervasive and will be reflected in the financial statements once the results of the exercise undertaken by Management are measurable and determinable. Maximum exposures to the credit risk of the Group's

are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

portfolio of private loans portfolio and the recognised loss allowances, as well as their staging, are detailed in Note 52 to these financial statements.

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

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

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

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

Until the above uncertainties are resolved and a plan is implemented, the Group will continue its operations as performed since 17 October 2019 and in accordance with the laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Group to litigations that are dealt with on a case by case basis when they occur. Meanwhile, the Group is exerting extended efforts to review the quality of its private loans portfolio and deleveraging it as appropriate, to reduce its commitments and contingencies to correspondent banks outside Lebanon and to secure its liquidity needs mainly through borrowing from the Central Bank of Lebanon at the available rates and by selling foreign assets.

Once the above uncertainties are resolved, a pro-forma balance sheet of the Group will be prepared which will include the effects of the

revaluation of the assets and liabilities in foreign currencies, the effects of the restructuring of the government debt securities, the effects of the restructuring of the Central Bank of Lebanon, and the effects on its private loan portfolio.

As disclosed in Note 58 to these financial statements, the Group's capital adequacy ratio as at 31 December 2019 was calculated based on the recorded figures and does not take into consideration the adjustments that will result from the resolution of the uncertainties reflected above. To meet the requirements of Central Bank of Lebanon

2.0. | ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for: a) the revaluation of land and buildings pursuant to the adoption of the revaluation model of IAS 16 for this asset class, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the regulations

PRESENTATION OF FINANCIAL STATEMENTS

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business,

2.2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Bank Audi sal and its subsidiaries as at 31 December 2019. Details of the principal subsidiaries are given in Note 45.

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

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

Intermediary Circular 532 towards increasing its regulatory capital by 10% by 31 December 2019, the Bank initiated the process of increasing its regulatory capital subsequently and has increased its capital by LBP 315,278 million effective 20 February 2020.

In addition, Management is currently assessing and developing restructuring and recapitalisation plans based on the various available scenarios. However, a reasonable and credible plan can only be achieved once the above uncertainties are resolved and the amount of recapitalisation needs is accurately determinable.

The consolidated financial statements are presented in Lebanese Pounds (LBP), which is the Bank's functional currency, and all values are rounded to the nearest million, except when otherwise indicated.

of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group. The effect of netting arrangements are disclosed in Notes 31 and 52.

- The ability to use its power over the investee to affect its returns.

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

- The purpose and design of the investee;
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities;

- Contractual arrangements such as call rights, put rights and liquidation rights; and
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

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

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

NON-CONTROLLING INTERESTS

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

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

2.3. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after

IFRS 16 LEASES

Effective 1 January 2019, the Group adopted IFRS 16 Leases, which supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires lessees to account for most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative

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

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

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

1 January 2019. The nature and the impact of each amendment are described below:

effect of initially applying the standard recognised as an adjustment to the opening retained earnings at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group has lease contracts for various items primarily comprising head offices and branches. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease.

The Group did not have finance leases at 31 December 2018. Please refer to Note 2.5 for the accounting policy prior to 1 January 2019.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option "short-term leases", and lease contracts for which the underlying asset is of low value "low-value assets". Refer to Note 2.5 for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases Previously Accounted for as Operating Leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

	Impact of IFRS 16 LBP Million
Assets	
Property and equipment and right-of-use assets	143,252
Prepaid charges	(20,422)
Deferred tax assets	6,564
Total assets	129,394
Liabilities	
Other liabilities	(170,816)
Total adjustment on equity:	
Retained earnings	(36,532)
Non-controlling interests	(4,890)
	(41,422)

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

	LBP Million
Total undiscounted operating lease commitments as at 31 December 2018	260,737
Effect of discounting using incremental borrowing rates as at 1 January 2019 (1.51% - 25%)	(80,250)
Discounted operating lease commitments at 1 January 2019	180,487
<i>Less:</i>	
Commitments relating to short-term leases and leases of low-value assets	(1,644)
Other items	(8,027)
Lease liabilities as at 1 January 2019	170,816

AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7: INTEREST RATE BENCHMARK REFORM

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

The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be

assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight.

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

The Group has early adopted the amendments in its financial statements for the year ended 31 December 2019 and has provided the required disclosures in the notes to the financial statements.

AMENDMENTS TO IFRS 9: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

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

AMENDMENTS TO IAS 19: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

The IASB issued amendments to the guidance in IAS 19, Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. These amendments do not have any significant impact on the Group's consolidated financial statements.

IFRIC INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENT

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

ANNUAL IMPROVEMENTS TO IFRS STANDARDS 2015-2017 CYCLE

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

2.4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

AMENDMENTS TO IFRS 3: DEFINITION OF A BUSINESS

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF MATERIAL

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

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

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured until it is finally settled within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 "Financial Instruments", is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor separately tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or

FOREIGN CURRENCIES

The consolidated financial statements are presented in Lebanese Pound (LBP) which is also the Bank's functional currency. Each entity in the Group determines its own functional currency and items included in the

acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 "Operating Segments".

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

made payments on behalf of the associate. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is transferred to consolidated income statement where appropriate. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

financial statements of each entity are measured using that functional currency. The Bank uses the step-by-step method of consolidation.

Transactions and Balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to “net gain on financial assets at fair value through profit or loss” in the consolidated income statement, except for monetary items that are designated as part of the hedge of the Group’s net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item

(i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Group Companies

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank’s presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the monthly average exchange rates for the year. Exchange differences arising on translation are recognised in OCI. On disposal of a foreign entity, the deferred cumulative amount recognised in OCI relating to that particular foreign operation is reclassified to the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the exchange rate on the reporting date.

The table below presents the exchange rates of the currencies used to translate assets, liabilities and statement of income items of foreign branches and subsidiaries:

	2019		2018	
	Year-end Rate LBP	Average Rate LBP	Year-end Rate LBP	Average Rate LBP
US Dollar	1,507.50	1,507.50	1,507.50	1,507.50
Euro	1,686.89	1,690.30	1,724.73	1,780.96
Swiss Franc	1,551.09	1,519.52	1,529.68	1,544.12
Turkish Lira	253.37	267.23	286.12	327.34
Jordanian Dinar	2,124.74	2,125.79	2,123.84	2,124.49
Egyptian Pound	93.93	89.72	84.26	84.64
Saudi Riyal	401.86	401.94	401.86	401.94
Qatari Riyal	414.03	414.03	414.03	414.03
Iraqi Dinar	1.29	1.29	1.29	1.29

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION

Date of Recognition

All financial assets and liabilities are initially recognised on the settlement date. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial Measurement of Financial Instruments

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

FINANCIAL ASSETS – CLASSIFICATION AND MEASUREMENT

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

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

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

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

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

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

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

Business Model

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

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

Day 1 Profit or Loss

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

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

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

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

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

The SPPI Test

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

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

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

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

Financial Assets at Amortised Cost

Balances with Central Banks, Due from Banks and Financial Institutions, Loans to Banks and Financial Institutions and Reverse Repurchase Agreements, and Loans and Advances to Customers and Related Parties – at Amortised Cost, and Financial Assets at Amortised Cost

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortised cost using the EIR, less expected credit losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in “interest and similar income” in the consolidated income statement. Losses arising from impairment are recognised in the consolidated income statement in “net impairment losses on financial assets”. Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under “net gain on sale of financial assets at amortised cost” in the consolidated income statement.

Financial Assets at Fair Value through Other Comprehensive Income

Debt Instruments at Fair Value through Other Comprehensive Income

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

Equity Instruments at Fair Value through Other Comprehensive Income

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

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

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

Financial Assets at Fair Value through Profit or Loss

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

Debt Instruments at Fair Value through Profit or Loss and Loans and Advances at Fair Value

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

Equity Instruments at Fair Value through Profit or Loss

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

FINANCIAL LIABILITIES (OTHER THAN FINANCIAL GUARANTEES, LETTERS OF CREDIT AND LOAN COMMITMENTS) – CLASSIFICATION AND MEASUREMENT

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

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

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

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

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

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

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

Debt Issued and Other Borrowed Funds

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified under “debt issued and other borrowed funds” where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to Central Banks, Banks and Financial Institutions, Banks under Repurchase Agreements and Customers’ and Related Parties’ Deposits

After initial measurement, due to central banks, banks and financial institutions, bonds under repurchase agreements, customers’ and related parties’ deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Customers’ deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

DERIVATIVES RECORDED AT FAIR VALUE THROUGH PROFIT OR LOSS

A derivative is a financial instrument or other contract with all three of the following characteristics:

- (a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (also known as the “underlying”).
- (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- (c) It is settled at a future date.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

FINANCIAL GUARANTEES, LETTERS OF CREDIT AND UNDRAWN LOAN COMMITMENTS

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and an ECL provision. The premium received is recognised in the income statement in “Net fees and commission income” on a straight line basis over the life of the guarantee.

RECLASSIFICATION OF FINANCIAL ASSETS

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

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

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit derivatives, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognised in “net gain on financial assets at fair value through profit or loss” in the consolidated income statement, unless hedge accounting is applied, which is discussed in under “hedge accounting policy” below.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- (a) The hybrid contract contains a host that is not an asset within the scope of IFRS 9;
- (b) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- (c) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (d) The hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

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

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial Assets

Derecognition Due to Substantial Modification of Terms and Conditions

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

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

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

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

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

Derecognition Other than for Substantial Modification

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

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

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

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

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

Financial Liabilities

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

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding consideration received (cash collateral provided) is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within “due to banks under repurchase agreements”, reflecting the transaction’s economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to “financial assets given as collateral”.

IMPAIRMENT OF FINANCIAL ASSETS

Overview of the ECL Principles

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

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

Measurement of ECLs

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

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

to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid (cash collateral provided), including accrued interest is recorded in the consolidated statement of financial position within “loans to banks and financial institutions and reverse repurchase agreements”, reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in “net interest income” and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within “financial liabilities at fair value through profit or loss” and measured at fair value with any gains or losses included in “net gain on financial instruments at fair value through profit or loss” in the consolidated income statement.

- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Group expects to recover.

They key inputs into the measurements of ECL are:

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

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

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

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

Forborne and Modified Loans

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

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

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

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

Credit-impaired Financial Assets

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

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

Write-offs

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

Debt Instruments at Fair Value through Other Comprehensive Income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Collateral Repossessed

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

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

FAIR VALUE MEASUREMENT

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

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

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

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

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

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

HEDGE ACCOUNTING

As part of its risk management, the Group has identified a series of risk categories with corresponding hedging strategies using derivative instruments as set out in Note 19.

When a hedging relationship meets the specified hedge accounting criteria set out in IFRS 9, the Group applies one of the three types of hedge accounting: fair value hedges, cash flow hedges or hedges of net investments in a foreign operation.

At the inception, the Group formally documents how the hedging relationship meets the hedge accounting criteria. It also records the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge, and the method that will be used to assess the effectiveness.

A hedging relationship qualifies for hedge accounting only if: (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items; (b) at the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and (c) the hedging relationship meets all of the following hedge effectiveness requirements:

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

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

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

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

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

- 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 entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument which would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis in order to qualify for hedge accounting. The effectiveness test can be performed qualitatively or quantitatively. 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 semi-annually on an ongoing basis.

Hedge ineffectiveness is recognised in the consolidated income statement in "net gain on financial assets at fair value through profit or loss".

The Group has early adopted Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 which include a number of reliefs, that apply to all hedging relationships directly affected by interest rate benchmark reform. The reliefs apply during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). A hedging relationship is affected if interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

Disclosures of the Group's hedge accounting are set out in the Notes.

Fair Value Hedges

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognised in the consolidated income statement under "net gain on financial assets at fair value through profit or loss". Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised in the consolidated income statement also under "net gain on financial assets at fair value through profit or loss". If the hedged item is an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income, those amounts remain in other comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Cash Flow Hedges

For qualifying cash flow hedge, a separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

- a) The cumulative gain or loss on the hedging instrument from inception of the hedge; and

- b) The cumulative change in fair value (present value) of the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (the portion that is offset by the change in the cash flow hedge reserve described above) shall be recognised in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognised in the consolidated income statement. The amount that has been accumulated in the cash flow hedge reserve and associated with the hedged item is treated as follows:

- a) If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.
- b) For cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

Hedge of Net Investments

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal or partial disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in the foreign currency translation reserve is transferred to the consolidated income statement as a reclassification adjustment.

LEASES (POLICY APPLICABLE FROM 1 JANUARY 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a Lessee

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

Right-of-use Assets

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

The right-of-use assets are presented within "Property, equipment and right-of-use assets" on the consolidated financial statements and are subject to impairment in line with the Group's policy as described under Impairment of non-financial assets.

Depreciation charge for right-of-use assets is presented within "Depreciation of property, equipment and right-of-use assets" on the consolidated financial statements.

Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

LEASES (POLICY APPLICABLE BEFORE 1 JANUARY 2019)

The determination of whether an arrangement is a lease or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

Group as a Lessee

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

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

The Group's lease liabilities are included under "other liabilities". Moreover, the interest charge on lease liabilities is presented within "interest and similar expenses" from financial instruments measured at amortised cost in consolidated financial statements.

Short-term Leases and Leases of Low-value Assets

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

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

Group as a Lessor

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

Group as a Lessor

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

REVENUE RECOGNITION

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

Interest and Similar Income and Expense

The Effective Interest Rate

Interest income and expense are recognised in the income statement applying the EIR method for all financial instruments measured at amortised cost, financial instruments designated at fair value through profit or loss and interest bearing financial assets measured at fair value through other comprehensive income.

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

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

Interest Income and Interest Expense

The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortised cost of a financial liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

Presentation

Interest income calculated using the effective interest method presented in the consolidated income statement includes:

- Interest on financial assets at amortised cost;

- Interest on debt instruments measured at fair value through other comprehensive income;

- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest expense presented in the consolidated income statement includes:

- Financial liabilities measured at amortised cost; and

- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

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

Fee and Commission Income

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

Fee Income Earned from Services that Are Provided over a Certain Period of Time

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

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognised as revenues on expiry.

Fee Income from Providing Transaction Services

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

Dividend Income

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

Net gain on Financial Assets at Fair Value through Profit or Loss

Net income from financial instruments at fair value through profit or loss comprises gains and losses related to trading assets and liabilities, non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at fair value through profit or loss and, also non-trading assets mandatorily measured at fair value through profit or loss. The line item includes fair value changes, interest, dividends and foreign exchange differences.

CASH AND CASH EQUIVALENTS

“Cash and cash equivalents” as referred to in the cash flow statement comprises balances with original maturities of a period of three months or less including cash and balances with central banks, deposits with banks

PROPERTY AND EQUIPMENT

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

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

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

INTANGIBLE ASSETS

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The

and financial institutions, deposits due to banks and financial institutions, and repurchase and reverse repurchased agreements.

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

Depreciation is calculated using straight line method to write down the cost of property and equipment to their residual value over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

• Buildings	40-50 years
• Freehold improvements	5-10 years
• Leasehold improvements	5-10 years
• Motor vehicles	5-7 years
• Office equipment and computer hardware	5-10 years
• Office machinery and furniture	10 years

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

amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

The Group does not have intangible assets with indefinite economic life.

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

• Computer software	5 years
• Key money	70 years

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, Management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and: a) represents a separate

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the

PROVISIONS FOR RISKS AND CHARGES

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

major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively with a view to resale.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the loss of control. The resulting profit or loss (after taxes) is reported separately in the income statement.

carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of

outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosed in its financial statements.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group provides retirement benefits obligation to its employees under defined benefit plans, which requires contributions to be made to separately administered funds. The cost of providing these benefits is determined using the projected unit credit method which involves making actuarial assumptions about discount rates and future salary increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

TAXES

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

Current Tax

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

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

Deferred Tax

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

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

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

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

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "personnel expenses" in consolidated statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

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

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

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

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

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

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

WARRANTS ISSUED ON SUBSIDIARY SHARES

The value of warrants issued on subsidiary shares is reported as part of Group share of equity and is based on the issuance date fair value. Subsequently, the carrying amount of those warrants is reduced by the

DIVIDENDS ON COMMON SHARES

Dividends on common shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no

TREASURY SHARES

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (Treasury shares) are deducted from equity and accounted for at cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

ASSETS UNDER MANAGEMENT AND ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

The Group provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or under custody or under administration,

CUSTOMERS' ACCEPTANCES

Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting

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

cost of warrants acquired pursuant to trading transactions. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of those warrants.

longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

are not treated as assets of the Group and, accordingly, are recorded as off-balance sheet items.

from these acceptances are stated as a liability in the statement of financial position for the same amount.

2.6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities.

JUDGMENTS

In the process of applying the Group's accounting policies, Management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Going Concern

Notwithstanding the events and conditions disclosed in Note 1, these financial statements have been prepared based on the going concern assumption. The Board of Directors believe that they are taking all the measures available to maintain the viability of the Group and continue its operations in the current business and economic environment.

Impairment of Goodwill

Management judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect Management's view of future business prospects.

Business Model

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- How Management evaluates the performance of the portfolio;
- Whether Management's strategy focuses on earning contractual interest revenues;
- The degree of frequency of any expected asset sales;
- The reason for any asset sales; and
- Whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual Cash Flows of Financial Assets

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

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Deferred Tax Assets

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

Hedge Accounting

The Group's hedge accounting policies include an element of judgment and estimation. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Group's hedge accounting policies and the sensitivities most relevant to risks are disclosed in notes.

The Group has early adopted Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform. The amendments provide temporary reliefs which enable the Group's hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

Determining the Lease Term of Contracts with Renewal and Termination Options

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

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating if it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of head offices and branches due to the significance of these assets to its operations. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

ESTIMATES AND ASSUMPTIONS

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

Fair Value of Financial Instruments

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

Impairment Losses on Financial Instruments

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Components of ECL models that are considered accounting judgments and estimates include:

- The Group's internal credit rating model;
- The Group's criteria for assessing if there has been a significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs and their impact on ECL calculation; and

3.0. | SEGMENT REPORTING

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segments are evaluated based on information relating to net operating income and financial position. Income taxes and operating expenses are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since Management monitors net interest income as a performance measure and not the gross income and expense amounts. Net interest income is allocated to the business segment based

- Selection of forward-looking macroeconomic scenarios and their probability of occurrence, to derive the the ECL models.

As per internal policy, the Group regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment of Non-financial Assets

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

Revaluation of Property and Equipment

The Group carries its land and buildings and building improvements at fair value, with changes in fair value being recognised in other comprehensive income. These were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The Group engaged an independent valuation specialist to assess fair values as at 31 December 2019 for property and equipment. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 26.

Pensions Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The assets and liabilities that are reported in the segments are net from inter-segments' assets and liabilities since they constitute the basis of Management's measures of the segments' assets and liabilities and the basis of the allocation of resources between segments.

BUSINESS SEGMENTS

The Group operates in four main business segments which are Corporate and Commercial Banking, Retail and Personal Banking, Treasury and Capital Markets, and Group Functions and Head Office.

Corporate and Commercial Banking provides diverse products and services to the corporate and commercial customers including loans, deposits, trade finance, exchange of foreign currencies, as well as all regular Corporate and Commercial Banking activities.

Retail and Personal Banking provides individual customers' deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular Retail and Private Banking activities.

The following tables present net operating income information and financial position information.

NET OPERATING INCOME INFORMATION

	2019				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Net interest income	422,149	591,083	588,547	101,927	1,703,706
Non-interest income					
Net fee and commission income	116,350	150,842	13,542	1,580	282,314
Financial operations	13,009	52,356	(66,552)	4,738	3,551
Share of profit of associates	-	-	-	9,275	9,275
Other operating income	313	5,793	(4)	15,787	21,889
Total non-interest income	129,672	208,991	(53,014)	31,380	317,029
Total operating income	551,821	800,074	535,533	133,307	2,020,735
Net impairment loss on financial assets	(521,821)	(351,253)	(998,704)	-	(1,871,778)
Net operating income	30,000	448,821	(463,171)	133,307	148,957

	2018				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Net interest income	487,927	609,468	534,968	115,163	1,747,526
Non-interest income					
Net fee and commission income	137,549	185,916	11,327	(2,455)	332,337
Financial operations	3,504	35,153	76,497	12,642	127,796
Share of profit of associates	-	-	-	831	831
Other operating income	3,048	8,062	2,014	30,676	43,800
Total non-interest income	144,101	229,131	89,838	41,694	504,764
Total operating income	632,028	838,599	624,806	156,857	2,252,290
Net impairment loss on financial assets	(191,074)	(78,163)	3,996	-	(265,241)
Net operating income	440,954	760,436	628,802	156,857	1,987,049

Treasury and Capital Markets provides Treasury services including transactions in money and capital markets for the Group's customers, manages investment and trading transactions (locally and internationally), and manages liquidity and market risks. This segment also offers Investment Banking and Brokerage services, and manages the Group's own portfolio of stocks, bonds, and other financial instruments.

Group Functions and Head Office consists of capital and strategic investments, exceptional profits and losses, as well as operating results of subsidiaries which offer non-banking services.

FINANCIAL POSITION INFORMATION

	2019				Total LBP Million
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	
Investments in associates	-	-	-	121,139	121,139
Total assets	11,956,327	6,281,877	39,601,588	1,759,545	59,599,337
Total liabilities	11,412,659	33,335,836	9,114,494	1,259,722	55,122,711

	2018				Total LBP Million
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	
Investments in associates	-	-	-	144,865	144,865
Total assets	14,793,480	7,405,678	46,812,624	2,144,143	71,155,925
Total liabilities	12,654,494	35,239,448	15,435,321	1,967,894	65,297,157

Capital expenditures amounting to LBP 142,762 million for the year 2019 (2018: LBP 93,046 million) are allocated to the Group Functions and Head Office business segment.

(2018: LBP 2,098,522 million) arising from time deposits with the Central Bank of Lebanon and financial instruments held by the Group. The breakdown of interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign is as follows:

Interest and similar income from exposure to the Central Bank of Lebanon and Lebanese Sovereign amounted to LBP 2,581,764 million in 2019

	2019 LBP Million	2018 LBP Million
Interest and similar income		
Central Bank of Lebanon	2,093,392	1,122,262
Lebanese Sovereign	488,372	976,260
	2,581,764	2,098,522

GEOGRAPHICAL SEGMENTS

The Group operates in three geographical segments: Lebanon, Middle East and North Africa, and Turkey (MENAT) and Europe. As such, it is subject to different risks and returns. The following tables show the distribution of the Group's net external operating income, assets and

liabilities allocated based on the location of the subsidiaries reporting the results or advancing the funds. Transactions between segments are carried at market prices and within pure trading conditions.

NET OPERATING INCOME INFORMATION

	2019			Total LBP Million
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	
Net interest income	1,065,466	568,395	69,845	1,703,706
Non-interest income				
Net fee and commission income	95,585	124,972	61,757	282,314
Financial operations	(38,255)	5,549	36,257	3,551
Share of profit or loss of associates	9,275	-	-	9,275
Other operating income	17,523	2,174	2,192	21,889
Total non-interest income	84,128	132,695	100,206	317,029
Total external operating income	1,149,594	701,090	170,051	2,020,735
Net impairment loss on financial assets	(1,474,751)	(368,175)	(28,852)	(1,871,778)
Net external operating income	(325,157)	332,915	141,199	148,957

	2018			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Net interest income	1,083,982	592,089	71,455	1,747,526
Non-interest income				
Net fee and commission income	139,721	127,260	65,356	332,337
Financial operations	59,643	45,907	22,246	127,796
Share of profit or loss of associates	831	-	-	831
Other operating income	21,910	16,456	5,434	43,800
Total non-interest income	222,105	189,623	93,036	504,764
Total external operating income	1,306,087	781,712	164,491	2,252,290
Net impairment loss on financial assets	(55,720)	(211,796)	2,275	(265,241)
Net external operating income	1,250,367	569,916	166,766	1,987,049

FINANCIAL POSITION INFORMATION

	2019			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	89,819	47,261	5,682	142,762
Investments in associates	121,139	-	-	121,139
Total assets	40,888,013	14,735,584	3,975,740	59,599,337
Total liabilities	36,335,815	15,429,036	3,357,860	55,122,711

	2018			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	48,137	43,466	1,443	93,046
Investments in associates	144,865	-	-	144,865
Total assets	52,834,119	14,456,857	3,864,949	71,155,925
Total liabilities	46,799,501	15,216,315	3,281,341	65,297,157

4.0. | INTEREST AND SIMILAR INCOME

	2019 LBP Million	2018 LBP Million
Balances with central banks	1,862,986	1,204,651
Due from banks and financial institutions	67,606	73,967
Loans to banks and financial institutions and reverse repurchase agreements	37,725	34,688
Loans and advances to customers at amortised cost	1,733,136	2,128,756
Loans and advances to related parties at amortised cost	6,083	7,883
Financial assets classified at amortised cost	1,043,381	1,137,070
Debt instruments classified at fair value through other comprehensive income	196,192	133,905
	4,947,109	4,720,920

Withholding taxes amounting to LBP 235,140 million were deducted from interest and similar income (2018: LBP 146,112 million).

The components of interest and similar income from loans and advances to customers at amortised cost are detailed as follows:

	2019 LBP Million	2018 LBP Million
Corporate and SME	1,261,755	1,603,162
Retail and Personal Banking	447,279	492,775
Public sector	24,102	32,819
	1,733,136	2,128,756

The components of interest and similar income from financial assets classified at amortised cost are detailed as follows:

	2019 LBP Million	2018 LBP Million
Lebanese Sovereign and Central Bank of Lebanon	886,495	976,260
Other sovereign	150,210	152,666
Private sector and other securities	6,676	8,144
	1,043,381	1,137,070

The components of interest and similar income from financial assets classified at fair value through other comprehensive income are detailed as follows:

	2019 LBP Million	2018 LBP Million
Lebanese Sovereign and Central Bank of Lebanon	-	6,493
Other sovereign	196,192	127,412
	196,192	133,905

5.0. | INTEREST AND SIMILAR EXPENSE

	2019 LBP Million	2018 LBP Million
Due to central banks	131,168	190,747
Due to banks and financial institutions	75,031	122,706
Due to banks under repurchase agreement	1,610	6,739
Customers' deposits	2,872,601	2,526,235
Deposits from related parties	15,852	26,756
Debt issued and other borrowed funds	131,911	100,211
Lease liabilities	15,230	-
	3,243,403	2,973,394

The components of interest and similar expense from customers' deposits are detailed as follows:

	2019 LBP Million	2018 LBP Million
Corporate and SME	466,617	469,910
Retail and Personal Banking	2,254,305	1,922,380
Public sector	151,679	133,945
	2,872,601	2,526,235

6.0. | FEE AND COMMISSION INCOME

	2019 LBP Million	2018 LBP Million
Credit-related fees and commissions	56,145	78,147
Brokerage and custody income	81,737	87,171
Commercial Banking income	72,847	67,898
Electronic Banking	33,525	43,765
Trade Finance income	60,472	56,347
Corporate Finance fees	6,489	26,546
Trust and fiduciary activities	18,316	16,427
Insurance Brokerage income	5,644	8,849
Other fees and commissions	3,282	2,924
	338,457	388,074

7.0. | FEE AND COMMISSION EXPENSE

	2019 LBP Million	2018 LBP Million
Electronic Banking	17,835	20,012
Brokerage and custody fees	24,142	16,708
Commercial Banking expenses	6,581	10,113
Insurance Brokerage fees	587	1,024
Other fees and commissions	6,998	7,880
	56,143	55,737

8.0. | NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 LBP Million	2018 LBP Million
a) Net gain on financial instruments		
Lebanese Sovereign and Central Bank of Lebanon		
Certificates of deposit	-	2,257
Treasury bills	102	1,415
Eurobonds	2,357	(76)
	2,459	3,596
Other sovereign		
Treasury bills	7,874	(1,110)
Eurobonds	85	37
	7,959	(1,073)
Private sector and other securities		
Banks and financial institutions debt instruments	54	150
Loans and advances	1,107	(2,543)
Corporate debt instruments	35	19
Funds	(404)	(720)
Equity instruments	2,068	11,018
	2,860	7,924
b) Other trading income		
Foreign exchange	76,856	70,900
Credit derivatives	(51,349)	34,672
Other derivatives	(35,979)	7,502
Dividends	69	-
	(10,403)	113,074
	2,875	123,521

Foreign exchange includes gains and losses from spot and forward contracts and other currency derivatives, as well as the result of the revaluation of the daily open foreign currency positions.

Currency derivatives include gains and losses from spot transactions, forward and swap currency contracts, and amortisation of time value of options designated for hedging purposes.

Interest income from debt instruments at fair value through profit or loss amounted to LBP 2,130 million during 2019 (2018: LBP 9,306 million).

9.0. | NET (LOSS) GAIN ON SALE OF FINANCIAL ASSETS AT AMORTISED COST

The Group derecognises some debt instruments classified at amortised cost due to the following reasons:

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

The schedule below details the gains and losses arising from the derecognition of these financial assets:

	2019			2018		
	Gains LBP Million	Losses LBP Million	Net LBP Million	Gains LBP Million	Losses LBP Million	Net LBP Million
Lebanese Sovereign and Central Bank of Lebanon						
Certificates of deposit	2,531	-	2,531	8,434	(7,619)	815
Treasury bills	-	(78)	(78)	3,137	(3,474)	(337)
Eurobonds	-	(4,758)	(4,758)	33	(6)	27
	2,531	(4,836)	(2,305)	11,604	(11,099)	505
Other sovereign						
Treasury bills	45	-	45	-	-	-
	45	-	45	-	-	-
	2,576	(4,836)	(2,260)	11,604	(11,099)	505

10.0. | OTHER OPERATING INCOME

	2019 LBP Million	2018 LBP Million
Safe rental	1,480	1,611
Release of provision for risks and charges (Note 37)	378	2,162
Gain on revaluation of interest retained (Note 25)	-	12,289
Income from disposal of assets acquired against debts	222	7,567
Other income	19,809	20,171
	21,889	43,800

11.0. | NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2019 LBP Million	2018 LBP Million
Re-measurements:		
Cash and balances with central banks	86,522	(4,248)
Due from banks and financial institutions	799	(117)
Loans to banks and financial institutions and reverse repurchase agreements	2,437	(944)
Loans and advances to customers at amortised cost	959,128	368,404
Loans and advances to related parties at amortised cost	-	(154)
Financial assets at amortised cost	969,938	1,313
Financial guarantees and other commitments	20,156	2,818
	2,038,980	367,072
Recoveries:		
Loans and advances to customers at amortised cost	(112,017)	(100,995)
Financial guarantees and other commitments	(8,700)	-
	(120,717)	(100,995)
Net direct recoveries	(46,485)	(836)
	1,871,778	265,241

12.0. | PERSONNEL EXPENSES

	2019 LBP Million	2018 LBP Million
Salaries and related benefits	388,674	439,802
Social security contributions	43,392	43,885
End of service benefits (Note 37)	13,650	13,388
Transportation	12,187	16,388
Schooling	11,850	11,863
Medical expenses	7,066	6,951
Food and beverage	6,063	6,054
Training and seminars	2,926	3,248
Others	10,179	9,192
	495,987	550,771

13.0. | OTHER OPERATING EXPENSES

	2019 LBP Million	2018 LBP Million
Rental charges under operating leases	10,192	61,311
Professional fees	26,667	24,269
Board of Directors' fees	3,659	4,400
Advertising fees	28,213	31,632
Taxes and similar disbursements	19,912	32,653
Outsourcing services	27,805	26,271
Premium for guarantee of deposits	25,641	23,722
Information technology	44,664	48,673
Donations and social aids	12,791	13,784
Provisions for risks and charges (Note 37)	7,379	16,546
Travel and related expenses	7,727	8,680
Telephone and mail	8,813	10,240
Electricity, water and fuel	10,375	10,566
Maintenance	9,516	10,532
Insurance premiums	7,667	7,395
Facilities services	9,620	9,650
Subscription to communication services	8,802	9,412
Office supplies	3,611	4,272
Receptions and gifts	2,982	3,312
Electronic cards expenses	5,391	6,592
Regulatory charges	9,896	8,425
Documentation and miscellaneous subscriptions	2,502	2,765
Impairment of an associate (Note 25)	19,725	-
Others	14,387	32,501
	327,937	407,603

14.0. | INCOME TAX

The components of income tax expense for the year ended 31 December are detailed as follows:

	2019 LBP Million	2018 LBP Million
Current tax		
Current income tax	81,559	166,887
Adjustment in respect of current income tax of prior years	1,520	1,354
Other taxes treated as income tax	19,934	8,693
	103,013	176,934
Deferred tax		
Relating to origination and reversal of temporary differences	(2,868)	13,649
	100,145	190,583

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the calculated amounts, are shown in the table below:

	2019 LBP Million	2018 LBP Million
Operating (loss) profit before tax	(807,543)	945,173
At applicable tax rate	(54,487)	218,748
Non-deductible expenses:		
Non-deductible expenses	23,637	10,233
Non-deductible provisions	165,215	3,544
Unrealised losses on financial instruments	9,140	1,123
Other non-deductibles	5,809	14,888
	203,801	29,788
Income not subject to tax:		
Revenues previously subject to tax	29,195	17,098
Provision recoveries previously subject to tax	5,091	8,498
Exempted revenues	2,303	429
Unrealised gains on financial instruments	14,503	5,860
Other deductibles	16,663	49,764
	67,755	81,649
Income tax	81,559	166,887
Effective income tax rate	(10.10%)	17.66%

The tax rates applicable to the parent and subsidiaries vary from 8% to 31% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax

purposes. Such adjustments include items relating to both income and expense, and are based on the current understanding of the existing tax laws and regulations and tax practices.

The movement of current tax liabilities during the year is as follows:

	2019 LBP Million	2018 LBP Million
Balance at 1 January	114,960	94,702
Charges for the year	103,013	176,934
Transfer from deferred tax assets	(3,201)	(8,884)
Transfer to tax regularisation accounts	(19,822)	(15,369)
Other transfers	(3,732)	3,906
	76,258	156,587
Less taxes paid:		
Current year tax liability ⁽¹⁾	(73,922)	(57,213)
Prior year tax liabilities	(93,254)	(78,393)
	(167,176)	(135,606)
Foreign exchange difference	4,283	(723)
Balance at 31 December	28,325	114,960

⁽¹⁾ Represents taxes paid on interest received on Treasury bills and the Central Bank's certificates of deposit.

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

	2019			
	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement LBP Million	Other Comprehensive Income LBP Million
Provisions	28,332	6,305	20,319	-
Impairment allowance on financial assets	47,283	-	(17,066)	-
Financial instruments at FVTOCI	363	4,050	-	(7,590)
Difference in depreciation rates	1,763	8,400	1,223	-
Defined benefit obligation	4,030	89	-	(11)
Revaluation of real estate	-	22,148	-	(14,118)
Foreign currency translation reserve	-	2,872	(2,268)	-
Cash flow hedge reserve	3,187	-	-	(1,829)
Other temporary differences	2,168	14	660	-
	87,126	43,878	2,868	(23,548)

	2018			
	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement LBP Million	Other Comprehensive Income LBP Million
Provisions	20,650	15,427	10,659	-
Impairment allowance on financial assets	73,107	-	(29,319)	-
Financial instruments at FVTOCI	2,020	796	-	1,607
Difference in depreciation rates	(813)	6,785	2,291	-
Defined benefit obligation	3,387	96	-	68
Revaluation of real estate	-	6,909	-	-
Foreign currency translation reserve	-	605	318	527
Net gain on hedge of net investment	-	-	-	(991)
Cash flow hedge reserve	6,802	-	-	6,802
Other temporary differences	3,726	9,201	2,402	-
	108,879	39,819	(13,649)	8,013

15.0. | (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share are calculated by dividing the (loss) profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of common shares outstanding during the year. The Bank does not have arrangements that might result in dilutive shares. As such, diluted earnings per share was not separately calculated.

The following table shows the income and share data used to calculate (loss) earnings per share:

	2019 LBP Million	2018 LBP Million
(Loss) profit attributable to equity holders of the Bank	(912,177)	753,260
Less: dividends attributable to preferred shares	-	(62,750)
(Loss) profit available to holders of common shares	(912,177)	690,510
Weighted average number of shares outstanding	398,574,269	396,968,691
	LBP	LBP
Basic and diluted (loss) earnings per share	(2,289)	1,739

The Bank increased its capital by LBP 315,278 million effective 20 February 2020 through the issuance of 188,789,011 common shares at a nominal value of LBP 1,670.

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of authorisation of these consolidated financial statements.

16.0. | CASH AND BALANCES WITH CENTRAL BANKS

	2019 LBP Million	2018 LBP Million
Cash on hand	505,486	515,370
Central Bank of Lebanon		
Current accounts	477,176	911,019
Time deposits	17,460,137	19,877,186
Accrued interest	647,152	466,636
	18,584,465	21,254,841
Other central banks		
Current accounts	2,068,594	1,523,999
Time deposits	2,168,842	1,537,486
Accrued interest	18,697	9,255
	4,256,133	3,070,740
	23,346,084	24,840,951
Less: allowance for expected credit losses (Note 52)	(176,565)	(47,269)
	23,169,519	24,793,682

Obligatory Reserves:

- In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.

- Subsidiary banks operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking regulations of the countries in which they operate.

During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. Accordingly, as at 31 December 2019, time deposits with the Central Bank of Lebanon amounting to LBP 9,254,889 million (2018: nil) and term borrowings from the Central Bank of Lebanon (Note 31) are reported on a net basis on the statement of financial position.

As at 31 December 2018, time deposits with the Central Bank of Lebanon amounting to LBP 4,772,032 million were blocked against term borrowings from the Central Bank of Lebanon (Note 31).

The following table summarises the Group's placements in central banks available against the obligatory reserves as of 31 December:

	2019			2018		
	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million
Central Bank of Lebanon						
Current accounts	466,331	-	466,331	743,069	-	743,069
Time deposits	28,409	3,399,487	3,427,896	7,958	3,816,574	3,824,532
	494,740	3,399,487	3,894,227	751,027	3,816,574	4,567,601
Other central banks						
Current accounts	-	679,061	679,061	-	302,488	302,488
Time deposits	-	579,209	579,209	-	618,256	618,256
	-	1,258,270	1,258,270	-	920,744	920,744
	494,740	4,657,757	5,152,497	751,027	4,737,318	5,488,345

17.0. | DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2019 LBP Million	2018 LBP Million
Current accounts	1,165,643	1,369,987
Time deposits	991,549	2,341,400
Checks for collection	10,686	106,614
Other amounts due	10,766	25,102
Accrued interest	849	1,463
	2,179,493	3,844,566
Less: allowance for expected credit losses (Note 52)	(1,587)	(940)
	2,177,906	3,843,626

18.0. | LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2019 LBP Million	2018 LBP Million
Loans and advances	180,304	68,945
Reverse repurchase agreements	521,942	197,423
Accrued interest	767	396
	703,013	266,764
Less: allowance for expected credit losses (Note 52)	(2,556)	(119)
	700,457	266,645

The Group purchased Turkish Treasury bills under a commitment to resell them (reverse repurchase agreements). The securities are not included in the statement of financial position as the Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral

provided) is accounted for as a loan and amounted to LBP 521,942 million at 31 December 2019, including accrued interest (2018: LBP 197,423 million).

19.0. | DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivatives for trading and for risk management purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the

derivative contracts' underlying instrument (being an equity instrument, commodity product, reference rate or index, etc.). The notional amounts indicate the volume of transactions outstanding at year-end and are not indicative of either the market risk or credit risk.

FORWARDS AND FUTURES

Forwards and future contracts are contractual agreements to buy and sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter

market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

OPTIONS

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount of

financial instruments at a fixed price, either at a fixed future date or at any time within a specified period.

SWAPS

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate, commodity index or equity index.

paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Interest rate swaps relate to contracts taken out by the Group with other counterparties (customers and financial institutions) in which the Group either receives or pays a floating rate of interest, respectively, in return for

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

The Group has positions in the following type of derivatives:

	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
31 December 2019			
Derivatives held for trading			
Forward foreign exchange contracts	10,418	17,908	1,268,105
Forward precious metals contracts	-	29	853
Currency swaps	165,819	139,046	6,198,522
Precious metals swaps	88	2,652	91,161
Currency options	59,316	11,894	1,201,208
Interest rate swaps	44,173	30,404	1,778,467
Interest rate options	-	-	51,790
Credit derivatives	3,137	-	741,532
Equity options	5,638	4,087	12,115
	288,589	206,020	11,343,753
Derivatives held as fair value hedge			
Interest rate swaps	-	157,705	1,582,875
Derivatives held to hedge net investments in foreign operations			
Currency swaps	2,335	-	98,683
Derivatives held as cash flow hedge			
Interest rate swaps	-	8,377	188,438
Total	290,924	372,102	13,213,749

	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
31 December 2018			
Derivatives held for trading			
Forward foreign exchange contracts	34,747	20,151	2,056,327
Forward precious metals contracts	-	68	1,523
Currency swaps	186,686	178,532	5,559,155
Precious metals swaps	-	2,582	144,037
Currency options	106,018	75,163	4,385,864
Interest rate swaps	16,808	28,470	5,663,214
Interest rate options	-	-	216,267
Credit derivatives	54,486	-	1,488,087
Equity options	15,908	15,907	20,909
	414,653	320,873	19,535,383
Derivatives held as fair value hedge			
Interest rate swaps	-	50,644	1,507,500
Derivatives held to hedge net investments in foreign operations			
Currency swaps	4,300	-	100,897
Derivatives held as cash flow hedge			
Interest rate swaps	796	36,736	265,198
Total	419,749	408,253	21,408,978

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR TRADING PURPOSES

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives

entered into for risk management purposes which do not meet the IFRS 9 hedge accounting criteria.

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSES

The Group uses derivatives for hedging purposes in order to reduce its exposure to credit risk and market risk. This is achieved by hedging specific financial instruments, portfolio of fixed rate financial instruments

and forecast transaction, as well as strategic hedging against overall financial position exposures.

HEDGES OF NET INVESTMENTS IN FOREIGN OPERATIONS

The Group uses currency swaps contracts to hedge certain net investments in foreign operations.

from these hedges was recognised in profit or loss during the year as the hedging instrument and the hedged item are closely aligned (2018: the same). Amounts reclassified from deferred cost of hedging (time value) to profit or loss were reflected under net gain on financial assets at fair value through profit or loss in the consolidated income statement.

The table below illustrates the amounts relating to the items designated as the hedging instruments. Hedges of net investments in foreign operations are considered as time period-related hedges. No ineffectiveness

The amounts relating to items designated as hedging instruments were as follows (the amounts are gross of tax):

(In LBP Million)	Currency	Notional Amount	Fair value Positive	Time Value		
				Change in Value of Hedging Instrument Recognised in OCI	Change in Time Value Recognised in OCI	Amount Reclassified to Profit or Loss
31 December 2019						
Bank Audi France sa	Currency swap	EUR	98,683	2,335	2,212	-
				2,335	2,212	-
31 December 2018						
Odea Bank A.Ş.	Capped calls	TRY	-	-	(9,982)	5,816
Other subsidiaries						
Bank Audi France sa	Currency swap	EUR	100,897	4,300	4,785	-
Bank Audi LLC (Qatar)	Currency swap	QAR	-	-	131	-
				4,300	(5,066)	5,816

HEDGES OF INTEREST RATE RISK

The Group's risk management strategy is to hedge interest rate risk with interest rate derivatives. The interest rate risk management strategy is to reduce the Group's exposure to interest rate risk to within approved risk limits. The Group uses interest rate swaps to hedge mismatches between fixed interest rates and floating interest rates. The hedging instruments share the same risk exposures as the hedged items. Hedge ineffectiveness is assessed with reference to the shared risks, but to the extent hedging instruments are exposed to different risks than the hedged items, this could result in ineffectiveness. The Group establishes a hedge ratio of 100% by aligning the par amount of the hedged item and the notional amount of the interest rate swap designated as a hedging instrument.

In these hedging relationships, the Group uses benchmark interest rate as a component of interest rate risk. Using the benchmark interest rate results in other risks such as credit risk and liquidity risk which are excluded from the hedge accounting relationship.

Sources of ineffectiveness affecting hedge accounting are as follows:

- The effect of the counterparty and the Group's own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- Differences in maturities or timing of cash flows of the swap and the hedged items.

There were no other sources of ineffectiveness in these hedge relationships.

IBOR RISK

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. The project is sponsored by the Group CFO and is being led by senior representatives from functions across the Group including the client facing teams, Legal, Finance, Operations and Technology. The project provides monthly progress updates to the Managing Board and bi-annually to the Audit Committee.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform, analysed by interest rate and cross currency basis. The derivative hedging instruments provide close approximation to the extent of the risk exposure the Group manages through hedging relationships.

31 December 2019	Nominal Amount LBP Million	Average Maturity Years
Interest rate swaps		
LIBOR (USD) – 3 months	1,582,875	8.38
LIBOR (USD) – 6 months	188,438	5.80
	1,771,313	

FAIR VALUE HEDGES OF INTEREST RATE RISK

The Group held the following interest rate swaps as hedging instruments in fair value hedges of interest rate risk:

	2019	2018
Nominal amount – LBP million	1,582,875	1,507,500
Average fixed interest rate	3.01%	3.01%
Maturity	More than 5 years	More than 5 years

As at 31 December, the amounts relating to the hedging instruments were as follows:

	Fair Value			Change in Fair Value Used for Calculating Hedge Ineffectiveness LBP Million
	Notional Amount LBP Million	Positive LBP Million	Negative LBP Million	
31 December 2019				
Interest rate swaps	1,582,875	-	157,705	96,623
31 December 2018				
Interest rate swaps	1,507,500	-	50,644	39,769

As at 31 December, the amounts relating to the hedged items were as follows:

	2019		2018	
	Carrying Value LBP Million	Change in Value Used for Calculating Hedge Ineffectiveness LBP Million	Carrying Value LBP Million	Change in Value Used for Calculating Hedge Ineffectiveness LBP Million
Time deposits with Central Bank of Lebanon	1,725,922	102,842	1,547,705	40,205

Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item amounted to LBP 143,047 million as at 31 December 2019 (2018: LBP 40,205 million). No ineffectiveness from these hedges was recognised in profit or loss during the year as the hedging instrument and the hedged item

are closely aligned. There were no accumulated amounts of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.

The below table sets the outcome of the Group's hedging strategy, in particular, to changes in the fair value of the hedged item and hedging instrument in the current and comparative year, used as the basis for recognising ineffectiveness.

Hedged Item	Hedging Instrument	2019			2018		
		Gains/Losses Attributed to the Hedged Risk			Gains/Losses Attributed to the Hedged Risk		
		Hedged Item LBP Million	Hedging Instrument LBP Million	Hedge Ineffectiveness LBP Million	Hedged Item LBP Million	Hedging Instrument LBP Million	Hedge Ineffectiveness LBP Million
Time deposits with Central Bank of Lebanon	Interest rate swaps	(26,664)	(100,658)	(127,322)	40,205	(39,769)	436

CASH FLOW HEDGES OF INTEREST RATE RISK

As of 31 December 2019, interest rate swaps were held as hedging instrument against borrowing from banks and financial institutions for a notional amount of USD 125 million (equivalent to LBP 188,438 million) (2018: USD 100 million (equivalent to LBP 150,750 million)), maturing in October 2025 and paying an average fixed interests rate of 3.15%. Interest rates swaps that were held as at 31 December 2018, as hedging instruments against customers' deposits for a notional amount of TRY 400 million (equivalent to LBP 114,448 million), maturing in September 2028 and paying an average fixed interest rate of 19.96% were discontinued during 2019. For calculating hedge ineffectiveness,

change in fair value of the hedging instruments and the hedged items was LBP 4,408 million and LBP 4,408 million respectively (2018: LBP 31,508 million and LBP 31,508 million respectively). No ineffectiveness from these hedges was recognised in profit or loss as the hedging instrument and the hedge item are closely aligned. Cash flow hedge reserves relating to continuing and discontinued hedges amounted to LBP 6,575 million and LBP 12,270 million respectively (2018: LBP 19,391 million and nil respectively). Gain (losses) on cash flow hedges reclassified to the income statement amounted to LBP 8,311 million (2018: nil) and were reflected under interests and similar expenses.

20.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 LBP Million	2018 LBP Million
Lebanese Sovereign and Central Bank of Lebanon		
Treasury bills	722	149
Eurobonds	36	5,094
	758	5,243
Other sovereign		
Treasury bills and bonds	1,038	935
Private sector and other securities		
Banks and financial institutions	294,053	69,681
Loans and advances to customers	18,157	37,233
Mutual funds	67,071	58,295
Equity instruments	5	48,735
	379,286	213,944
	381,082	220,122

21.0. | LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2019 LBP Million	2018 LBP Million
Corporate and SME	11,581,548	14,573,054
Retail and Personal Banking	5,545,072	6,109,569
Public sector	300,403	366,948
	17,427,023	21,049,571
Less: allowance for expected credit losses (Note 52)	(1,965,352)	(1,202,605)
	15,461,671	19,846,966

22.0. | LOANS AND ADVANCES TO RELATED PARTIES AT AMORTISED COST

	2019 LBP Million	2018 LBP Million
Corporate and SME	13,756	13,970
Retail and Personal Banking	126,800	139,718
	140,556	153,688
Less: allowance for expected credit losses (Note 52)	(67)	(17)
	140,489	153,671

23.0. | FINANCIAL ASSETS AT AMORTISED COST

	2019 LBP Million	2018 LBP Million
Lebanese Sovereign and Central Bank of Lebanon		
Certificates of deposit	6,359,285	9,632,854
Treasury bills	3,330,933	3,332,290
Eurobonds	1,979,348	2,999,814
	11,669,566	15,964,958
Other sovereign		
Treasury bills	1,326,508	1,030,235
Eurobonds	284,138	461,036
Other governmental securities	13,519	63,200
	1,624,165	1,554,471
Private sector and other securities		
Banks and financial institutions debt instruments	163,353	203,665
Corporate debt instruments	23,851	109,701
	187,204	313,366
	13,480,935	17,832,795
Less: allowance for expected credit losses (Note 52)	(1,161,991)	(44,261)
	12,318,944	17,788,534

During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. Accordingly, as at 31 December 2019, certificates of deposit amounting to LBP 2,638,000 million (2018: nil) and term borrowings from the Central Bank of Lebanon (Note 31) are reported on a net basis on the statement of financial position.

At 31 December 2019, Lebanese Treasury bills of LBP 1,979,141 million were pledged against term borrowings from the Central Bank of Lebanon (2018: Lebanese Treasury bills and certificates of deposits of LBP 1,979,141 million and LBP 2,638,000 million, respectively) (Note 31).

The Lebanese government Eurobonds were acquired during 2018 against a leverage arrangement with the Central Bank of Lebanon (refer to Note 31). During 2019, the amortised cost was adjusted by an amount equivalent to the present value of expected future cash flows from leverage arrangements. These financial instruments were mostly liquidated during the first three months of 2020 at a price approximating their adjusted carrying amount net of the allowances for expected credit losses at 31 December 2019.

24.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 LBP million	2018 LBP million
Debt instruments		
<i>Other sovereign</i>		
Treasury bills	913,815	1,183,790
Eurobonds	157,117	-
	1,070,932	1,183,790
Private sector and other securities		
Banks and financial institutions debt instruments	15,180	-
	1,086,112	1,183,790
Equity instruments		
Quoted	176	1,520
Unquoted	68,605	72,125
	68,781	73,645
	1,154,893	1,257,435

DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The change in fair value on debt instruments at fair value through other comprehensive income amounted to gain LBP 34,517 million during 2019 (2018: loss LBP 9,697 million). Over the course of the year, out of the Group's debt instruments at fair value through other comprehensive

income portfolio, instruments with a principal of LBP 1,144,424 million matured. In relation to this, the Group transferred LBP 847 million unrealised gains from other comprehensive income to the income statement (2018: LBP 564 million).

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group classified the following instruments in private sector securities at fair value through other comprehensive income as it holds them

for strategic reasons. The tables below list those equity instruments, dividends received, and the changes in fair value net of applicable taxes:

	2019		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	176	-	-
Unquoted:	68,605	11,535	2,089
Banque de l'Habitat sal	16,350	10,095	-
Other equity instruments	52,255	1,440	2,089
	68,781	11,535	2,089

	2018		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	1,520	-	-
Unquoted:	72,125	2,554	3,206
Phoenicia – Aer Rianta Co. sal	10,729	-	-
Banque de l'Habitat sal	16,350	10,095	-
Other equity instruments	45,046	(7,541)	3,206
	73,645	2,554	3,206

Over the course of the year, the Group sold equity instruments at fair value through other comprehensive income with a fair value of LBP 13,158 million (2018: LBP 42,137 million). In relation to this, the Group

transferred LBP 5,459 million unrealised losses from other comprehensive income to the retained earnings (2018: LBP 2,816 million).

25.0. | INVESTMENTS IN ASSOCIATES

	Country of Incorporation	Activity	Ownership %	2019 LBP Million	2018 LBP Million
GlobalCom Holding sal	Lebanon	Communication	31.00%	40,874	40,320
M1 Financial Technologies Holding sal	Lebanon	Services	30.00%	69,117	82,920
Other associates				11,148	21,625
				121,139	144,865

INDIVIDUALLY MATERIAL ASSOCIATES

GlobalCom Holding sal and M1 Financial Technologies Holding sal are the only individually material investments in associates held by the Group. The following table illustrates the summarised financial information of the all material associates. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and

not the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policies.

	2019		2018	
	GlobalCom Holding sal LBP Million	M1 Financial Technologies Holding sal LBP Million	GlobalCom Holding sal LBP Million	M1 Financial Technologies Holding sal LBP Million
Current assets	98,127	79,512	79,223	58,034
Non-current assets	51,635	39,549	55,404	22,465
Current liabilities	(98,526)	(60,692)	(85,034)	(38,015)
Non-current liabilities	(6,292)	(22,606)	(6,438)	(26,447)
Equity	44,944	35,763	43,155	16,037
Group's share of equity	13,933	10,729	13,379	4,811
Goodwill	26,941	58,388	26,941	78,109
	40,874	69,117	40,320	82,920
Revenues	96,803	140,558	83,050	-
Expenses	(89,459)	(134,540)	(73,854)	-
Profit for the period	7,344	1,805	9,196	-
	2,277	5,918	2,851	-

GlobalCom Holding sal and M1 Financial Technologies Holding sal had no contingent liabilities or capital commitments as at 31 December 2019 (2018: the same).

During 2019, the Group received dividends in the amount of LBP 1,168 million from GlobalCom Holding sal (2018: LBP 1,168 million).

M1 FINANCIAL TECHNOLOGIES HOLDING SAL

At 31 December 2019, due to the current economic crisis Lebanon is going through, and its impact on banking and electronic card transactions, the Group performed an impairment test on the carrying amount of M1 Financial Technologies Holding sal. The recoverable amount as determined by a value-in-use ("VIU") calculation was lower than the

carrying value and accordingly, the Group recorded an impairment loss of LBP 19,725 million (Note 13). Calculation was based on cash flow projections from financial budgets approved by Senior Management covering a five-year period, with a terminal growth rate of 2.00%. The forecast cash flows were discounted at a pre-tax rate of 15.90%.

OTHER ASSOCIATES

The aggregate amount of the Group's share of profit of its individually immaterial associates amounted to a profit of LBP 1,080 million for the year ended 31 December 2019 (2018: a loss of LBP 2,020 million).

related to guarantees issued in accordance with regulatory requirements at 31 December 2018.

During 2019, the Group sold its investment in Assurex sal, an associate, to a third party for a total consideration of LBP 11,238 million. The disposal of this associate resulted in a loss of LBP 325 million. Accordingly, the Group share of Assurex sal's other comprehensive income amounting to LBP 5,464 million was transferred to "retained earnings". This associate had contingent liabilities of LBP 3,181 million of which LBP 3,100 million

During 2018, the Group sold 14% of its interest in Capital B Solutions Holding sal to a third party, which resulted in loss of control of this former subsidiary. The Group recognised the investment retained at its fair value under "other associates". Gain recognised from this transaction amounted to LBP 12,289 million reflected under "other operating income" (Note 10).

26.0. | PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Right-of-use LBP Million	Other LBP Million	Total LBP Million
Cost or revaluation:									
At 1 January 2019	187,791	639,906	144,393	3,255	206,971	99,977	-	8,882	1,291,175
IFRS 16 adoption	-	-	-	-	-	-	143,252	-	143,252
Revaluation recognised in OCI	(23,618)	18,637	-	-	-	-	-	-	(4,981)
Revaluation adjustments	-	(85,929)	-	-	-	-	-	-	(85,929)
Additions	-	18,520	8,070	158	21,857	1,695	22,035	-	72,335
Disposals	(1,788)	(8,218)	(3,066)	(122)	(3,012)	(1,185)	(7,281)	-	(24,672)
Transfer	992	(17,757)	16,765	-	(472)	472	-	-	-
Foreign exchange difference	130	16,365	(1,626)	147	(236)	(265)	(5,072)	(267)	9,176
At 31 December 2019	163,507	581,524	164,536	3,438	225,108	100,694	152,934	8,615	1,400,356
Depreciation:									
At 1 January 2019	-	67,208	105,259	1,942	154,347	77,690	-	7,028	413,474
Revaluation adjustments	-	(85,929)	-	-	-	-	-	-	(85,929)
Depreciation during the year	-	20,932	11,300	383	20,211	4,671	29,459	57	87,013
Disposals	-	(1,311)	(1,900)	(116)	(2,916)	(1,058)	(2,885)	-	(10,186)
Transfer	-	(1,041)	1,042	-	(481)	480	-	-	-
Foreign exchange difference	-	141	(1,054)	55	(558)	(421)	1,031	(396)	(1,202)
At 31 December 2019	-	-	114,647	2,264	170,603	81,362	27,605	6,689	403,170
Net book value:									
At 31 December 2019	163,507	581,524	49,889	1,174	54,505	19,332	125,329	1,926	997,186

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Other LBP Million	Total LBP Million
Cost or revaluation:								
At 1 January 2018	197,506	597,101	156,716	2,906	219,438	102,415	8,969	1,285,051
Additions	169	45,000	6,051	377	15,914	1,441	15	68,967
Disposals	-	(9,622)	(3,114)	(27)	(9,152)	(3,812)	(17)	(25,744)
Transfer	(9,805)	9,805	-	-	(2,894)	2,894	-	-
Foreign exchange difference	(79)	(2,378)	(15,260)	(1)	(16,335)	(2,961)	(85)	(37,099)
At 31 December 2018	187,791	639,906	144,393	3,255	206,971	99,977	8,882	1,291,175
Depreciation:								
At 1 January 2018	-	54,245	106,147	1,615	157,160	74,500	6,984	400,651
Depreciation during the year	-	22,654	11,673	358	20,341	6,256	115	61,397
Disposals	-	(9,144)	(3,114)	(27)	(9,109)	(3,800)	-	(25,194)
Transfer	-	-	-	-	(2,533)	2,533	-	-
Foreign exchange difference	-	(547)	(9,447)	(4)	(11,512)	(1,799)	(71)	(23,380)
At 31 December 2018	-	67,208	105,259	1,942	154,347	77,690	7,028	413,474
Net book value:								
At 31 December 2018	187,791	572,698	39,134	1,313	52,624	22,287	1,854	877,701

The Group has lease contracts for various items primarily comprising head offices and branches, used in its operations. Leases of head offices and branches generally have lease terms between 1 and 30 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to

maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments.

Effective 1 January 2019, upon adoption of IFRS 16, prepaid operating leases amounting to LBP 20,422 million was reclassified to property and equipment (Note 29).

REVALUATION OF LAND AND BUILDINGS

Pursuant to the decision of the Board of Directors held on 3 September 2014, the Group changed its accounting policy for measuring land and buildings and related improvements from the cost model to the revaluation model. Management determined that each constitutes a single class of asset under IFRS 13, based on the nature, characteristics and risks of the property. These assets are classified under Level 3 in the fair value hierarchy.

Fair value of the land and buildings and freehold improvements was determined using the market comparable method. The valuations have been performed by the valuer and are based on proprietary databases of prices of transactions for properties of similar location and condition of the specific property. As at the date of revaluation, the properties' fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Description of valuation techniques used and key inputs to valuation of land and buildings:

	Valuation Technique	Significant Unobservable Inputs	Weighted Average	Fair Value LBP Million
Land:				
Lebanon	Market comparable method	Price per sqm	LBP 5.082 million	153,331
Egypt	Market comparable method	Price per sqm	LBP 3.680 million	87
Buildings and freehold improvements:				
Lebanon	Market comparable method	Price per sqm	LBP 3.456 million	316,101
Egypt	Market comparable method	Price per sqm	LBP 4.584 million	172,059
Switzerland	Market comparable method	Price per sqm	LBP 27.243 million	68,755

Significant increase (decrease) in the estimated price per square meter in isolation would result in significantly higher (lower) fair value on a linear basis. If land, buildings, and related improvements were measured using

the cost model, the carrying amounts as of 31 December would have been as follows:

	2019	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	69,890	556,116
Accumulated depreciation	-	(201,567)
Net book value	69,890	354,549
	2018	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	70,566	545,977
Accumulated depreciation	-	(188,953)
Net book value	70,566	357,024

27.0. | INTANGIBLE ASSETS

	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:			
At 1 January 2019	182,934	105	183,039
Additions	70,427	-	70,427
Foreign exchange difference	(2,837)	(12)	(2,849)
At 31 December 2019	250,524	93	250,617
Amortisation:			
At 1 January 2019	114,458	105	114,563
Amortisation during the year	24,529	-	24,529
Foreign exchange difference	(3,607)	(12)	(3,619)
At 31 December 2019	135,380	93	135,473
Net book value:			
At 31 December 2019	115,144	-	115,144

	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:			
At 1 January 2018	187,620	328	187,948
Additions	24,079	-	24,079
Disposals	(5,064)	-	(5,064)
Foreign exchange difference	(23,701)	(223)	(23,924)
At 31 December 2018	182,934	105	183,039
Amortisation:			
At 1 January 2018	111,456	249	111,705
Amortisation during the year	22,541	-	22,541
Disposals	(5,064)	-	(5,064)
Foreign exchange difference	(14,475)	(144)	(14,619)
At 31 December 2018	114,458	105	114,563
Net book value:			
At 31 December 2018	68,476	-	68,476

28.0. | NON-CURRENT ASSETS HELD FOR SALE

The Group occasionally takes possession of assets in settlement of loans and advances. The Group is in the process of selling these assets which are, as such, included in non-current assets held for sale. Gains or losses on disposal are recognised in the consolidated income statement for the year.

	2019			2018		
	Financial Instruments LBP Million	Properties LBP Million	Total LBP Million	Financial Instruments LBP Million	Properties LBP Million	Total LBP Million
Cost:						
At 1 January	40,390	155,626	196,016	-	146,758	146,758
Additions	-	134,048	134,048	40,390	38,708	79,098
Disposals	-	(9,588)	(9,588)	-	(17,786)	(17,786)
Foreign exchange difference	-	(12,685)	(12,685)	-	(12,054)	(12,054)
At 31 December	40,390	267,401	307,791	40,390	155,626	196,016
Impairment:						
At 1 January	-	2,295	2,295	-	2,700	2,700
Impairment for the year	-	15,522	15,522	-	-	-
Disposals	-	-	-	-	(310)	(310)
Foreign exchange difference	-	(15)	(15)	-	(95)	(95)
At 31 December	-	17,802	17,802	-	2,295	2,295
Net book value:						
At 31 December	40,390	249,599	289,989	40,390	153,331	193,721

In 2019, the impairment loss of LBP 15,522 million represents the write-down of non-current assets held for sale as a result of the sudden decline in real estate prices due to the deep recession facing Lebanon.

The impairment loss was recognised in the consolidated income statement as a separate line item. The recoverable amount was based on fair value determined by the market comparable method. The fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Description of valuation techniques used and key inputs to valuation of properties:

	Valuation Technique	Significant Unobservable Inputs	Weighted Average
Lebanon:			
Land	Market comparable method	Price per sqm	LBP 325 million
Buildings	Market comparable method	Price per sqm	LBP 2,033.82 million

29.0. | OTHER ASSETS

	2019 LBP Million	2018 LBP Million
Advances on acquisition of property and equipment	6,572	28,299
Advances on acquisition of intangible assets	4,097	38,048
Prepaid charges	41,112	67,200
Electronic cards and regularisation accounts	31,923	23,806
Receivables related to non-banking operations	40,507	25,482
Advances to staff	13,342	21,172
Hospitalisation and medical care under collection	43,626	39,581
Interest and commissions receivable	5,925	4,921
Funds management fees	78	104
Fiscal stamps, bullions and commemorative coins	1,212	1,646
Management and advisory fees receivable	827	1,386
Tax regularisation account	10,784	27,156
Other debtor accounts	182,801	220,751
Receivables from Central Bank of Lebanon under leverage arrangements	1,110,061	215,263
	1,492,867	714,815

Effective 1 January 2019, upon adoption of IFRS 16, prepaid operating leases amounting to LBP 20,422 million were reclassified to property and equipment (Note 27).

As at 31 December 2019, other debtors accounts include an amount of LBP 98,452 million representing collateral under process of being repossessed against settlement of loans by a subsidiary (2018: LBP 131,494 million).

“Receivables from Central Bank of Lebanon under leverage arrangements” represents the present value of expected future cash flows from leverage arrangements entered with the Central Bank of Lebanon during 2018 against a simultaneous purchase of Lebanese government Eurobonds. These Lebanese government Eurobonds are recorded at amortised cost as at 31 December 2019 and 2018. During 2019, the amortised cost was adjusted by an amount equivalent to the present value of expected future cash flows from leverage arrangements. The Lebanese government Eurobonds were mostly liquidated during the first three months of 2020 (refer to Notes 23 and 31).

30.0. | GOODWILL

	2019 LBP Million	2018 LBP Million
Cost:		
At 1 January	199,980	200,280
Foreign exchange difference	9	(300)
At 31 December	199,989	199,980
Impairment:		
At 1 January	57,567	157,567
At 31 December	57,567	157,567
Net book value:		
At 31 December	42,422	42,413

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganisations. Cash flow projections necessarily take into

account changes in the market in which a business operates including the level of growth, competitive activity, and the impacts of regulatory change. The Group performed its annual impairment test in December 2019 and 2018.

As at 31 December, the carrying amount of goodwill was allocated to the following CGUs:

	2019 LBP Million	2018 LBP Million
Private Banking – Switzerland	42,422	42,413

These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

RECOVERABLE AMOUNT

The Private Banking CGU in Switzerland is a separate legal entity offering Private Banking activities to its customers and is reported mainly under the Retail and Personal Banking business segment and the Europe geographical segment. The recoverable amount of this CGU was determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management

covering a five-year period, with a terminal growth rate of 2.00% (2018: 2.00%). The forecast cash flows were discounted at a pre-tax rate of 10.00% (2018: 10.00%). Based on these assumptions, the recoverable amount exceeds the carrying amount including goodwill by LBP 61,510 million (2018: LBP 61,305 million).

KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS AND SENSITIVITY TO CHANGES IN ASSUMPTIONS

The calculation of value in use for the Private Banking – Switzerland CGU is most sensitive to interest rate margins, cost of equity and the projected growth rates used to extrapolate cash flows beyond the budget period.

being evaluated. Projected terminal growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for the jurisdictional area where the operations reside.

The cost of equity assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk rate in the country concerned and a premium to reflect the inherent risk of the business

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the units to exceed their recoverable amount. These are summarised in the following table, which shows the details of the sensitivity of the above measures on the Bank's CGU's value in use (VIU):

Private Banking – Switzerland		
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.1% causes a decrease in the value in use by 0.28% (LBP 1,163 million) (2018: 0.23% (LBP 946 million)).
Cost of equity	The cost of equity is the return required for an investment to meet capital return requirements; it is often used as a capital budgeting threshold for required rate of return.	A decrease of 0.25% causes an increase in the value in use by 1.72% (LBP 7,101 million) (2018: 0.5% (LBP 9,260 million)).
Growth rate	Growth rate is the percentage change of the compounded annualised rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.	A decrease of 0.50% causes a decrease in the value in use by 2.41% (LBP 9,979 million) (2018: 2.24% (LBP 9,260 million)).

The following table presents the sensitivity of each input by showing the change required to individual current assumptions to reduce headroom to nil (breakeven) for the Private Banking CGU in Switzerland:

	2019	2018
Interest margin	(3.76%)	(4.81%)
Cost of equity	12.78%	12.98%
Growth rate	(2.55%)	(3.10%)

31.0. | DUE TO CENTRAL BANKS

	2019 LBP Million	2018 LBP Million
Central Bank of Lebanon		
Subsidised loans	803,600	891,641
Term borrowings under leverage arrangements	1,979,141	9,389,173
Other borrowings	2,798,525	1,371,825
Accrued interest	25,215	68,562
Other central banks		
Term loan	-	198,789
Repurchase agreements	45,481	-
	5,651,962	11,919,990

SUBSIDISED LOANS

As at 31 December 2019, subsidised loans consist of utilised amounts on facilities granted by the Central Bank of Lebanon for the purpose of lending to customers at subsidised rates in accordance with Decision

No. 6116 dated 7 March 1996. Principals are repayable on monthly basis and based on the amounts withdrawn by the customers (2018: the same).

TERM BORROWINGS UNDER LEVERAGE ARRANGEMENTS

Leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in LBP, bearing an interest rate 2% per annum and having maturities ranging between 2019 and 2031, fully invested in Lebanese Treasury bills, certificates of deposit with the Central Bank of Lebanon in LBP, and blocked term placements with Central Bank of Lebanon in LBP earning coupon rates ranging between 6.5% per annum and 10.5%. Simultaneously, the Bank has either deposited term placements with the Central Bank of Lebanon in foreign currencies at 6.5% per annum and in LBP at 10.5% per annum (originated from the sale of foreign currencies to the Central Bank of Lebanon) carrying the same maturities; or purchased Lebanese government Eurobonds from the Central Bank of Lebanon. During 2019, the Bank and the Central

Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placement and pledged certificates of deposit with the Central Bank of Lebanon in LBP. This agreement qualifies for netting under the requirements of IAS 32.

The following table summarises the leverage arrangements and related financial assets subject to offsetting, and enforceable similar agreements, and whether offset is achieved in the balance sheet. The table identifies the amounts that have been offset in the statement of financial position and also those amounts that are covered by enforceable netting arrangements (financial collateral) but do not qualify for netting under the requirements of IAS 32 described in the accounting policies:

	2019 LBP Million	2018 LBP Million
Leverage arrangements		
Gross amounts	13,872,030	9,389,173
Amounts offset against ⁽¹⁾		
Placement with the Central Bank of Lebanon (Note 16)	9,254,889	-
Certificates of deposit with the Central Bank of Lebanon (Note 23)	2,638,000	-
Net amounts reported on the statement of financial position	1,979,141	9,389,173
Financial collateral		
Placement with the Central Bank of Lebanon (Note 16)	-	4,772,032
Certificates of deposit with the Central Bank of Lebanon (Note 23)	-	2,638,000
Lebanese Treasury bills (Note 23)	1,979,141	1,979,141
	1,979,141	9,389,173

⁽¹⁾ Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon and certificates of deposit with the Central Bank of Lebanon have also been reported on the statement of financial position net of the amounts above.

REPURCHASE AGREEMENTS

The Group sells government bonds subject to a commitment to repurchase them (repurchase agreement). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting the transaction's economic substance as a borrowing to

the Group. As the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on the statement of financial position under:

	2019 LBP Million	2018 LBP Million
Financial assets at amortised cost - Non-Lebanese government bonds	55,195	-
Financial assets at fair value through comprehensive income - Non-Lebanese government bonds	1,066	-

32.0. | DUE TO BANKS AND FINANCIAL INSTITUTIONS AND REPURCHASE AGREEMENTS

	2019 LBP Million	2018 LBP Million
Current accounts	461,109	448,597
Term loans	777,934	1,357,236
Time deposits	308,531	357,193
Accrued interest	8,930	20,661
	1,556,504	2,183,687
Repurchase agreements	42,969	1,304
	1,599,473	2,184,991

Included in term loans above an amount of LBP 520,050 million (2018: LBP 460,802 million) representing loans granted from various supranational entities for the purpose of financing small and medium-size enterprises in the private sector, with annual interest rates ranging from 0.83% to 5.68% (2018: same).

The commitments arising from bank facilities received are disclosed in Note 48 to these consolidated financial statements.

REPURCHASE AGREEMENTS

The Group sells government bonds subject to a commitment to repurchase them (repurchase agreement). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting the transaction's economic substance as a borrowing to

the Group. As the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on the statement of financial position under:

	2019 LBP Million	2018 LBP Million
Financial assets at amortised cost - Non-Lebanese government bonds	59,655	1,304

33.0. | CUSTOMERS' DEPOSITS

	2019			Total LBP Million
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	
Sight deposits	3,439,779	6,132,189	415,591	9,987,559
Time deposits	5,489,419	21,052,388	1,315,430	27,857,237
Saving accounts	309,851	3,905,653	-	4,215,504
Certificates of deposit	30,085	1,337,413	235	1,367,733
Margins on LC's and LG's	764,258	17,325	690	782,273
Other margins	17,878	13,344	-	31,222
Other deposits	56,461	38,571	-	95,032
	10,107,731	32,496,883	1,731,946	44,336,560
Deposits pledged as collateral				4,164,992

	2018			Total LBP Million
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	
Sight deposits	3,099,778	5,177,092	194,326	8,471,196
Time deposits	7,675,599	23,744,468	1,128,300	32,548,367
Saving accounts	483,425	4,784,192	-	5,267,617
Certificates of deposit	53,972	832,557	1,365	887,894
Margins on LC's and LG's	285,609	28,932	614	315,155
Other margins	24,580	90,515	-	115,095
Other deposits	112,289	59,458	-	171,747
	11,735,252	34,717,214	1,324,605	47,777,071
Deposits pledged as collateral				4,239,236

Sight deposits include balances of bullion amounting to LBP 303,997 million (2018: LBP 98,431 million) which were carried at fair value through profit or loss.

Time deposits include balances amounting to LBP 741,532 million as at 31 December 2019 (2018: LBP 1,488,087 million), whereby the principal is settled at maturity according to the full discretion of the Group either in cash or in Lebanese government Eurobonds denominated in USD and having the same nominal amount.

34.0. | DEPOSITS FROM RELATED PARTIES

	2019			Total LBP Million
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	
Sight deposits	12,482	80,041	-	92,523
Time deposits	3,245	178,315	-	181,560
Other deposits and margin accounts	482	1,745	-	2,227
	16,209	260,101		276,310
Deposits pledged as collateral				96,952

	2018			Total LBP Million
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	
Sight deposits	6,928	37,216	-	44,144
Time deposits	6,491	344,355	-	350,846
Other deposits and margin accounts	482	642	-	1,124
	13,901	382,213		396,114
Deposits pledged as collateral				117,569

35.0. | DEBT ISSUED AND OTHER BORROWED FUNDS

	2019 LBP Million	2018 LBP Million
USD 346,730,000 (2018: USD 350,000,000) due 16 October 2023 – 6.75%	522,695	527,625
USD 112,500,000 due 11 April 2024 – 6.55% + Libor 6m	169,594	169,594
USD 37,500,000 due 11 April 2024 – 6.55% + Libor 6m	56,531	56,531
USD 283,000,000 (2018: 300,000,000) due 1 August 2027 – 7.625%	421,370	453,724
Turkish bills	192,561	58,834
Accrued interests	30,888	27,381
	1,393,639	1,293,689

The principal of the loans is to be repaid at maturity. Any principal amount of the loans prepaid may not be re-borrowed. Prepayment on the loans is applicable as follows:

USD 346,700,000 (2018: USD 350,000,000)

Due 16 October 2023 – 6.75%

The Group, at its sole discretion and after obtaining approval of the Central Bank of Lebanon, has the right to prepay all outstanding amounts (entirely and not partially) according to the following:

- First time, after five years from issuance and upon payment of interest thereafter.
- Without regard to the dates set above and according to the following:
 - At any time after one year from the date of issuance, in the event of amendments to local and international laws and regulations, the subordinated bonds cannot be computed within the private funds of the Group (Tier 2);
 - At any time after one year from the date of issuance for reasons related to the amendment of Lebanese taxation laws.

Subject to the prior approval of the Central Bank and to compliance with all applicable Lebanese laws and regulations, the issuer may, at any time after the anniversary of the issue date, purchase or procure others to purchase for its accounts, notes at any price.

During 2019, the Bank acquired notes with a notional amount of USD 3,270,000 for a total consideration of USD 2,615,970. This transaction resulted in a gain of LBP 985 million.

USD 112,500,000 Due 11 April 2024 – 6.55% + Libor 6m and

USD 37,500,000 Due 11 April 2024 – 6.55% + Libor 6m

The Group shall, on any interest payment date or not less than 30 days' prior written notice, have the right to prepay the entire outstanding principal amount of the loan, in whole but not in part, together with accrued but unpaid interest thereon, and all other amounts payable, and subject to the approval of the Central Bank of Lebanon:

- In the event of a change in Lebanese law or regulation resulting in an increase in the withholding tax rate applicable to payments of interest on the loans to more than 5.00% above the rate in effect on the date of the disbursement. No penalty or premium shall be payable in connection with any prepayment following changes in taxation; or

Subject to the payment of a premium of 2.00% of the outstanding principal amount of the loans to be prepaid, at the option of the Group, on any interest payment date at any time after the fifth anniversary of the date on which the loan is disbursed.

USD 283,000,000 (2018: USD 300,000,000)

Due 1 August 2027 – 7.625%

On 1 August 2017, Odea Bank A.Ş. issued subordinated unsecured notes in the amount of USD 300 million to third parties. These notes mature on 1 August 2027 and pay semi-annual interest of 7.625%. The notes are listed on the Main Securities Market of the Irish Stock Exchange. Odea Bank A.Ş. shall repay the notes at maturity and may repay the notes in whole, but not in part (1) starting from the fifth anniversary of the subordinated debt issuance date, or (2) due to changes in BRSR regulation if the loan ceases to be treated as Tier 2 capital under the applicable BRSR regulation. As of 31 December 2019, the total amount bought back amounted to USD 17 million. Odea Bank A.Ş. has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amount at any time is completely at Management's discretion.

Turkish bills

Odea Bank A.Ş. issued bills in TRY at discount maturing during the first three months of 2020 with effective interest rate of 13.00% (2018: maturing during the first three months of 2019 with effective interest rate of 23.50%).

Cash and Non-cash Changes in Debt Issued and Other Borrowed Funds

All changes in debt issued and other borrowed funds arise mainly from cash flows. Non-cash changes such as foreign exchange gains and losses were not significant during 2019 (2018: the same).

36.0. | OTHER LIABILITIES

	2019 LBP Million	2018 LBP Million
Lease liabilities	149,853	-
Accrued expenses	104,134	145,240
Miscellaneous suppliers and other payables	22,801	24,288
Operational taxes	144,717	100,089
Employee accrued benefits	3,692	3,409
Electronic cards and regularisation accounts	49,618	35,812
Social security dues	6,315	5,139
Other credit balances	102,934	90,874
	584,064	404,851

Set out below are the carrying amounts of lease liabilities and the movements during the year ended 31 December 2019:

	2019 LBP Million
Balance at 1 January	170,816
Additions	20,052
Termination	(9,133)
Interest expense	15,230
Paid during the year	(42,177)
Foreign exchange	(4,935)
Balance at 31 December	149,853

37.0. | PROVISIONS FOR RISKS AND CHARGES

	2019 LBP Million	2018 LBP Million
Provisions for risks and charges	52,127	222,571
Provisions for ECL on financial guarantees and commitments (Note 52)	40,074	28,446
End of service benefits	86,618	91,777
	178,819	342,794

PROVISIONS FOR RISKS AND CHARGES

	2019 LBP Million	2018 LBP Million
General provision	-	185,588
Provision for legal claims	10,779	8,235
Other provisions	41,348	28,748
	52,127	222,571

GENERAL PROVISION

As at 31 December 2018, general provision consists of provisions allowed under regulatory acts amounting to LBP 185,588 million which do not meet the accounting criteria of IAS 37. During 2019, these provisions were transferred to allowances for expected credit losses on balances

with central banks, loans and advances to customers at amortised cost and financial assets held at amortised cost in the amount of LBP 43,701 million, LBP 4,687 million, and LBP 137,200 million, respectively.

	2019 LBP Million	2018 LBP Million
Balance at 1 January	36,983	24,173
Add:		
Charge reflected under operating expenses (Note 13)	7,379	16,546
Charge reflected under other expenses	2,925	8,256
Transfer from current tax liability	5,096	-
Less:		
Paid during the year	(915)	(7,865)
Net provisions recoveries (Note 10)	(378)	(2,162)
Foreign exchange difference	1,037	(1,965)
Balance at 31 December	52,127	36,983

END OF SERVICE BENEFITS

Entities operating in Lebanon have two defined benefit plans covering all their employees. The first requires contributions to be made to the National Social Security Fund whereby the entitlement to and level of these benefits depend on the employees' length of service, the employees' salaries and contributions paid to the fund among other requirements. Under the second plan, no contributions are required to be made, however a fixed end-of-service lump sum amount should be paid for long service employees. The entitlement to and level of these

end of service benefits provided depend on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. The first plan described above also applies to non-banking entities operating in Lebanon. Defined benefit plans for employees at foreign subsidiaries and branches are set in line with the laws and regulations of the respective countries in which these subsidiaries are located. The movement of provision for staff retirement benefit obligation is as follows:

	2019		
	Lebanon LBP Million	Foreign Countries LBP Million	Total LBP Million
Balance at 1 January	75,667	16,110	91,777
Charge for the year (Note 12)	9,471	4,179	13,650
Paid during the year	(12,057)	(2,954)	(15,011)
Actuarial loss on obligation – experience	83	149	232
Actuarial loss on obligation – demographic assumptions	-	2,311	2,311
Actuarial (gain) loss on obligation – economic assumptions	(14,573)	7,481	(7,092)
Foreign exchange difference	-	751	751
Balance at 31 December	58,591	28,027	86,618

	2018		
	Lebanon LBP Million	Foreign Countries LBP Million	Total LBP Million
Balance at 1 January	82,216	18,360	100,576
Charge for the year (Note 12)	10,313	3,075	13,388
Paid during the year	(17,425)	(4,240)	(21,665)
Actuarial loss on obligation – experience	563	1,536	2,099
Actuarial gain on obligation – economic assumptions	-	(1,764)	(1,764)
Foreign exchange difference	-	(857)	(857)
Balance at 31 December	75,667	16,110	91,777

The charge for the year is broken down as follows:

	2019 LBP Million	2018 LBP Million
Past service cost	-	309
Current service cost	8,285	7,268
Interest on obligation	5,365	5,811
	13,650	13,388

The key assumptions used in the calculation of retirement benefit obligation are as follows:

	Lebanon		Switzerland	
	2019	2018	2019	2018
Economic assumptions				
Discount rate (p.a.)	10.50%	8.00%	0.15%	0.90%
Salary increase (p.a.)				
Employees	4.00%	4.00%	1.25%	1.25%
Senior Managers	6.00%	6.00%	1.25%	1.25%
Expected annual rate of return on NSSF contributions	5.00%	5.00%	None	None
Expected future pension increases	None	None	1.25%	1.25%
Treatment of bonus	3-year average as a % of basic	3-year average as a % of basic	3-year average as a % of basic	3-year average as a % of basic
Demographic assumptions				
Retirement age	Earliest of age 64 or completion of 20 contribution years	Earliest of age 64 or completion of 20 contribution years	Age 65 for men and 64 for women	Age 65 for men and 64 for women
Pre-termination mortality	None	None	BVG 2015 + 1.5%	BVG 2015 + 1.5%
Pre-termination turnover rates age related with average of	2.00% – 4.00%	2.00% – 4.00%	4.40% – 28.50%	4.40% – 28.50%

A quantitative sensitivity analysis for significant assumptions is shown below:

	Discount Rate		Future Salary Increase	
	% Increase LBP Million	% Decrease LBP Million	% Increase LBP Million	% Decrease LBP Million
Impact on net defined benefit obligation – 2019	(3,949)	4,272	2,731	(2,132)
Impact on net defined benefit obligation – 2018	(4,119)	4,891	4,288	(3,642)

The sensitivity analysis above was determined based on a method that extrapolates the impact on the defined benefit obligation as a result of 50 basis point changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in

significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

38.0. | SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL

SHARE CAPITAL

The share capital of Bank Audi sal as at 31 December is as follows:

	2019			2018		
	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million
Common shares	399,749,204	667,581	883,582	399,749,204	667,581	883,582
Preferred shares series "H"	750,000	1,252	111,811	750,000	1,252	111,811
Preferred shares series "I"	2,500,000	4,175	372,700	2,500,000	4,175	372,700
Preferred shares series "J"	2,750,000	4,593	409,969	2,750,000	4,593	409,969
	6,000,000	10,020	894,480	6,000,000	10,020	894,480
	405,749,204	677,601	1,778,062	405,749,204	677,601	1,778,062

LISTING OF SHARES

	Stock Exchange	2019	2018
		Number of Shares	Number of Shares
Ordinary shares	Beirut	280,109,443	279,824,443
Global depository receipts	London SEAQ and Beirut	119,639,761	119,924,761
Preferred shares	Beirut	6,000,000	6,000,000
		405,749,204	405,749,204

The Board of Directors has approved the delisting of the global depository receipts from the London SEAQ on 29 July 2020.

1. In its meeting dated 27 July 2018, the Extraordinary General Assembly of shareholders decided to cancel the series "G" preferred shares totaling 1,500,000 shares which have a nominal value of LBP 2,495 million and to simultaneously replenish the share capital accounts by transferring the same amount from general reserves. As a result and for the avoidance of decimals in the share nominal value, the Bank increased its capital up to LBP 677,581 million, by transferring an amount of LBP 2,798 million from free reserves, so that the nominal value per share after the cancellation and capital increase amounted to LBP 1,670. The Bank had issued preferred shares series "G" pursuant to the resolution of the Extraordinary General Assembly held on 15 April 2013, under the following terms:

Preferred shares series "G"

- Number of shares: 1,500,000.
- Share's issue price: USD 100.
- Share's nominal value: LBP 1,299 (later became LBP 1,663 upon increasing the nominal value).
- Issue premium : Calculated in USD as the difference between USD 100 and the countervalue of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non-cumulative dividends of USD 4 per share for the year 2013, and USD 6 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.

2. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 15 April 2013, the Bank issued series "H" preferred shares under the following terms:

Preferred shares series "H"

- Number of shares: 750,000.
- Share's issue price: USD 100.
- Share's nominal value: LBP 1,299 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium : Calculated in USD as the difference between USD 100 and the countervalue of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non-cumulative dividends of USD 4.5 per share for the year 2013, and USD 6.5 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 7 years after issuance, as well as to call them off by that date.

The Extraordinary General Assembly of shareholders held on 21 June 2013 validated and ratified the capital increases according to the aforementioned terms for preferred shares series "H".

3. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 29 November 2016, the Bank issued preferred shares series "I" under the following terms:

Preferred shares series "I"

- Number of shares: 2,500,000.
- Share's issue price: USD 100.
- Share's nominal value: LBP 1,656 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium: Calculated in USD as the difference between USD 100 and the countervalue of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non-cumulative dividends of USD 3 per share for the year 2016, and USD 7 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.
- Conversion: Mandatorily convertible into 15 common shares in case: 1) common equity Tier 1 to risk-weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon; or 2) the Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 21 December 2016 validated and ratified the capital increase according to the aforementioned terms.

4. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 21 July 2017, the Bank issued preferred shares series "J" under the following terms:

Preferred shares series "J"

- Number of shares: 2,750,000.
- Share's issue price: USD 100.
- Share's nominal value: LBP 1,663 (later become LBP 1,670 upon increasing the nominal value).
- Issue premium: Calculated in USD as the difference between USD 100 and the countervalue of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non-cumulative dividends of USD 4 per share for the year 2017, and USD 7 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.
- Conversion: Mandatorily convertible into 15 common shares in case: 1) common equity Tier 1 to risk-weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon; or 2) the Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 27 October 2017 validated and ratified the capital increase according to the aforementioned terms.

WARRANTS ISSUED ON SUBSIDIARY SHARES

During 2014, and in conjunction with the capital increase held during that year, the Bank issued 172.5 million warrants entitling the holders, during the exercise period, to purchase Odea Bank's shares at an exercise price of USD 0.95 per share. The exercise period ended 30 days after 15 May 2019 whereby no warrants were exercised. The warrants were in registered form, detachable and freely tradable.

	2019		2018	
	Number of Warrants Outstanding	Cost LBP Million	Number of Warrants Outstanding	Cost LBP Million
Balance at 31 December	-	-	124,872,304	12,629

PAID DIVIDENDS

In accordance with the resolution of the General Assembly of shareholders held on 12 April 2019, dividends were distributed as follows:

2019			
	Number of Shares	Distribution per Share LBP	Total LBP million
Preferred shares series "H"	750,000	9,799	7,349
Preferred shares series "I"	2,500,000	10,553	26,380
Preferred shares series "J"	2,750,000	10,553	29,021
Common shares	399,749,204	829	331,442
			394,192
Less: dividends on Treasury shares			(964)
			393,228

In accordance with the resolution of the General Assembly of shareholders held on 10 April 2018, dividends were distributed as follows:

2018			
	Number of Shares	Distribution per Share LBP	Total LBP Million
Preferred shares series "G"	1,500,000	9,045	13,568
Preferred shares series "H"	750,000	9,799	7,349
Preferred shares series "I"	2,500,000	10,553	26,380
Preferred shares series "J"	2,750,000	6,030	16,583
Common shares	399,749,204	829	331,442
			395,322

39.0. | CASH CONTRIBUTION TO CAPITAL

In previous years, agreements were entered between the Bank and its shareholders whereby the shareholders granted cash contributions to the Bank amounting to USD 48,150,000 (equivalent to LBP 72,586 million) subject to the following conditions:

- These contributions will remain as long as the Bank performs banking activities;
- If the Bank incurs losses and has to reconstitute its capital, these contributions may be used to cover the losses if needed;

- The shareholders have the right to use these contributions to settle their share in any increase of capital;
- No interest is due on the above contributions;
- The above cash contributions are considered as part of Tier 1 capital for the purpose of determining the Bank's capital adequacy ratio; and
- The right to these cash contributions is for the present and future shareholders of the Bank.

40.0. | NON-DISTRIBUTABLE RESERVES

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	Total LBP Million
Balance at 1 January 2019	659,366	160,978	6,640	108,481	57,234	18,963	908,134	1,919,796
Appropriation of 2018 profits	82,741	606	-	-	44,205	9,851	-	137,403
Transfers between reserves	4,790	131	-	(218)	(36,788)	87	-	(31,988)
Balance at 31 December 2019	746,897	161,715	6,640	108,263	64,651	28,901	908,134	2,025,201

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	Total LBP Million
Balance at 1 January 2018	562,016	420,046	-	665,397	43,023	11,021	18,414	1,719,917
Appropriation of 2017 profits	95,752	2,460	-	71,666	14,211	10,215	-	194,304
Capital increase	-	(2,798)	-	-	-	-	-	(2,798)
Treasury share transaction	-	-	6,640	-	-	-	-	6,640
Transfers between reserves	1,608	(258,730)	-	(628,717)	-	(2,273)	889,720	1,608
Other movements	(10)	-	-	135	-	-	-	125
Balance at 31 December 2018	659,366	160,978	6,640	108,481	57,234	18,963	908,134	1,919,796

LEGAL RESERVE

The Lebanese Commercial Law and the Bank's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve is not available for dividend distribution.

The Bank and different subsidiaries transferred to legal reserve an amount of LBP 82,741 million (2018: LBP 95,752 million) as required by the laws applicable in the countries in which they operate.

RESERVES APPROPRIATED FOR CAPITAL INCREASE

The Group transferred LBP 606 million (2018: LBP 2,460 million) to reserves appropriated for capital increase. This amount represents the net gain on the disposal of fixed assets acquired in settlement of debt, in

addition to reserves on recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

GAIN ON SALE OF TREASURY SHARES

These gains arise from the Global Depository Receipts (GDRs) owned by the Group. Based on the applicable regulations, the Group does not have the right to distribute these gains.

OTHER RESERVES

According to the Central Bank of Lebanon's Main Circular 143, banks in Lebanon are required to transfer to other reserves, the balance of reserves for general banking risks and general reserves for loans and advances (totalling LBP 889,720 million) previously appropriated

in line with the requirements of Decision 7129 and Decision 7776 respectively. This reserve is part of the Group's equity and is not available for distribution.

RESERVE FOR UNREALISED REVALUATION GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As per the Banking Control Commission Circular 296 dated 4 June 2018, banks operating in Lebanon are required to appropriate in a special reserve from their annual net profits the value of gross unrealised profits

on financial assets at fair value through profit or loss. This reserve is not available for dividend distribution until such profits are realised and released to general reserves.

RESERVE FOR FORECLOSED ASSETS

The reserve for foreclosed assets represents appropriation against assets acquired in settlement of debt in accordance with the circulars of the Lebanese Banking Control Commission. Appropriations against assets

acquired in settlement of debt shall be transferred to unrestricted reserves upon the disposal of the related assets.

41.0. | DISTRIBUTABLE RESERVES

	General Reserves LBP Million	Loss on Sale of Subsidiary Warrants LBP Million	Cost of Capital Issued LBP Million	Total LBP Million
Balance at 1 January 2019	447,122	(1,345)	(15,092)	430,685
Sale of an associate	1,626	-	-	1,626
Cancellation of warrants	-	1,345	-	1,345
Transfer between reserves	(3,171)	-	2,630	(541)
Treasury shares transactions	(58)	-	-	(58)
Balance at 31 December 2019	445,519	-	(12,462)	433,507

	General Reserves LBP Million	Loss on Sale of Subsidiary Warrants LBP Million	Cost of Capital Issued LBP Million	Total LBP Million
Balance at 1 January 2018	447,029	(1,345)	(15,092)	430,592
Treasury shares transactions	93	-	-	93
Balance at 31 December 2018	447,122	(1,345)	(15,092)	430,685

42.0. | PROPOSED DIVIDENDS

In accordance with the Central Bank of Lebanon Intermediary Circular 532, the Board of Directors does not propose the payment of dividends for 2019.

43.0. | TREASURY SHARES

	2019		2018	
	Number of Shares	Cost LBP Million	Number of Shares	Cost LBP Million
Balance at 1 January	1,152,594	9,073	10,463,036	94,532
Purchase of Treasury shares	30,488	200	1,274,605	10,141
Sale of Treasury shares	(10,700)	(30)	(10,585,047)	(95,694)
(Loss)/Gain	-	(53)	-	94
Balance at 31 December	1,172,382	9,190	1,152,594	9,073

44.0. | OTHER COMPONENTS OF EQUITY

	2019								Total LBP Million
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Group Share of Associates' Other Comprehensive Income LBP Million	Change in Time Value of Hedging Instruments LBP Million	Cash Flow Hedge Reserve LBP Million		
Balance at 1 January 2019	357,137	(6,319)	(1,567,917)	(13,030)	5,464	-	(19,391)	(1,244,056)	
Other comprehensive income	(19,113)	26,177	(20,793)	4,662	-	-	546	(8,521)	
Sale of financial assets at FVTOCI	-	5,459	-	-	-	-	-	5,459	
Sale of an associate	-	-	-	-	(5,464)	-	-	(5,464)	
Balance at 31 December 2019	338,024	25,317	(1,588,710)	(8,368)	-	-	(18,845)	(1,252,582)	

	2018								Total LBP Million
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Group Share of Associates' Other Comprehensive Income LBP Million	Change in Time Value of Hedging Instruments LBP Million	Cash Flow Hedge Reserve LBP Million		
Balance at 1 January 2018	357,137	877	(1,277,774)	(12,807)	4,546	(11,724)	-	(939,745)	
Impact of adoption of IFRS 9	-	(1,220)	-	-	-	-	-	(1,220)	
Restated balance at 1 January	357,137	(343)	(1,277,774)	(12,807)	4,546	(11,724)	-	(940,965)	
Other comprehensive income	-	(3,160)	(290,143)	(223)	918	11,724	(19,391)	(300,275)	
Sale of financial assets at FVTOCI	-	(2,816)	-	-	-	-	-	(2,816)	
Balance at 31 December 2018	357,137	(6,319)	(1,567,917)	(13,030)	5,464	-	(19,391)	(1,244,056)	

REAL ESTATE REVALUATION RESERVE

Effective 31 December 2014, the Group made a voluntary change in its accounting policy for subsequent measurement of two classes of property and equipment being i) Land and ii) Building and Building Improvements from cost to revaluation model.

CUMULATIVE CHANGES IN FAIR VALUE

The cumulative changes as at 31 December represent the fair value differences from the revaluation of financial assets measured at fair value through other comprehensive income. The movement during the year can be summarised as follows:

	Change in Fair Value LBP Million	Deferred Tax LBP Million	Net LBP Million
Balance at 1 January 2019	(7,543)	1,224	(6,319)
Other comprehensive income	33,767	(7,590)	26,177
Sale of financial assets at FVOCI	5,459	-	5,459
Adjustments	(850)	850	-
Balance at 31 December 2019	30,833	(5,516)	25,317

	318	559	877
Balance at 1 January 2018	318	559	877
Impact of adoption of IFRS 9	(1,220)	-	(1,220)
Other comprehensive income	(4,767)	1,607	(3,160)
Sale of financial assets at FVOCI	(2,607)	(209)	(2,816)
Adjustments	733	(733)	-
Balance at 31 December 2018	(7,543)	1,224	(6,319)

CHANGE IN THE FAIR VALUE OF TIME VALUE OF HEDGING INSTRUMENTS

IFRS 9 (2013) stipulates that the Group may separate the intrinsic value and the time value of a purchased option contract and designate only the change in the intrinsic value as the hedging instrument. The Group adopted this option with a view to enhance hedge effectiveness.

The changes in fair value of the time value of the option in relation to a time-period related hedged item are amortised to profit or loss on a rational basis over the term of the hedging relationship consistent with the Group's accounting policy (Refer to Note 19).

45.0. | GROUP SUBSIDIARIES

A. LIST OF SIGNIFICANT SUBSIDIARIES

The following table shows information related to the significant subsidiaries of the Bank.

	Percentage of Ownership		Country of Incorporation	Principal Activity	Functional Currency
	2019	2018			
Bank Audi France sa	100.00	100.00	France	Banking (Commercial)	EUR
Audi Investment Bank sal	100.00	100.00	Lebanon	Banking (Investment)	LBP
Audi Private Bank sal	100.00	100.00	Lebanon	Banking (Private)	LBP
Banque Audi (Suisse) SA	100.00	100.00	Switzerland	Banking (Private)	CHF
Bank Audi sae	100.00	100.00	Egypt	Banking (Commercial)	EGP
Audi Capital (KSA)	99.99	99.99	Saudi Arabia	Financial Services	SAR
Bank Audi LLC (Qatar)	100.00	100.00	Qatar	Banking Services	QAR
Société Libanaise de Factoring sal	100.00	100.00	Lebanon	Factoring	LBP
Odea Bank A.Ş.	76.42	76.42	Turkey	Banking (Commercial)	TRY
Audi Investments Holding sal	100.00	100.00	Lebanon	Investment	USD

B. SIGNIFICANT RESTRICTIONS

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate.

The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group, and comply with other ratios.

C. NON-CONTROLLING INTERESTS

Odea Bank A.Ş is the only subsidiary of the Group that has a material non-controlling interest with 23.58% equity interests held by non-controlling interests as at 31 December 2019 (2018: the same).

MATERIAL PARTIALLY OWNED SUBSIDIARIES

	Odea Bank A.Ş.	
	2019 %	2018 %
Proportion of equity interests held by non-controlling interests	23.58%	23.58%

Financial information relating to Odea Bank A.Ş. are provided below:

SUMMARISED STATEMENT OF PROFIT OR LOSS

	Odea Bank A.Ş.	
	2019 LBP Million	2018 LBP Million
Net interest income	254,105	341,183
Net fee and commission income	42,813	53,259
Net loss on financial assets at fair value through profit or loss	(10,493)	(2,345)
Net gain on financial assets at fair value through profit and loss	45	-
Revenues from financial assets at fair value through other comprehensive income	-	6
Other operating income	3,861	16,090
Total operating income	290,331	408,193
Net credit losses	(97,518)	(188,007)
Total operating expenses	(168,741)	(214,742)
Profit before tax	24,072	5,444
Income tax	(5,066)	170
Profit for the year	19,006	5,614
Attributable to non-controlling interests	4,482	1,324
Dividends paid to non-controlling interests	-	-

SUMMARISED STATEMENT OF FINANCIAL POSITION

Odea Bank A.Ş.		
	2019	2018
	LBP Million	LBP Million
ASSETS		
Cash and balances with central banks	916,343	1,164,786
Due from banks and financial institutions	769,704	714,368
Loans to banks and financial institutions and reverse repurchase agreements	662,232	197,557
Due from related financial institutions	67,822	0
Derivative financial instruments	352,056	310,526
Financial assets at fair value through profit or loss	1,037	935
Loans and advances to customers at amortised cost	4,184,675	5,309,313
Debtors by acceptances	100,275	186,280
Financial assets at amortised cost	585,715	767,145
Financial assets at fair value through other comprehensive income	290,694	87,237
Property and equipment and right-of-use assets	53,795	24,842
Intangible assets	18,955	18,009
Non-current assets held for sale	149,608	68,247
Other assets	214,508	306,101
TOTAL ASSETS	8,367,419	9,155,346
LIABILITIES		
Due to central banks	1,020	198,789
Due to banks and financial institutions	417,517	867,377
Due to banks under repurchase agreement	42,969	29
Derivative financial instruments	319,477	341,232
Due to related financial institutions	275,083	15,677
Customers' deposits	5,605,084	5,986,751
Deposits from related parties	-	1,396
Debt issued and other borrowed funds	632,364	527,354
Engagements by acceptances	100,275	186,280
Other liabilities	106,942	73,120
Provisions for risks and charges	30,677	36,086
TOTAL LIABILITIES	7,531,405	8,234,091
TOTAL SHAREHOLDERS' EQUITY	836,014	921,255
<i>Of which: non-controlling interests</i>	<i>197,142</i>	<i>217,232</i>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	8,367,419	9,155,346

SUMMARISED CASH FLOW INFORMATION

	2019	2018
	LBP Million	LBP Million
Operating activities	169,707	(305,602)
Investing activities	(144,176)	198,126
Financing activities	142,367	61,793
	168,898	(45,683)

46.0. | CASH AND CASH EQUIVALENTS

	2019	2018
	LBP Million	LBP Million
Cash and balances with central banks	6,204,884	6,276,022
Due from banks and financial institutions	2,177,906	3,787,428
Loans to banks and financial institutions and reverse repurchase agreements	521,653	197,797
Due to central banks	(1,588,706)	(198,709)
Due to banks and financial institutions	(802,690)	(646,593)
	6,513,047	9,415,945

Cash and balances with central banks include amounts of LBP 2,076,309 million at 31 December 2019 (2018: LBP 2,701,621 million) representing mandatory reserve deposits and balances.

47.0. | FAIR VALUE OF FINANCIAL INSTRUMENTS

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

the value of these instruments to the Group as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below:

QUOTED MARKET PRICES – LEVEL 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and

regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

VALUATION TECHNIQUE USING OBSERVABLE INPUTS – LEVEL 2

Financial instruments classified as Level 2 have been valued using models whose most significant inputs are derived directly or indirectly from observable market data. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical

instruments in inactive markets, and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads.

VALUATION TECHNIQUE USING SIGNIFICANT UNOBSERVABLE INPUTS – LEVEL 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs).

FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

Fair value measurement hierarchy of the financial assets and liabilities carried at fair value:

	2019			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	5,981	4,437	-	10,418
Currency swaps	15,908	149,911	-	165,819
Precious metals swaps	88	-	-	88
Currency options	-	59,316	-	59,316
Interest rate swaps	407	43,766	-	44,173
Credit derivatives	-	3,137	-	3,137
Equity options	5,638	-	-	5,638
<i>Derivatives held to hedge net investments in foreign operations</i>				
Currency swaps	2,335	-	-	2,335
	30,357	260,567	-	290,924
Financial assets at fair value through profit or loss				
<i>Lebanese Sovereign and Central Bank of Lebanon</i>				
Treasury bills	-	722	-	722
Eurobonds	36	-	-	36
<i>Other sovereign</i>				
Treasury bills and bonds	1,038	-	-	1,038
<i>Private sector and other securities</i>				
Banks and financial institutions	294,053	-	-	294,053
Loans and advances to customers	-	18,157	-	18,157
Mutual funds	3,247	9,647	54,177	67,071
Equity instruments	5	-	-	5
	298,379	28,526	54,177	381,082
Financial assets designated at fair value through other comprehensive income				
<i>Debt instruments</i>				
<i>Other sovereign</i>				
Treasury bills	115,230	798,585	-	913,815
Eurobonds	157,117	-	-	157,117
<i>Private sector and other securities</i>				
Banks and financial institutions	15,180	-	-	15,180
<i>Equity instruments</i>				
Quoted	176	-	-	176
Unquoted	-	2,153	66,452	68,605
	287,703	800,738	66,452	1,154,893
	616,439	1,089,831	120,629	1,826,899

	2019			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL LIABILITIES				
Derivative financial instruments				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	9,060	8,848	-	17,908
Forward precious metals contracts	29	-	-	29
Currency swaps	15,500	123,546	-	139,046
Precious metals swaps	2,652	-	-	2,652
Currency options	-	11,894	-	11,894
Interest rate swaps	412	29,992	-	30,404
Equity options	4,087	-	-	4,087
<i>Derivatives held as cash flow hedge</i>				
Interest rate swaps	-	8,377	-	8,377
<i>Derivatives held for fair value hedge</i>				
Interest rate swaps	-	157,705	-	157,705
	31,740	340,362	-	372,102
Customers' deposits – sight	303,997	-	-	303,997
	335,737	340,362	-	676,099

	2018			Total LBP Million
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	
FINANCIAL ASSETS				
Derivative financial instruments				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	3,756	30,991	-	34,747
Currency swaps	13,374	173,312	-	186,686
Currency options	-	106,018	-	106,018
Interest rate swaps	359	16,449	-	16,808
Credit derivatives	-	54,486	-	54,486
Equity options	15,908	-	-	15,908
<i>Derivatives held to hedge net investments in foreign operations</i>				
Currency swaps	4,300	-	-	4,300
<i>Derivatives held as cash flow hedge</i>				
Interest rate swaps	-	796	-	796
	37,697	382,052	-	419,749
Financial assets at fair value through profit or loss				
<i>Lebanese Sovereign and Central Bank of Lebanon</i>				
Treasury bills	-	149	-	149
Eurobonds	5,094	-	-	5,094
<i>Other sovereign</i>				
Treasury bills and bonds	935	-	-	935
<i>Private sector and other securities</i>				
Banks and financial institutions	69,681	-	-	69,681
Loans and advances to customers	-	37,233	-	37,233
Mutual funds	2,284	4,098	51,913	58,295
Equity instruments	5	-	48,730	48,735
	77,999	41,480	100,643	220,122
Financial assets designated at fair value through other comprehensive income				
<i>Debt instruments</i>				
<i>Other sovereign</i>				
Treasury bills	84,463	1,099,327	-	1,183,790
<i>Equity instruments</i>				
Quoted	1,520	-	-	1,520
Unquoted	-	1,201	70,924	72,125
	85,983	1,100,528	70,924	1,257,435
	201,679	1,524,060	171,567	1,897,306
FINANCIAL LIABILITIES				
Derivative financial instruments				
<i>Derivatives held for trading</i>				
Forward foreign exchange contracts	3,539	16,612	-	20,151
Forward precious metals contracts	68	-	-	68
Currency swaps	16,261	162,271	-	178,532
Precious metals swaps	2,582	-	-	2,582
Currency options	-	75,163	-	75,163
Interest rate swaps	-	28,470	-	28,470
Equity options	15,907	-	-	15,907
<i>Derivatives held as cash flow hedge</i>				
Interest rate swaps	-	36,736	-	36,736
<i>Derivatives held for fair value hedge</i>				
Interest rate swaps	-	50,644	-	50,644
	38,357	369,896	-	408,253
Customers' deposits – sight	98,431	-	-	98,431
	136,789	369,896	-	506,684

VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3

Interest Rate Derivatives

Interest rate derivatives include interest rate swaps and interest rate options. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations by estimating future cash flows and discounting them with the appropriate yield curves incorporating funding costs relevant for the position. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case they are Level 3. The Group does not have interest rate derivatives classified as Level 3.

Foreign Exchange Derivatives

Foreign exchange contracts include open spot contracts, foreign exchange forward and swap contracts, and over-the-counter foreign exchange options. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Group classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole). The Group does not have foreign exchange derivatives classified as Level 3.

Government Bonds, Certificates of Deposit and Other Debt Instruments

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. The Group does not have Level 3 government bonds, certificates of deposit and other debt instruments.

The movement of items recurrently measured at fair value categorised within Level 3 during the year is as follows:

	2019		2018	
	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million
FINANCIAL ASSETS				
Balance at 1 January	100,643	70,924	53,959	140,117
Re-measurement recognised in other comprehensive income	-	4,331	-	4,494
Re-measurement recognised in the income statement	-	-	10,225	-
Transfers	-	-	37,688	(37,688)
Purchases	-	4,673	-	6,569
Sales	(46,466)	(13,158)	(1,229)	(42,137)
Foreign exchange difference	-	(318)	-	(431)
Balance at 31 December	54,177	66,452	100,643	70,924

Loans and Advances to Customers at Fair Value through Profit or Loss

The fair value of loans and advances to customers that fall in this category is estimated using discounted cash flows by applying current market rates for new loans with similar remaining maturities and to counterparties with similar credit risk. The Group does not have Level 3 loans and advances to customers at fair value through profit or loss.

Funds and Equity Shares of Non-listed Entities

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

Equity shares of non-listed entities comprise mainly the Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value. Classification between Level 2 and Level 3 is based on whether the financial statements of the investee are recent and published or not. These instruments are fair valued using third-party information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93 (d).

FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

COMPARISON OF CARRYING AND FAIR VALUES FOR FINANCIAL ASSETS AND LIABILITIES NOT HELD AT FAIR VALUE

The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Group's financial instruments not measured at fair value. Other institutions may use different methods

and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

FINANCIAL ASSETS AND LIABILITIES CONCENTRATED IN LEBANON

These assets consist of balances with the Central Bank of Lebanon and Lebanese banks, Lebanese government securities, loans and advances to customers and related parties and customers' deposits. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities,

and credit spreads. Due to the situation described in Note 1 and to the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, Management is unable to produce a faithful estimation of the fair value of these financial assets and liabilities. Accordingly, the table below does not include fair value disclosures for these assets and liabilities.

FAIR VALUE MEASUREMENT HIERARCHY OF THE FINANCIAL ASSETS AND LIABILITIES FOR WHICH FAIR VALUE IS DISCLOSED

31 December 2019	Carrying Value		Fair Value			Total LBP Million
	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	LBP Million	
FINANCIAL ASSETS						
Cash and balances with central banks	4,419,227	165,378	4,253,864	-	-	4,419,242
Due from banks and financial institutions	2,153,140	-	2,152,890	-	-	2,152,890
Loans to banks and financial institutions and reverse repurchase agreements	689,984	-	689,984	-	-	689,984
Net loans & advances to customers	9,692,435	-	-	9,677,567	-	9,677,567
<i>Corporate and SME</i>	7,136,188	-	-	7,087,364	-	7,087,364
<i>Retail and Personal Banking</i>	2,339,670	-	-	2,373,626	-	2,373,626
<i>Public sector</i>	216,577	-	-	216,577	-	216,577
Net loans & advances to related parties	2,703	-	-	2,775	-	2,775
<i>Corporate and SME</i>	-	-	-	-	-	-
<i>Retail and Personal Banking</i>	2,703	-	-	2,775	-	2,775
Financial assets classified at amortised cost	1,809,593	584,503	1,258,163	-	-	1,842,666
<i>Other sovereign</i>	1,622,790	400,742	1,249,890	-	-	1,650,632
<i>Private sector and other securities</i>	186,803	183,761	8,273	-	-	192,034
	18,767,082	749,881	8,354,901	9,680,342	-	18,785,124
FINANCIAL LIABILITIES						
Due to central banks	45,481	-	45,481	-	-	45,481
Due to banks and financial institutions	905,120	-	905,102	-	-	905,102
Due to banks under repurchase agreements	42,969	-	42,969	-	-	42,969
Customers' deposits	16,097,053	-	16,114,456	-	-	16,114,456
Deposits from related parties	92,662	-	92,655	-	-	92,655
Debt issued and other borrowed funds	632,364	340,907	197,581	-	-	538,488
	17,815,649	340,907	17,398,244	-	-	17,739,151

31 December 2018	Carrying Value	Fair Value				Total LBP Million
	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million		
FINANCIAL ASSETS						
Cash and balances with central banks	3,251,057	182,213	3,068,142	-	-	3,250,355
Due from banks and financial institutions	3,627,001	-	3,627,047	-	-	3,627,047
Loans to banks and financial institutions and reverse repurchase agreements	247,884	-	224,884	-	-	224,884
Net loans & advances to customers	11,139,447	-	-	11,084,862	-	11,084,862
<i>Corporate and SME</i>	8,583,044	-	-	8,516,879	-	8,516,879
<i>Retail and Personal Banking</i>	2,281,473	-	-	2,293,051	-	2,293,051
<i>Public sector</i>	274,930	-	-	274,932	-	274,932
Net loans & advances to related parties	594	-	-	635	-	635
<i>Corporate and SME</i>	311	-	-	311	-	311
<i>Retail and Personal Banking</i>	283	-	-	324	-	324
Financial assets classified at amortised cost	1,860,304	970,931	887,567	-	-	1,858,498
<i>Other sovereign</i>	1,550,425	659,157	887,567	-	-	1,546,724
<i>Private sector and other securities</i>	309,879	311,774	-	-	-	311,774
	21,126,287	1,153,144	7,807,640	11,085,497	-	20,046,281
FINANCIAL LIABILITIES						
Due to central banks	198,789	-	198,789	-	-	198,789
Due to banks and financial institutions	1,356,349	-	1,356,730	-	-	1,356,730
Due to banks under repurchase agreements	1,304	-	1,304	-	-	1,304
Customers' deposits	15,554,830	-	15,475,239	-	-	15,475,239
Deposits from related parties	22,656	-	22,604	-	-	22,604
Debt issued and other borrowed funds	526,930	349,528	59,258	-	-	408,786
	17,660,858	349,528	17,113,924	-	-	17,463,452

VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3

Short-term Financial Assets and Liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity.

Deposits with Banks and Loans and Advances to Banks

For the purpose of this disclosure, for financial assets that are short-term in nature or have interest rates that reprice frequently, there is minimal difference between fair value and carrying amount. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality. Where market data or credit information on the underlying borrower is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rate.

Reverse Repurchase and Repurchase Agreements

The fair value of reverse repurchase agreements approximates carrying amount as these balances are generally short-dated and fully collateralised.

Government Bonds, Certificates of Deposit and Other Debt Securities

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

Loans and Advances to Customers

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers that do not fall in this category is estimated using discounted cash flows by applying current rates to new loans with similar remaining maturities and to counterparties with similar credit quality.

Deposits from Banks and Customers

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, is estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities. Where market data is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rate.

Debt Issued and Other Borrowed Funds

Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

48.0. | CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

CREDIT-RELATED COMMITMENTS AND CONTINGENT LIABILITIES

The Group enters into various commitments, guarantees and other contingent liabilities which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses

the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients' default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

	2019		
	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	77,874	715,024	792,898
Other guarantees	14,018	1,101,480	1,115,498
	91,892	1,816,504	1,908,396
Commitments			
Documentary credits	-	663,645	663,645
Loan commitments	-	3,873,428	3,873,428
Of which revocable	-	3,237,199	3,237,199
Of which irrevocable	-	636,229	636,229
		4,537,073	4,537,073

	2018		
	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	79,546	771,821	851,367
Other guarantees	15,128	1,277,842	1,292,970
	94,674	2,049,663	2,144,337
Commitments			
Documentary credits	-	420,241	420,241
Loan commitments	-	4,756,412	4,756,412
Of which revocable	-	4,202,570	4,202,570
Of which irrevocable	-	553,842	553,842
		5,176,653	5,176,653

GUARANTEES (INCLUDING STANDBY LETTERS OF CREDIT)

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and

- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These mainly include performance and tender guarantees.

DOCUMENTARY CREDITS

Documentary credits commit the Group to make payments to third parties, on production of documents which are usually reimbursed immediately by customers.

LOAN COMMITMENTS

Loan commitments are defined amounts (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

INVESTMENT COMMITMENTS

The Group invested in funds pursuant to the provisions of Decision No. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to

supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LBP 21,029 million as of 31 December 2019 (2018: LBP 21,354 million).

LEGAL CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such claims, many of which are beyond its control. At year-end, the Group had several unresolved legal claims including: those relating to the restrictive measures and capital controls in place; and a civil action filed in US federal courts in the US District Court in the Eastern District of New York (EDNY) against eleven Lebanese banks including Bank Audi sal, asserting primary and secondary liability claims under the Anti-Terrorism Act ("ATA").

The extent of the impact of these matters cannot always be predicted but may materially impact the Group's operations, financial results, condition and prospects. However, once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on advice from legal counsel, and despite the novelty of certain claims and the uncertainties inherent in their unique situation, Management believes that legal claims will not result in any material financial loss to the Group, except as provided for in Note 37.

CAPITAL EXPENDITURE COMMITMENTS

	2019 LBP Million	2018 LBP Million
Capital expenditure commitments	12,306	25,706

COMMITMENTS RESULTING FROM CREDIT FACILITIES RECEIVED

The Group has the following commitments resulting from the credit facilities received from non-resident financial institutions:

- The net past due loans (after the deduction of provisions) should not exceed 5 percent of the net credit facilities granted.
- The allowance for expected credit losses for past due loans should not fall below 70 percent of the past due loans.

- The net credit-impaired loans should not exceed 20 percent of the Tier 1 capital.
- Sustaining a liquidity ratio exceeding 115 percent.
- Sustaining a capital adequacy exceeding the minimum ratio as per the regulations applied by the Central Bank of Lebanon and the requirements of the Basel agreements to the extent it is applied by the Central Bank of Lebanon.

OTHER COMMITMENTS AND CONTINGENCIES

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank's books in Lebanon for the years 2015 to 2017 (inclusive) are currently under review by the tax authorities. The outcome of this review cannot be determined yet. The Bank's books in Lebanon remain subject to the review of the tax authorities for the year 2018 and

the review of the National Social Security Fund (NSSF) for the period from 30 September 2011 to 31 December 2019. In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

49.0. | ASSETS UNDER MANAGEMENT

Assets under management include client assets managed or deposited with the Group. For the most part, the clients decide how these assets are to be invested.

	2019 LBP Million	2018 LBP Million
Assets under management	13,169,267	15,292,527
Fiduciary assets	3,428,141	3,097,179
	16,597,408	18,389,706

50.0. | RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls

both. The definition includes subsidiaries, associates, Key Management Personnel and their close family members, as well as entities controlled or jointly controlled by them.

SUBSIDIARIES

Transactions between the Bank and its subsidiaries meet the definition of related-party transactions. However, where these are eliminated on

consolidation, they are not disclosed in the Group's financial statements.

ASSOCIATES AND OTHER ENTITIES

The Group provides banking services to its associates and to entities under common directorships. As such, loans, overdrafts, interest and non-interest bearing deposits, and current accounts are provided to these entities, as well as other services. These transactions are conducted

on the same terms as third-party transactions. Summarised financial information for the Group's associates is set out in Note 25 to these financial statements.

Amounts included in the Group's financial statements are as follows:

	2019 LBP Million	2018 LBP Million
Loans and advances	140,489	153,671
<i>Of which: granted to Key Management Personnel</i>	23,232	15,879
<i>Of which: cash collateral received against loans</i>	87,944	115,068
Indirect facilities	1,853	156
Deposits	276,310	396,114
Interest income on loans	6,083	7,883
Interest expense on deposits	15,852	26,756

KEY MANAGEMENT PERSONNEL

Key Management Personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Group and its employees. The Group

considers the members of the Board of Directors (and its sub-committees) and Executive Committee, and persons and entities connected to them to be Key Management Personnel.

	2019 LBP Million	2018 LBP Million
Short-term benefits	40,183	39,272
Post-employment benefits	862	2,567

Short-term benefits comprise of salaries, bonuses, attendance fees and other benefits.

Provision for end of service benefits of Key Management Personnel amounted to LBP 2,819 million as of 31 December 2019 (2018: LBP 4,190 million).

51.0. | RISK MANAGEMENT

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

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

- Other risks faced by the Group include concentration risk, reputation risk, legal risk, political risk and business/strategic risk.

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

BOARD OF DIRECTORS

The Board of Directors (the Board) is ultimately responsible for setting the level of acceptable risks to which the Group is exposed, and as such, defines the risk appetite and approves the risk policies for the Group. The Board monitors the risk profile in comparison to the risk appetite on a

regular basis and follow-up on existing and emerging risks. A number of Management committees and departments are also responsible for various levels of risk management, as set out below.

BOARD GROUP RISK COMMITTEE

The role of the Board's Group Risk Committee (BGRC) is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the group risk policies and risk appetite, monitor the Group's risk profile, review stress test scenarios and results,

and provide access for the Group Chief Risk Officer (CRO) to the Board. The BGRC meets at least every quarter in the presence of the Group CRO.

EXECUTIVE COMMITTEE

The mandate of the Executive Committee is to support the Board in the implementation of its strategy, to support the Group CEO in the day-to-day management of the Group, as well as to develop and

implement business policies and issue guidance for the Group within the strategy approved by the Board. The Executive Committee is involved in reviewing and submitting to the Board the risk policies and risk appetite.

ASSET LIABILITY COMMITTEE

The Asset Liability Committee (ALCO) is a Management committee responsible in part for managing market risk exposures, liquidity, funding needs and contingencies. It is the responsibility of this committee to set up strategies for managing market risk and liquidity exposures and

ensuring that Treasury implements those strategies so that exposures are managed in a manner consistent with the risk policy and limits approved by the Board.

INTERNAL AUDIT

Risk management processes are independently audited by the Internal Audit Department at least annually. This includes the examination of both the adequacy and effectiveness of risk control procedures. Internal Audit

discusses the results of its assessments with Management and reports its findings and recommendations to the Audit Committee of the Board.

RISK MANAGEMENT

Risk Management is a function independent from business lines and headed by the CRO. The function has the responsibility to ensure that risks are properly identified, measured, monitored, controlled, and reported to heads of business lines, Senior Management, ALCO, the Board Risk Committee and the Board. In addition, the function works closely with Senior Management to ensure that proper controls and mitigants are

RISK APPETITE

The Risk appetite reflects the level and type of risk that the Group is willing to accept, taking into account the Group's strategy market environment and regulatory constraints.

Risk appetite is formalised in a document which is reviewed by the Executive Committee and the Board Group Risk Committee, and approved by the Board. This document comprises qualitative and quantitative statements of risk appetite and includes key risk indicators covering various risk types.

52.0. | CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its obligors or counterparties fail to meet their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including bank placements, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities

CREDIT RISK MANAGEMENT

Credit risk appetite and limits are set at the Group level by the Board and are cascaded to entities. The Group manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and for geographical and sector concentrations, and by monitoring exposures in relation to such limits.

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

The Group has established various credit quality review processes for the early detections of changes in borrowers' creditworthiness. These processes include regular portfolio reviews held for each business line and entity, as well as individual credit assessments held for non-retail obligors on certain frequencies. The credit quality review processes allow the Group the early identification of problematic borrowers and consequently to take proactive corrective actions.

in place. The Risk function at the Group level has the responsibility of drafting risk policies and principles for adoption at the entity level. In addition, it is in charge of cascading risk appetite to entities and business lines, as well as monitoring and aggregating risks across the Group.

Information independently compiled from all business lines and risk-taking units is examined and aggregated in order to identify and measure the risk profile. The results are reported and presented on a regular basis to the Management and to the Board.

(including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. In the case of credit derivatives, the Group is also exposed to the risk of default of the derivative's counterparty.

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

During 2019, the economic situation in Lebanon exerted significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types. In order to address the challenging operating conditions, the Group has implemented a series of remedial actions that included: i) risk deleveraging by reducing its assets size, ii) increasing collection capacity across various business lines, iii) increasing specific and collective provision coverages, and iv) setting-up an independent, centralised and specialised remedial function to proactively manage borrowers showing weak or deteriorating credit profiles and not yet classified Stage 3.

EXPECTED CREDIT LOSSES

GOVERNANCE AND OVERSIGHT OF EXPECTED CREDIT LOSSES

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

The Group reviews its IFRS 9 Impairment Policy on annual basis at least, and amends it when necessary to ensure adherence to accounting standards, evolving methodologies and regulatory requirements.

Key judgments inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.

ECL is estimated using a model that takes into account the borrower's exposure, internal obligor risk rating, facility characteristics, and collateral information among other. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs. To manage the model risks, the Group has established

DEFINITION OF DEFAULT AND CURE

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

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

As part of the qualitative assessment process of default identification, the Group carefully considers other criteria than the ones listed above in order to determine if an exposure should be classified in Stage 3 for ECL calculation purpose or if a Stage 2 classification is deemed more appropriate.

THE GROUP'S INTERNAL RATING AND PD ESTIMATION PROCESS

Central Banks, Sovereigns and Financial Institutions

For central banks, sovereigns and financial institutions' exposures, ratings from recognised external rating agencies are used and mapped to their corresponding PDs as reported by these agencies. These ratings with their corresponding PDs are monitored and updated on a regular basis. Following the issuance on 3 February 2020 of BdL Intermediary Circular 543, the expected credit losses on exposures in foreign currency to the Lebanese Sovereign and Central Bank of Lebanon as at 31 December 2019 figures are subject to maximum levels of 9.45% and 1.89% respectively, and those in Lebanese Pounds are subject to maximum level of 0%.

a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models are validated by a qualified independent party to the model development unit, before first use and at regular intervals thereafter.

Each model is designated an owner who is responsible for: i) monitoring the performance of the model, which includes comparing estimated ECL versus actual realised losses; and ii) proposing post-model development adjustments to enhance model's accuracy or to account for situations where known or expected risk factors and information have not been considered in the modelling process. Models used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data, reconciliation with finance data, and documentation of the calculation steps.

ECL estimation takes into account a range of future economic scenarios, which are set by economists within the Group's Research Department using independent models and expert judgment. Economic scenarios, with their corresponding probabilities of occurrence, are updated at minimum annually, as well as in the event of a significant change in the prevailing economic conditions.

It is the Group's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case-by-case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed; ii) three consecutive payments under the new repayment schedule have been made; iii) the borrower has no past dues under any obligation to the Group; and iv) all the terms and conditions agreed to as part of the restructuring agreement have been met.

Non-retail Loans

The Risk function is responsible for the development of internal rating models, and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Group uses an internal rating scale comprised of 19 performing grades and 3 non-performing grades. The grades generated by internal rating models are calibrated to PDs using historical default observations that are specific to each geography and business line segment. If historical default observations are not sufficient for a reliable PD estimation, then a low-default portfolio approach is adopted. The mapping of ratings to PDs, which is done initially on a through-the-cycle basis, is then adjusted to a point-in-time basis and to incorporate forward-looking information in line with the IFRS 9 standard.

Internal rating models for the Group's key lending portfolios including Corporate and SME obligors incorporate both qualitative and quantitative criteria such as:

- Historical and projected financial information prepaid by the customer. These include debt service coverage, operations, liquidity and capital structure and any other relevant ratios to measure performance.
- Account behaviour, repayment history and other non-financial information such as management quality, company standing and industry risk.
- Any publicly available information related to the clients from external parties. This includes external credit ratings issued by recognised rating agencies, independent analyst reports and other market disclosures.
- Macro economic information such as GDP growth relevant for the geography where the customer operates.
- Other supporting information on the obligor's willingness and capacity to repay.

Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Review and Credit Risk functions, which are independent from business lines. Credit Review and Credit Risk functions are responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

LOSS GIVEN DEFAULT (LGD)

LGD is the magnitude of the likely loss in the event of a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties that are fully settled, as well as on the potential future recoveries on defaulted counterparties that still have

EXPOSURE AT DEFAULT (EAD)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is its gross carrying amount at the time of

SIGNIFICANT INCREASE IN CREDIT RISK

The Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition, using reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information based on the Group's historical experience and expert credit assessment including forward-looking information. The Group assessment of significant increase in credit risk is being performed at least quarterly based on the following:

Non-retail Portfolio

Migration of obligor risk rating by a certain number of notches from origination to reporting date as a key indicator of the change in the risk of default at origination with the risk of default at reporting date. The Group also considers in its assessment of significant increase in credit risk various qualitative factors including significant adverse changes in the business

Retail Loans and Private Banking

Retail lending comprises mainly of personal loans, car loans, credit cards and housing loans. The Group relies on application scorecards to score retail applicants and for either, the automation of decisions according to a certain cut-off score or as an additional input to support the approval or reject decision by specialised credit officers. The Group also relies on behavioural scorecard to predict the probability of default of retail borrowers within a specific timeframe. This scorecard was developed using the repayment history of retail borrowers, as well as other predictive factors. For the estimation of expected losses for retail products, the Group uses the loss approach by product based on the net flow of exposures from one days-past-due bucket to another. This estimation is adjusted by a forward-looking component in line with the IFRS 9 standard.

Private Banking credit exposures are mainly related to margin lending activities, where the Group typically holds traded securities as collateral with relatively high margin coverage ratios. These exposures are considered to have a low credit risk level. The Group estimates ECLs based on collateral types covering these exposures.

outstanding balances. LGD estimation is dependent on the counterparty and collateral type, as well as recovery costs. For portfolios with limited historical data, external benchmark information is used to supplement the internally available data.

default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

condition, restructuring due to credit quality weakness during the past 12 months, and classification of an exposure under the "Follow-up and Regularisation" supervisory classification.

Retail Portfolio

For retail, the Group considers specific conditions that might be indicative of a significant increase in credit risk such as a restructuring event. The Group has also identified thresholds using historical default rates and historical payment behaviour to determine significant increase in credit risk.

Backstop

As a backstop, the financial instrument is considered to have experienced a significant increase in credit risk if the obligor is more than 30 days past-due on his contractual payment.

Downgrade from Stage 2 to Stage 3 is based on whether financial assets are credit-impaired at the reporting date.

EXPECTED LIFE

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the

FORWARD-LOOKING INFORMATION

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition, and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario and two less likely scenarios, one upside and one downside, each assigned a specific probability of occurrence. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. These scenarios, including the weights attributable to them, are prepared by economists within the Research Department. They are determined using a combination of expert judgment and model output. The Group reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

MODIFIED AND FORBORNE LOANS

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in, the *Summary of Significant Accounting Policies above*.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Group's

The table below includes Stages 2 and 3 assets that were modified and, therefore, treated as forborne during the year.

	2019 LBP Million	2018 LBP Million
Amortised costs of financial assets modified during the period	573,581	895,215

contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default, and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The Group has identified the real GDP growth among other, as the key driver of ECL for several countries where it operates. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. With respect to countries other than Lebanon, the impact on ECL is not material. With respect to Lebanon, the environment is subject to rapid change due to the effects of the economic crisis and uncertainties disclosed in Note 1. Forecasts and scenarios are based on the best available information at the reporting date, combined with expert judgment. It is not practical at this time to determine and provide sensitivity analysis that is reasonably possible.

forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on his debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk.

FINANCIAL ASSETS AND EXPECTED CREDIT LOSSES BY STAGE

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

	Gross Exposure				Impairment Allowance				Net Exposure LBP Million
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	
31 December 2019									
Central banks	4,256,133	18,584,465	-	22,840,598	2,283	174,282	-	176,565	22,664,033
Due from banks and financial institutions	2,153,548	24,779	1,166	2,179,493	746	13	828	1,587	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	690,011	13,002	-	703,013	27	2,529	-	2,556	700,457
Loans and advances to customers at amortised cost	12,103,964	3,018,288	2,304,771	17,427,023	99,757	455,034	1,410,561	1,965,352	15,461,671
<i>Corporate and SME</i>	7,129,670	2,635,760	1,816,118	11,581,548	84,763	297,001	1,055,332	1,437,096	10,144,452
<i>Retail and Personal Banking</i>	4,772,667	355,252	417,153	5,545,072	13,643	156,332	350,644	520,619	5,024,453
<i>Public sector</i>	201,627	27,276	71,500	300,403	1,351	1,701	4,585	7,637	292,766
Loans and advances to related parties at amortised cost	140,556	-	-	140,556	67	-	-	67	140,489
Financial assets at amortised cost	1,810,987	6,359,667	5,310,281	13,480,935	1,393	105,072	1,055,526	1,161,991	12,318,944
Financial guarantees and other commitments	3,662,133	177,008	26,708	3,865,849	21,240	6,520	12,314	40,074	3,825,775
Total	24,817,332	28,177,209	7,642,926	60,637,467	125,513	743,450	2,479,229	3,348,192	57,289,275

	Gross Exposure				Impairment Allowance				Net Exposure LBP Million
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	
31 December 2018									
Central banks	24,325,581	-	-	24,325,581	47,269	-	-	47,269	24,278,312
Due from banks and financial institutions	3,843,417	-	1,149	3,844,566	129	-	811	940	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	266,764	-	-	266,764	119	-	-	119	266,645
Loans and advances to customers at amortised cost	16,568,992	3,310,960	1,169,619	21,049,571	80,892	385,396	736,317	1,202,605	19,846,966
<i>Corporate and SME</i>	10,742,286	2,905,826	924,942	14,573,054	64,958	360,077	534,549	959,584	13,613,470
<i>Retail and Personal Banking</i>	5,461,593	405,134	242,842	6,109,569	11,157	25,319	199,933	236,409	5,873,160
<i>Public sector</i>	365,113	-	1,835	366,948	4,777	-	1,835	6,612	360,336
Loans and advances to related parties at amortised cost	153,688	-	-	153,688	17	-	-	17	153,671
Financial assets at amortised cost	17,832,795	-	-	17,832,795	44,261	-	-	44,261	17,788,534
Financial guarantees and other commitments	3,308,064	199,263	25,718	3,533,045	10,872	5,057	12,517	28,446	3,504,599
Total	66,299,301	3,510,223	1,196,486	71,006,010	183,559	390,453	749,645	1,323,657	69,682,353

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of loans and advances at amortised cost:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2019	80,892	385,396	736,317	1,202,605
Net re-measurements and reallocations	27,256	97,734	834,138	959,128
Recoveries	-	-	(112,017)	(112,017)
Write-offs	-	-	(67,491)	(67,491)
Other movements	-	-	48,377	48,377
Foreign exchange difference	(8,391)	(28,096)	(28,763)	(65,250)
Balance at 31 December 2019	99,757	455,034	1,410,561	1,965,352

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity was LBP 863,842 million at 31 December 2019 (2018: LBP 847,449 million).

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of financial assets at amortised cost:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2019	44,261	-	-	44,261
Net re-measurements and reallocations	(40,202)	105,056	905,084	969,938
Other movements	-	-	148,535	148,535
Foreign exchange difference	(2,666)	16	1,907	(743)
Balance at 31 December 2019	1,393	105,072	1,055,526	1,161,991

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of balances with central banks:

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2019	47,269	-	-	47,269
Net re-measurements and reallocations	(44,060)	130,582	-	86,522
Other movements	(1,077)	43,700	-	42,623
Foreign exchange difference	151	-	-	151
Balance at 31 December 2019	2,283	174,282	-	176,565

Net re-measurements and reallocations include re-measurements as a result of changes in the size of portfolios, reclassifications between stages and risk parameter changes.

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2018	101,917	512,906	549,448	1,164,271
Net re-measurements and reallocations	(8,685)	(29,170)	473,983	436,128
Recoveries	-	-	(100,995)	(100,995)
Write-offs	-	-	(159,934)	(159,934)
Other movements	-	-	42,762	42,762
Foreign exchange difference	(12,340)	(98,340)	(68,947)	(179,627)
Balance at 31 December 2018	80,892	385,396	736,317	1,202,605

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2018	44,273	-	-	44,273
Net re-measurements and reallocations	1,313	-	-	1,313
Foreign exchange difference	(1,325)	-	-	(1,325)
Balance at 31 December 2018	44,261	-	-	44,261

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2018	51,533	-	-	51,533
Net re-measurements and reallocations	(4,248)	-	-	(4,248)
Foreign exchange difference	(16)	-	-	(16)
Balance at 31 December 2018	47,269	-	-	47,269

ANALYSIS OF RISK CONCENTRATIONS

GEOGRAPHICAL LOCATION ANALYSIS

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

	2019									
	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the World LBP Million	Total LBP Million
Balances with central banks	18,410,184	867,610	2,483,608	902,631	-	-	-	-	-	22,664,033
Due from banks and financial institutions	24,766	141,724	343,072	1,206,197	458,165	3,972	10	-	-	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	10,473	675,801	14,183	-	-	-	-	-	-	700,457
Derivative financial instruments	9,073	22,155	1,372	221,164	37,160	-	-	-	-	290,924
Financial assets at fair value through profit or loss	758	1,038	-	312,210	-	-	-	-	-	314,006
Loans and advances to customers at amortised cost	5,769,236	4,106,353	4,378,633	342,421	261,053	121,046	383,494	49,130	50,305	15,461,671
Loans and advances to related parties at amortised cost	137,786	-	1,753	933	17	-	-	-	-	140,489
Debtors by acceptances	68,410	100,275	476,401	764	-	-	11,729	-	-	657,579
Financial assets at amortised cost	10,509,351	343,135	1,313,365	49,639	60,960	15,108	-	-	27,386	12,318,944
Financial assets at fair value through other comprehensive income	-	272,346	798,586	-	-	7,781	7,399	-	-	1,086,112
Other assets	1,252,316	137,921	21,093	20,972	-	-	-	-	-	1,430,302
	36,190,353	6,668,358	9,832,066	3,056,931	817,355	147,907	402,632	49,130	77,691	57,242,423

	2018									
	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the World LBP Million	Total LBP Million
Balances with central banks	21,209,467	1,114,658	1,183,747	770,440	-	-	-	-	-	24,278,312
Due from banks and financial institutions	216,625	319,794	372,789	2,099,302	808,426	26,559	131	-	-	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	18,761	228,471	19,413	-	-	-	-	-	-	266,645
Derivative financial instruments	58,031	39,801	5,458	259,951	50,643	1,379	3,529	-	957	419,749
Financial assets at fair value through profit or loss	5,243	935	-	106,914	-	-	-	-	-	113,092
Loans and advances to customers at amortised cost	8,707,519	5,183,348	4,559,686	494,208	248,521	118,497	453,816	51,861	29,510	19,846,966
Loans and advances to related parties at amortised cost	153,077	-	406	183	5	-	-	-	-	153,671
Debtors by acceptances	157,068	186,374	53,729	10,189	-	2,473	4,792	-	-	414,625
Financial assets at amortised cost	15,928,230	557,514	1,075,151	90,140	46,064	75,320	-	-	16,115	17,788,534
Financial assets at fair value through other comprehensive income	-	84,463	1,099,327	-	-	-	-	-	-	1,183,790
Other assets	322,280	179,783	34,150	17,899	-	-	-	-	-	554,112
	46,776,301	7,895,141	8,403,856	3,849,226	1,153,659	224,228	462,268	51,861	46,582	68,863,122

INDUSTRIAL ANALYSIS

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

	2019									Total LBP Million
	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million	Retail and Wholesale LBP Million	Construction and Materials LBP Million	Manufacturing LBP Million	Energy and Petroleum LBP Million	Services and Utilities LBP Million	Agriculture LBP Million	
Balances with central banks	-	22,664,033	-	-	-	-	-	-	-	22,664,033
Due from banks and financial institutions	2,177,906	-	-	-	-	-	-	-	-	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	700,457	-	-	-	-	-	-	-	-	700,457
Derivative financial instruments	270,770	-	10,514	1,837	708	3,188	-	3,559	348	290,924
Financial assets at fair value through profit or loss	312,205	1,796	-	-	5	-	-	-	-	314,006
Loans and advances to customers at amortised cost	1,091,711	285,393	5,095,929	1,575,953	1,934,348	2,079,246	772,427	2,547,756	78,908	15,461,671
Loans and advances to related parties at amortised cost	80,089	-	46,494	-	1	-	-	13,905	-	140,489
Debtors by acceptances	5,130	-	242	46,117	1,125	148,613	431,922	7,214	17,216	657,579
Financial assets at amortised cost	179,290	12,131,775	-	-	-	7,512	-	-	367	12,318,944
Financial assets at fair value through other comprehensive income	15,180	1,070,932	-	-	-	-	-	-	-	1,086,112
Other assets	249,300	1,167,660	13,342	-	-	-	-	-	-	1,430,302
	5,082,038	37,321,589	5,166,521	1,623,907	1,936,187	2,238,559	1,204,349	2,572,434	96,839	57,242,423

	2018									Total LBP Million
	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million	Retail and Wholesale LBP Million	Construction and Materials LBP Million	Manufacturing LBP Million	Energy and Petroleum LBP Million	Services and Utilities LBP Million	Agriculture LBP Million	
Balances with central banks	-	24,278,312	-	-	-	-	-	-	-	24,278,312
Due from banks and financial institutions	3,843,626	-	-	-	-	-	-	-	-	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	266,645	-	-	-	-	-	-	-	-	266,645
Derivative financial instruments	382,234	-	-	6,109	3,077	16,578	-	11,745	6	419,749
Financial assets at fair value through profit or loss	106,909	6,178	-	-	5	-	-	-	-	113,092
Loans and advances to customers at amortised cost	1,540,080	92,990	6,131,617	1,877,713	2,465,420	2,754,833	997,618	3,875,897	110,798	19,846,966
Loans and advances to related parties at amortised cost	105,820	-	35,385	-	1	230	-	12,235	-	153,671
Debtors by acceptances	3,577	-	-	173,138	2,756	198,321	-	1,209	35,624	414,625
Financial assets at amortised cost	219,882	17,475,220	-	-	-	45,806	-	45,229	2,397	17,788,534
Financial assets at fair value through other comprehensive income	-	1,183,790	-	-	-	-	-	-	-	1,183,790
Other assets	268,078	264,862	21,172	-	-	-	-	-	-	554,112
	6,736,851	43,301,352	6,188,174	2,056,960	2,471,259	3,015,768	997,618	3,946,315	148,825	66,863,122

CREDIT QUALITY

The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

- (i) External ratings from approved credit rating agencies for fixed income instruments.
- (ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing. The Group has designed specific internal rating models for Corporate, SME models, Project Finance and Individual borrowers.
- (iii) Empirical and expert-based scorecards that assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.
- (iv) Supervisory ratings, comprising six main categories: (a) *Regular* includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when

required. (b) *Follow-up* represents a lack of updated documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *Follow-up and regularisation* includes creditworthy borrowers requiring close monitoring without being impaired. These borrowers might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilisation above limit. (d) *Substandard loans* include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties. (e) *Doubtful loans* where full repayment is questioned even after liquidation of collateral. It also includes loans with past-dues for over 6 months and debtors who are unable to repay their restructured loans. Finally, (f) *Bad loans* with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

SOVEREIGN & BANKS AND FINANCIAL INSTITUTIONS

External Rating Grade	Credit Quality Description
AA+, AA, AA-	High
A+, A, A-	High
BBB+, BBB, BBB-	Standard
BB+, BB, BB-	Standard
B+, B, B-	Weak
CCC+, CCC, CCC-	Weak
CC, C, D	Credit-impaired

NON-RETAIL LOANS

Internal Rating Grade*	Credit Quality Description
Performing	
1	High
2	High
3	High
4	Standard
5	Standard
6	Standard
7	Weak
Non-performing	
8	Credit-impaired
9	Credit-impaired
10	Credit-impaired

^(*) The internal rating grade is based on the obligor risk rating (which is mapped to PD) and therefore does not incorporate facility risk characteristics and structure such as the existence of credit risk mitigants (impacting LGD). For this reason, an obligor risk rating can be mapped to different supervisory ratings depending on the expected loss level.

RETAIL

Internal Rating Grade*	Credit Quality Description
Performing	
B0 (0 days past due)	High
B1 (1 to 30 days past due)	Standard
B2 (31 to 60 days past due)	Standard
B3 (61 to 90 days past due)	Weak
Non-performing	
B4 – B6 (91 to 180 days past due)	Credit-impaired
B7 – B12 (181 days to 360 days past due)	Credit-impaired
B13 (more than 360 days past due)	Credit-impaired

The credit quality descriptions can be summarised as follows:

- **High:** there is a very high likelihood that the asset will be recovered in full. The counterparty exhibits high ability and willingness to meet its full obligation on due time.
- **Standard:** there is a high likelihood that the asset will be recovered in full. At the lower end of this scale, there are customers with some evidence of reduced financial strength or retail borrowers with early delinquency status.
- **Weak:** there is a concern on the obligor's ability to make payments when due. However, this has not materialised in an event of default. Under such classification, the borrower is continuing to make payments on due time, albeit with some and/or recurring delays. The counterparty, which is now under a close monitoring and follow-up, is still expected to settle its outstanding amounts of principal and interest, however with a higher probability of default.

The table below shows the credit quality of the Group's loans and advances to customers based credit quality segment and stage classification.

	2019				2018			
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
Loans and advances to customers at amortised cost	12,103,964	3,018,288	2,304,771	17,427,023	16,568,992	3,310,960	1,169,619	21,049,571
Corporate and SMEs	7,129,670	2,365,760	1,816,118	11,581,548	10,742,286	2,905,826	924,942	14,573,054
Performing								
<i>High</i>	401,336	28,340	-	429,676	863,369	2,352	-	865,721
<i>Standard</i>	6,633,280	723,775	-	7,357,055	9,774,446	662,978	-	10,407,424
<i>Weak</i>	95,054	1,883,645	-	1,978,699	134,471	2,240,496	-	2,374,967
Non-performing								
<i>Credit-impaired</i>	-	-	1,816,118	1,816,118	-	-	924,942	924,942
Retail and Private Banking	4,772,667	355,252	417,153	5,545,072	5,461,593	405,134	242,842	6,109,569
Performing								
<i>High</i>	4,088,095	-	-	4,088,095	4,899,059	5,364	-	4,904,423
<i>Standard</i>	681,721	306,362	-	988,083	562,403	327,782	-	890,185
<i>Weak</i>	2,851	48,890	-	51,741	131	71,988	-	72,119
Non-performing								
<i>Credit-impaired</i>	-	-	417,153	417,153	-	-	242,842	242,842
Public sector	201,627	27,276	71,500	300,403	365,113	-	1,835	366,948
Performing								
<i>High</i>	-	-	-	-	365,113	-	-	365,113
<i>Standard</i>	201,627	-	-	201,627	-	-	-	-
<i>Weak</i>	-	27,276	-	27,276	-	-	-	-
Non-performing								
<i>Credit-impaired</i>	-	-	71,500	71,500	-	-	1,835	1,835
Loans and advances to related parties at amortised cost	140,556	-	-	140,556	153,688	-	-	153,688
Performing								
<i>High</i>	140,556	-	-	140,556	153,688	-	-	153,688
Off-balance sheet loan commitments and financial guarantee contracts	3,662,133	177,008	26,708	3,865,849	3,308,064	199,263	25,718	3,533,045
Performing								
<i>High</i>	965,873	1,390	-	967,263	1,118,289	403	-	1,118,692
<i>Standard</i>	2,670,707	83,804	-	2,754,511	2,159,276	74,498	-	2,233,774
<i>Weak</i>	25,553	91,814	-	117,367	30,499	124,362	-	154,861
Non-performing								
<i>Credit-impaired</i>	-	-	26,708	26,708	-	-	25,718	25,718
Total	15,906,653	3,195,296	2,331,479	21,433,428	20,030,744	3,510,223	1,195,337	24,736,304

The table below shows the credit quality of the Group's financial instruments and balances due from banks and financial institutions as per external ratings.

	2019											
	Sovereign and Central Banks						Non-sovereign					Grand Total LBP Million
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Below B- LBP Million	Unrated LBP Million	Total LBP Million	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	
Balances with central banks	902,632	-	3,351,218	-	18,410,183	22,664,033	-	-	-	-	-	23,664,033
Due from banks and financial institutions	-	-	-	-	-	-	430,170	1,253,176	263,627	230,933	2,177,906	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	-	-	675,801	24,656	700,457	700,457
Financial assets at fair value through profit or loss	-	-	1,038	758	-	1,796	-	294,053	-	18,157	312,210	314,006
Financial assets at amortised cost	46,660	7,417	1,568,714	4,254,756	6,254,228	12,131,775	87,377	99,426	-	366	187,169	13,318,944
Financial assets at fair value through other comprehensive income	-	-	1,070,932	-	-	1,070,932	15,180	-	-	-	15,180	1,086,112
	949,292	7,417	5,991,902	4,255,514	24,664,411	35,868,536	532,727	1,646,655	939,428	274,112	3,392,922	39,261,458

	2018											
	Sovereign and Central Banks						Non-sovereign					Grand Total LBP Million
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Below B- LBP Million	Unrated LBP Million	Total LBP Million	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	
Balances with central banks	770,434	-	2,298,411	-	21,209,467	24,278,312	-	-	-	-	-	24,278,312
Due from banks and financial institutions	-	-	-	-	-	-	1,264,289	1,705,214	614,169	259,954	3,843,626	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	-	-	266,645	-	266,645	266,645
Financial assets at fair value through profit or loss	-	-	6,178	-	-	6,178	-	66,681	-	37,233	106,914	113,092
Financial assets at amortised cost	78,398	14,598	7,749,370	-	9,632,854	17,475,220	181,342	129,576	2,396	-	313,314	17,788,534
Financial assets at fair value through other comprehensive income	-	-	1,183,790	-	-	1,183,790	-	-	-	-	-	1,183,790
	848,832	14,598	11,237,749	-	30,842,321	42,943,500	1,445,631	1,904,471	883,210	297,187	4,530,499	47,473,999

MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL AND OTHER CREDIT ENHANCEMENTS

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

	2019								
	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million	Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Risk Transfer LBP Million	Net Credit Exposure LBP Million
Balances with central banks	22,664,033	-	-	-	-	-	-	-	22,664,033
Due from banks and financial institutions	2,177,906	-	-	-	-	-	-	-	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	700,457	-	-	521,942	-	-	-	-	178,515
Derivative financial instruments	290,924	-	-	-	-	-	-	-	290,924
Financial assets at fair value through profit or loss	314,006	-	-	-	-	-	-	-	314,006
Loans and advances to customers at amortised cost	15,461,671	1,834,279	1,527,259	83,518	4,933,233	178,481	446,746	-	6,458,155
<i>Corporate and SME</i>	10,144,452	872,227	728,116	81,716	3,249,555	36,469	394,402	-	4,781,967
<i>Retail and Personal Banking</i>	5,024,453	959,372	799,143	1,802	1,683,678	142,012	52,344	-	1,386,102
<i>Public sector</i>	292,766	2,680	-	-	-	-	-	-	290,086
Loans and advances to related parties at amortised cost	140,489	87,944	7,234	-	26,737	320	1,510	-	16,744
Debtors by acceptances	657,759	409,572	305	420	1,590	-	1,496	-	244,196
Financial assets at amortised cost	12,318,944	-	-	-	-	-	-	741,532	11,577,412
Financial assets at fair value through other comprehensive income	1,086,112	-	-	-	-	-	-	-	1,086,112
Other assets	1,430,302	-	-	-	-	-	-	-	1,430,302
Contingent liabilities	1,456,543	146,899	17,526	23,098	41,515	644	22,997	-	1,203,864
<i>Letters of credit</i>	663,645	64,319	-	313	1,056	-	27	-	597,930
<i>Financial guarantee given to banks and financial institutions</i>	77,874	-	-	-	-	-	-	-	77,874
<i>Financial guarantee given to customers</i>	715,024	82,580	17,526	22,785	40,459	644	22,970	-	528,060
Total	58,699,146	2,478,694	1,552,324	628,978	5,003,075	179,445	472,749	741,532	47,642,349
Guarantees received from banks, financial institutions and customers									
Utilised collateral		2,478,694	1,552,324	628,978	5,003,075	179,445	472,749	-	10,315,265
Surplus of collateral before undrawn credit lines		1,783,250	3,726,857	28,655	13,464,227	466,138	2,199,881	-	21,669,008
		4,261,944	5,279,181	657,633	18,467,302	645,583	2,672,630	-	31,984,273

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 3,873,428 million as at 31 December 2019.

2018										
	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million	Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Netting Agreements LBP Million	Risk Transfer LBP Million	Net Credit Exposure LBP Million
Balances with central banks	24,278,312	-	-	-	-	-	-	4,772,032	-	19,506,280
Due from banks and financial institutions	3,843,626	-	-	-	-	-	-	-	-	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	266,645	-	-	197,423	-	-	-	-	-	69,222
Derivative financial instruments	419,749	-	-	-	-	-	-	-	-	419,749
Financial assets at fair value through profit or loss	113,092	-	-	-	-	-	-	-	-	113,092
Loans and advances to customers at amortised cost	19,846,966	2,390,625	1,683,899	99,861	6,095,879	305,808	513,079	-	-	8,757,815
<i>Corporate and SME</i>	13,613,470	1,385,059	807,666	97,669	4,171,166	68,812	456,030	-	-	6,627,068
<i>Retail and Personal Banking</i>	5,873,160	1,002,354	876,233	2,192	1,924,713	236,996	57,049	-	-	1,773,623
<i>Public sector</i>	360,336	3,212	-	-	-	-	-	-	-	357,124
Loans and advances to related parties at amortised cost	153,671	115,068	-	-	25,733	483	784	-	-	11,603
Debtors by acceptances	414,625	11,176	-	23	2,771	-	4,406	-	-	396,249
Financial assets at amortised cost	17,788,534	-	-	-	-	-	-	-	1,488,087	16,300,447
Financial assets at fair value through other comprehensive income	1,183,790	-	-	-	-	-	-	-	-	1,183,790
Other assets	554,112	-	-	-	-	-	-	-	-	554,112
Contingent liabilities	1,271,608	181,739	41,575	20,231	39,181	729	45,836	-	-	942,317
<i>Letters of credit</i>	420,241	85,863	571	6	4,079	-	7,425	-	-	322,297
<i>Financial guarantee given to banks and financial institutions</i>	79,546	-	-	-	-	-	-	-	-	79,546
<i>Financial guarantee given to customers</i>	771,821	95,876	41,004	20,225	35,102	729	38,411	-	-	540,474
Total	70,134,730	2,698,608	1,725,474	317,538	6,163,564	307,020	564,105	4,772,032	1,488,087	52,098,302
Guarantees received from banks, financial institutions and customers										
Utilised collateral		2,698,608	1,725,474	317,538	6,163,564	307,020	564,105	-	-	11,776,309
Surplus of collateral before undrawn credit lines		1,658,197	4,050,579	19,855	14,823,357	398,031	2,658,127	-	-	23,608,146
		4,356,805	5,776,053	337,393	20,986,921	705,051	3,222,232	-	-	35,384,455

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 4,756,412 million as at 31 December 2018.

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depend on the obligor's creditworthiness. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

The main types of collateral obtained are as follows:

- *Securities*: the balances shown represent the fair value of the securities.
- *Letters of credit/guarantees*: the Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.
- *Real estate (commercial and residential)*: the Group holds, in some cases, a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.

- *Netting agreements*: the Group makes use of netting agreements and other arrangements not eligible for netting under IAS 32 *Financial Instruments: Presentation* with its counterparties. Such arrangements provide for net settlement of all financial instruments covered by the agreements in the event of default. Although these netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they nevertheless reduce the Group's exposure to credit risk outstanding amounts of such contracts, as shown in the above table.

In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees from borrowing companies' shareholders, second degree mortgages on real estate assets, and assignments of insurance or bills proceeds and revenues, which are not reflected in the above table.

53.0. | MARKET RISK

Market risk is defined as the potential loss in both on-balance sheet and off-balance sheet positions resulting from movements in market risk factors such as foreign exchange rates, interest rates and equity prices.

The responsibilities of the Market Risk unit are to identify, measure, report, and monitor all potential and actual market risks to which the Group is exposed. The purpose is to introduce transparency around the Treasury, investment portfolio, and asset and liability risk profile through consistent and comprehensive risk measurements, aggregation, management and analysis. Policies are set and limits monitored in order

to ensure the avoidance of large, unexpected losses and the consequent impact on the Group's financial safety and soundness.

Tools developed in-house by a centralised unit of specialists offer a holistic view of risk exposures and are customised to meet the requirements of all end users (Group Risk, Senior Management, business lines and Legal Compliance). Stress scenarios include the various assumptions on potential future crisis that are relevant to the Group's exposures, as well as scenarios related to the Group's business operating environment.

CURRENCY RISK

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices, fluctuations in interest rates and exchange rate volatility in general. Therefore, exchange rates and relevant interest rates are

acknowledged as distinct risk factors.

In addition to regulatory limits, entities of the Group have set limits on positions by currency approved by their respective Board of Directors. These positions are monitored to ensure they are maintained within established limits.

The following tables present the breakdown of assets and liabilities by currency:

	2019						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets							
Cash and balances with central banks	6,497,178	11,709,277	1,764,062	48,343	2,237,570	913,089	23,169,519
Due from banks and financial institutions	8,818	1,307,095	388,884	141,855	31,890	299,364	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	10,473	-	13,542	662,232	14,210	-	700,457
Derivative financial instruments	8,233	58,024	26,865	179,531	-	18,271	290,924
Financial assets at fair value through profit or loss	721	56,078	27,032	371	2,827	294,053	381,082
Loans and advances to customers at amortised cost	1,520,785	7,126,095	2,180,303	1,796,309	1,834,403	1,003,776	15,461,671
Loans and advances to related parties at amortised cost	18,186	120,321	226	-	-	1,756	140,489
Debtors by acceptances	-	577,764	71,725	-	440	7,650	657,579
Financial assets at amortised cost	2,469,640	8,349,453	123,097	159,753	826,454	390,547	12,318,944
Financial assets at fair value through other comprehensive income	24,594	43,762	11,054	131,651	798,930	144,902	1,154,893
Investments in associates	-	121,139	-	-	-	-	121,139
Property and equipment and right-of-use assets	598,245	3,250	5,413	53,795	212,912	123,571	997,186
Intangible assets	66,683	-	262	18,955	25,395	3,849	115,144
Non-current assets held for sale	(11,960)	151,548	523	149,608	270	-	289,989
Other assets	1,183,466	127,846	10,787	129,376	11,908	29,484	1,492,867
Deferred tax assets	5,512	(51)	12	62,288	-	19,365	87,126
Goodwill	-	42,422	-	-	-	-	42,422
Total assets	12,400,574	29,794,023	4,623,787	3,534,067	5,997,209	3,249,677	59,599,337
Liabilities and shareholders' equity							
Due to central banks	2,657,580	2,886,013	62,888	1,016	1,993	42,472	5,651,962
Due to banks and financial institutions	6,341	1,099,912	150,148	9,856	123,141	167,106	1,556,504
Due to banks under repurchase agreements	-	42,969	-	-	-	-	42,969
Derivative financial instruments	5,238	186,833	12,810	143,949	91	23,181	372,102
Customers' deposits	5,617,288	25,999,865	3,949,558	2,025,330	5,127,759	1,616,760	44,336,560
Deposits from related parties	7,954	245,674	19,676	-	-	3,006	276,310
Debt issued and other borrowed funds	-	1,201,078	-	192,561	-	-	1,393,639
Engagements by acceptances	-	577,764	71,725	-	440	7,650	657,579
Other liabilities	216,263	117,802	13,018	106,942	39,966	90,073	584,064
Deferred tax liabilities	2,326	694	-	-	35,504	5,354	43,878
Current tax liabilities	7,672	2,982	2	-	9,449	8,220	28,325
Provisions for risks and charges	86,726	10,097	1,103	30,677	21,549	28,667	178,819
Shareholders' equity	2,679,034	1,857,805	48,683	(767,328)	264,890	393,542	4,476,626
Total liabilities and shareholders' equity	11,286,422	34,229,488	4,329,611	1,743,003	5,624,782	2,386,031	59,599,337

	2018						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets							
Cash and balances with central banks	11,985,037	9,199,139	1,465,589	292,588	863,022	988,307	24,793,682
Due from banks and financial institutions	32,493	2,251,373	659,471	319,832	1,010	579,447	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	18,777	7,589	23,308	197,557	19,414	-	266,645
Derivative financial instruments	35,596	304,745	36,308	25,654	80	17,366	419,749
Financial assets at fair value through profit or loss	149	142,887	4,065	935	2,404	69,682	220,122
Loans and advances to customers at amortised cost	2,303,760	9,691,478	2,653,094	2,413,361	1,770,573	1,014,700	19,846,966
Loans and advances to related parties at amortised cost	17,173	135,527	556	-	-	415	153,671
Debtors by acceptances	-	292,047	117,973	1,390	-	3,215	414,625
Financial assets at amortised cost	7,378,706	9,239,954	129,224	134,528	494,950	411,172	17,788,534
Financial assets at fair value through other comprehensive income	16,627	41,021	515	85,864	1,099,637	13,771	1,257,435
Investments in associates	-	144,865	-	-	-	-	144,865
Property and equipment and right-of-use assets	616,464	912	1,094	24,842	137,768	96,621	877,701
Intangible assets	22,264	-	1,698	18,009	22,386	4,119	68,476
Non-current assets held for sale	2,721	121,976	535	68,247	242	-	193,721
Other assets	239,779	203,648	26,782	199,427	13,193	31,986	714,815
Deferred tax assets	12,938	(51)	14	77,872	-	18,106	108,879
Goodwill	-	42,413	-	-	-	-	42,413
Total assets	22,682,484	31,819,523	5,120,226	3,860,106	4,424,679	3,248,907	71,155,925
Liabilities and shareholders' equity							
Due to central banks	10,309,763	1,411,438	-	198,789	-	-	11,919,990
Due to banks and financial institutions	17,570	1,491,456	385,081	3,224	81,169	205,187	2,183,687
Due to banks under repurchase agreements	-	-	-	29	1,275	-	1,304
Derivative financial instruments	725	97,380	21,202	270,461	174	18,311	408,253
Customers' deposits	7,587,803	27,964,643	3,770,870	2,445,849	3,831,089	2,176,817	47,777,071
Deposits from related parties	32,446	334,829	22,769	1,106	-	4,964	396,114
Debt issued and other borrowed funds	-	1,234,431	-	59,258	-	-	1,293,689
Engagements by acceptances	-	292,047	117,973	1,390	-	3,215	414,625
Other liabilities	182,956	83,100	9,452	46,723	30,687	51,933	404,851
Deferred tax liabilities	9,933	17	-	-	27,164	2,705	39,819
Current tax liabilities	96,651	(3,328)	1,455	-	14,749	5,433	114,960
Provisions for risks and charges	267,801	4,189	5,275	36,086	11,953	17,490	342,794
Shareholders' equity	4,463,319	1,672,643	19,978	(715,689)	94,886	323,631	5,858,768
Total liabilities and shareholders' equity	22,968,967	34,582,845	4,354,055	2,347,226	4,093,146	2,809,686	71,155,925

THE GROUP'S EXPOSURE TO CURRENCY RISK

The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars, Euros, Egyptian Pounds and Turkish Liras.

As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are valued at the official exchange rate, and due to the high volatility and the significant variance in exchange rates between the

HEDGING NET INVESTMENTS IN FOREIGN OPERATIONS

A foreign currency exposure arises from net investments in subsidiaries that have a different functional currency from that of the Bank. The risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and branches, and the Bank's functional and presentation currency which causes the amount of the net investment to vary. Such a risk may have a significant impact on the Group's

ASSESSMENT OF HEDGE EFFECTIVENESS CRITERIA

The Group establishes that an economic relationship exists between the hedged item and the hedging instruments since the hedging instruments have fair value changes that offset the changes in the value of the net investment resulting from the hedged risk. The effect of credit risk does not dominate the value changes that result from that economic relationship. The analysis of the possible behaviour of the hedging relationship during its term indicates that it is expected to meet the risk management objective.

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Positions are monitored on a daily basis by Management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

multiple markets, Management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognised in the financial statements once the change in the official exchange rate is implemented by the Lebanese government.

financial statements. In order to mitigate this risk, the Group may enter into foreign currency derivative transactions. The hedged risk in the net investment hedge is the risk of a weakening foreign currency against the Lebanese Pound that will result in a reduction in the carrying amount of the Group's investment in foreign subsidiaries.

The hedge ratio is being designated based on actual amounts of the hedged item and hedging instrument. The notional amounts of the options and forward described above are on a par with the components of net investment hedged. Hence, the hedge ratio is 100%.

The details of the Group's hedging activities are disclosed in Note 19.

The Group employs hedging activities, utilising derivative instruments to ensure positions are maintained within the established limits. The details of the Group's hedging activities are disclosed in Note 19.

INTEREST RATE SENSITIVITY

The table below shows the sensitivity of net interest income to 1% parallel change in interest rates, all other variables being held constant.

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

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

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 37 to these financial statements.

The effect of any future associated hedges made by the Group is not accounted for.

	Decrease in Basis Points	Sensitivity of Net Interest Income	
		2019	2018
		LBP Million Decrease	LBP Million Decrease
LBP	- 100	27,267	27,616
USD	- 100	129,708	60,128
EUR	- 100	8,448	7,038
TRY	- 100	1,168	2,452
EGP	- 100	(8,960)	1,280

The Group's interest sensitivity position based on contractual repricing arrangements is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of customers' demand deposits.

	2019								Total LBP Million
	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million	Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	
Assets									
Cash and balances with central banks	5,341,802	1,179,040	869,829	7,390,671	3,224,139	10,546,267	13,770,406	2,008,442	23,169,519
Due from banks and financial institutions	2,118,410	34,761	-	2,153,171	-	-	-	24,735	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	666,595	14,215	18,938	699,748	-	-	-	709	700,457
Derivative financial instruments	26,445	43,103	69,041	138,589	140,361	4,866	145,227	7,108	290,924
Financial assets at fair value through profit or loss	294,090	156	45	294,291	16,688	639	17,327	69,364	381,082
Loans and advances to customers at amortised cost	5,538,913	1,784,778	2,731,165	10,054,856	3,302,371	1,834,163	5,136,534	270,281	15,461,671
Loans and advances to related parties at amortised cost	29,275	347	2,253	31,875	95,016	13,373	108,389	225	140,489
Financial assets at amortised cost	40,142	638,338	296,772	975,251	5,943,362	5,172,092	11,115,454	228,238	12,318,944
Financial assets at fair value through other comprehensive income	10,039	27,937	585,925	623,901	272,121	190,090	462,211	68,781	1,154,893
Total assets	14,065,711	3,722,675	4,573,968	22,362,354	12,994,058	17,761,490	30,755,548	2,677,983	55,795,885
Liabilities									
Due to central banks	1,653,211	17,263	1,259,952	2,930,436	359,908	2,336,403	2,696,311	25,215	5,651,962
Due to banks and financial institutions	1,099,462	123,739	268,763	1,491,964	43,743	-	43,743	20,797	1,556,504
Due to banks under repurchase agreements	42,743	-	-	42,723	-	-	-	246	42,969
Derivative financial instruments	37,456	30,467	54,104	122,027	81,766	162,911	244,677	5,398	372,102
Customers' deposits	24,433,461	6,155,618	8,151,020	38,740,099	4,515,166	70,523	4,585,689	1,010,772	44,336,560
Deposits from related parties	152,230	37,951	5,646	195,827	79,887	79	79,966	517	276,310
Debt issued & other borrowed funds	-	192,562	226,125	418,687	522,695	426,300	948,995	25,957	1,393,639
Lease liabilities	30,072	2,680	15,574	28,326	64,857	56,670	121,527	-	149,853
Total liabilities	27,428,625	6,560,280	(9,981,184)	43,970,089	5,668,022	3,052,886	8,720,908	1,088,902	53,779,899
Interest rate sensitivity gap	(13,362,914)	(2,837,605)	(5,407,216)		7,326,036	14,708,604			
Cumulative gap	(13,362,914)	(16,200,519)	(21,607,735)		(14,281,699)	426,905			

	2018								Total LBP Million
	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million	Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	
Assets									
Cash and balances with central banks	5,813,015	4,788,992	939,151	11,541,158	476,725	11,283,848	11,760,573	1,491,951	24,793,682
Due from banks and financial institutions	3,180,209	77,721	-	3,257,930	-	-	-	585,696	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	207,326	32,037	26,923	266,286	-	-	-	359	266,645
Derivative financial instruments	54,117	85,894	89,462	229,473	90,965	47,084	138,049	52,227	419,749
Financial assets at fair value through profit or loss	69,681	17,717	685	88,083	19,576	5,021	24,597	107,442	220,122
Loans and advances to customers at amortised cost	7,057,910	4,224,032	4,175,663	15,457,605	3,532,605	620,188	4,152,793	236,568	19,846,966
Loans and advances to related parties at amortised cost	116,094	385	9,528	126,007	15,986	10,159	26,145	1,519	153,671
Financial assets at amortised cost	235,675	261,273	617,995	1,114,943	6,674,014	9,741,954	16,451,968	257,623	17,788,534
Financial assets at fair value through other comprehensive income	-	-	1,183,790	1,183,790	-	-	-	73,645	1,257,435
Total assets	16,734,027	9,488,051	7,043,197	33,265,275	10,809,871	21,708,254	32,518,125	2,807,030	68,590,430
Liabilities									
Due to central banks	211,977	611,557	830,747	1,654,281	459,185	9,737,902	10,197,087	68,622	11,919,990
Due to banks and financial institutions	782,399	273,471	598,690	1,654,560	261,602	218,841	480,443	48,684	2,183,687
Due to banks under repurchase agreements	1,295	-	-	1,295	-	-	-	9	1,304
Derivative financial instruments	33,050	28,913	58,300	120,263	146,482	88,299	234,781	53,209	408,253
Customers' deposits	26,206,558	7,437,826	8,371,832	42,016,216	4,657,085	14,486	4,671,571	1,089,284	47,777,071
Deposits from related parties	260,114	14,698	116,977	391,789	2,072	-	2,072	2,253	396,114
Debt issued & other borrowed funds	-	58,834	226,125	284,959	527,625	453,724	981,349	27,381	1,293,689
Total liabilities	27,495,393	8,425,299	10,202,671	46,123,363	6,054,051	10,513,252	16,567,303	1,289,442	63,980,108
Interest rate sensitivity gap	(10,761,366)	1,062,752	(3,159,474)		4,755,820	11,195,002			
Cumulative gap	(10,761,366)	(9,698,614)	(12,858,088)		(8,102,268)	3,092,734			

PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

EQUITY PRICE RISK

Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies/maturities) in which the Group holds equity-related positions.

The Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock/index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

54.0. | LIQUIDITY RISK

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

Given its business model, the Group manages liquidity at the entity level independently while keeping sight of intra-group dependencies.

The Group recognises that its ability to meet its liquidity requirements may come under increasing pressure under the deteriorating operating environment.

MONITORING PROCESS

DAILY

Due to the ongoing economic and financial crisis in Lebanon, Management focused its monitoring effort on cash flows and highly liquid assets rather than supervisory liquidity ratios, which in its view do not capture the full extent of the crisis impact on liquidity. Ensuring positive near-term cash flow and availability of highly liquid assets is critical to maintain the uninterrupted operation of the Group's Management activities.

On a daily basis, the Market Risk unit within Group Risk Management prepares a report on highly liquid assets showing the change in the position compared to the previous day and upcoming short-term cash flow. In addition, Treasury monitors daily and intra-day inflows and outflows to ensure funding gaps are met.

WEEKLY

The Market Risk unit prepares a weekly report on expected outflows for the current and next quarter, as well as of highly liquid assets and cash inflows for the reported periods.

MONTHLY

The Market Risk unit submits a monthly ALM report to ALCO showing changes in the liquidity position including highly liquid assets and upcoming flows.

QUARTERLY

The Board of Directors is informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis.

PERIODIC

The liquidity position is assessed under various scenarios, including simulation of Group-specific crisis and market-wide crisis. The stress scenarios are applied to both on-balance sheet and off-balance sheet commitments, to provide a complete picture of potential cash outflows.

Moreover, stress testing is carried out annually for all banking units of the Group as part of the ICAAP preparation and submission. Scenarios used in these stress tests vary between entities to reflect their local market operating environments. Scenarios may include, among others, the following assumptions:

- Significant withdrawals of USD and/or foreign currency deposits;
- Significant withdrawals of undrawn and committed credit lines;
- Significant haircut on liquid assets;
- Unavailability of wholesale (interbank) funding; and
- Significant reduction in assets eligible as collateral in the refinancing operations.

Furthermore, the Group has stipulated a series of procedures for monitoring and managing liquidity risk. This includes setting up actions to be taken on response to potential liquidity stress events.

The Group's Liquidity Policy is reviewed by ALCO. The latter submits the updated policy with its recommendations to the Board Risk Committee for approval. The approved policy is notified to the Central Bank of Lebanon.

As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

LIQUIDITY RATIOS

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general, and specifically to the Group. Group Risk Management

monitors on a daily basis the ratio of available highly liquid assets to financial commitments due in the next week, month, and on a six-month horizon.

SOURCES OF FUNDING

Customers' deposits were the main funding source of the Group as at 31 December 2019 and 2018. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a large number of depositors. The Group monitors the percentage of time deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels.

The Group stresses the importance of customers' deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers as a percentage of clients' deposits.

	Loans to Deposits	
	2019 %	2018 %
Year-end	36	42
Maximum	41	49
Minimum	36	42
Average	38	46

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities were determined based on the period

remaining to reach maturity as per the statement of financial position's actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

	2019					Total LBP Million
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	
Financial liabilities						
Due to central banks	1,697,105	63,055	1,704,570	2,379,191	3,968,959	9,812,880
Due to banks and financial institutions	548,286	188,586	212,223	493,906	160,968	1,603,969
Due to banks under repurchase agreements	42,969	-	-	-	-	42,969
Derivative financial instruments	42,853	30,467	54,105	81,766	162,911	372,102
Customers' deposits	23,972,715	7,486,212	8,665,025	6,024,122	226,879	46,374,953
Deposits from related parties	154,189	38,661	5,871	80,755	464	279,940
Debt issued and other borrowed funds	9,816	192,610	49,691	939,983	439,803	1,631,903
Engagements by acceptances	117,255	312,107	228,031	-	186	657,579
Lease liabilities	10,072	2,680	15,574	64,857	56,670	149,853
Total financial liabilities	26,595,260	8,314,378	10,935,090	10,064,580	5,016,840	60,926,148

	2018					Total LBP Million
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	
Financial liabilities						
Due to central banks	246,067	656,145	1,029,293	1,263,334	10,611,669	13,806,508
Due to banks and financial institutions	731,072	300,569	359,930	577,116	285,684	2,254,371
Due to banks under repurchase agreements	1,304	-	-	-	-	1,304
Derivative financial instruments	81,130	33,623	58,719	146,482	88,299	408,253
Customers' deposits	26,325,501	8,216,071	8,991,822	5,384,692	55,277	48,973,363
Deposits from related parties	261,729	15,593	119,502	27,928	-	424,752
Debt issued and other borrowed funds	9,574	59,258	51,038	763,409	704,716	1,587,995
Engagements by acceptances	124,032	170,369	120,065	-	159	414,625
Total financial liabilities	27,780,409	9,451,628	10,730,369	8,162,961	11,745,804	67,871,171

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn

down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2019				Total LBP Million
	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	
Financial guarantees	606,233	155,628	27,981	3,056	792,898
Other guarantees	964,027	119,939	12,940	18,592	1,115,498
Documentary credits	564,736	96,830	2,079	-	663,645
Loan commitments	3,615,690	231,349	26,389	-	3,873,428
	5,751,286	603,146	69,389	21,648	6,445,469

	2018				Total LBP Million
	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	
Financial guarantees	731,520	57,619	49,993	12,235	851,367
Other guarantees	963,433	298,215	16,892	14,430	1,292,970
Documentary credits	341,461	77,036	1,744	-	420,241
Loan commitments	4,426,690	313,555	16,167	-	4,756,412
	6,463,104	746,425	84,796	26,665	7,320,990

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities.

The maturity profile of the assets and liabilities at 31 December 2019 is as follows:

	Less than 1 Year LBP Million	More than 1 Year LBP Million	Total LBP Million
Assets			
Cash and balances with central banks	8,024,915	15,144,604	23,169,519
Due from banks and financial institutions	2,177,906	-	2,177,906
Loans to banks and financial institutions and reverse repurchase agreements	688,628	11,829	700,457
Derivative financial instruments	147,472	143,452	290,924
Financial assets at fair value through profit or loss	361,378	19,704	381,082
Loans and advances to customers at amortised cost	8,082,659	7,379,012	15,461,671
Loans and advances to related parties at amortised cost	31,402	109,087	140,489
Debtors by acceptances	657,393	186	657,579
Financial assets at amortised cost	894,567	11,424,377	12,318,944
Financial assets at fair value through other comprehensive income	689,590	465,303	1,154,893
Investments in associates	-	121,139	121,139
Property and equipment and right-of-use assets	-	997,186	997,186
Intangible assets	-	115,144	115,144
Non-current assets held for sale	-	289,989	289,989
Other assets	135,100	1,357,767	1,492,867
Deferred tax assets	-	87,126	87,126
Goodwill	-	42,422	42,422
Total assets	21,891,010	37,708,327	59,599,337
Liabilities and shareholders' equity			
Due to central banks	2,955,652	2,696,310	5,651,962
Due to banks and financial institutions	935,895	620,609	1,556,504
Due to banks under repurchase agreements	42,969	-	42,969
Derivative financial instruments	127,425	244,677	372,102
Customers' deposits	39,400,970	4,935,590	44,336,560
Deposits from related parties	196,344	79,966	276,310
Debt issued and other borrowed funds	205,016	1,188,623	1,393,639
Engagements by acceptances	657,393	186	657,579
Other liabilities	378,489	205,575	584,064
Current tax liability	28,325	-	28,325
Deferred tax liabilities	-	43,878	43,878
Provision for risks and charges	-	178,819	178,819
Shareholders' equity	-	4,476,626	4,476,626
Total liabilities and shareholders' equity	44,928,478	14,670,859	59,599,337

The maturity profile of the assets and liabilities at 31 December 2018 is as follows:

	Less than 1 Year LBP Million	More than 1 Year LBP Million	Total LBP Million
Assets			
Cash and balances with central banks	8,527,700	16,265,982	24,793,682
Due from banks and financial institutions	3,843,626	-	3,843,626
Loans to banks and financial institutions and reverse repurchase agreements	242,824	23,821	266,645
Derivative financial instruments	154,360	265,389	419,749
Financial assets at fair value through profit or loss	176,966	43,156	220,122
Loans and advances to customers at amortised cost	12,411,819	7,435,147	19,846,966
Loans and advances to related parties at amortised cost	119,917	33,754	153,671
Debtors by acceptances	414,467	158	414,625
Financial assets at amortised cost	1,075,583	16,712,951	17,788,534
Financial assets at fair value through other comprehensive income	1,115,725	141,710	1,257,435
Investments in associates	-	144,865	144,865
Property and equipment and right-of-use assets	-	877,701	877,701
Intangible assets	-	68,476	68,476
Non-current assets held for sale	-	193,721	193,721
Other assets	137,111	577,704	714,815
Deferred tax assets	-	108,879	108,879
Goodwill	-	42,413	42,413
Total assets	28,220,098	42,935,827	71,155,925
Liabilities and shareholders' equity			
Due to central banks	1,722,903	10,197,087	11,919,990
Due to banks and financial institutions	1,372,154	811,533	2,183,687
Due to banks under repurchase agreements	1,304	-	1,304
Derivative financial instruments	173,472	234,781	408,253
Customers' deposits	42,952,153	4,824,918	47,777,071
Deposits from related parties	393,944	2,170	396,114
Debt issued and other borrowed funds	86,215	1,207,474	1,293,689
Engagements by acceptances	414,467	158	414,625
Other liabilities	390,691	14,160	404,851
Current tax liability	114,960	-	114,960
Deferred tax liabilities	-	39,819	39,819
Provision for risks and charges	-	342,794	342,794
Shareholders' equity	-	5,858,768	5,858,768
Total liabilities and shareholders' equity	47,622,263	23,533,662	71,155,925

55.0. | OPERATIONAL RISK

Operational risk is defined as the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. The Basel definition of operational risk includes legal risk, and excludes reputational and strategic risks. Still, the failure in mitigating operational risk may result in reputational and/or franchise risk, business disruptions, business loss, or non-compliance with laws and regulations which can lead to significant financial losses. Therefore, reputational and strategic risks are indirectly mitigated once the operational risks acting as their key drivers are well managed.

The operational risk management framework is implemented by an independent operational risk management unit that operates in coordination with other support functions such as: Corporate Information Security and Business Continuity, Compliance, and Internal Control. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through annual reviews.

Operational risks are managed across the Group based on a set of principles and standards detailed in the Board-approved Group Operational Risk Policy. These principles and standards include at a minimum: redundancy of mission-critical systems, segregation of duties, four-eyes principle, independency of employees performing controls,

reconciliations, mandatory vacations, awareness, training and job rotation of employees. Controls are also embedded within systems and formalised in policies and procedures.

Incidents are captured and analysed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Self-Assessments (RCSAs) are conducted on an ongoing basis to identify risks and control vulnerabilities associated to existing or new products, processes, activities and systems. Key risk indicators are also developed continuously to detect breaches and alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Major incidents, RCSA findings and operational losses are reported to the Board of Directors and Board Group Risk Committees periodically as per the governance framework set in the Group Operational Risk policy.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume and nature.

56.0. | LITIGATION RISK

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal claims against the Group (Note 48) and in the event that legal issues are not properly dealt with by the Group. Since 17 October 2019, the Group has been subject to an increased litigation risk level as a result of the restrictive measures adopted by Lebanese banks. Management has carefully considered the

impact of existing litigation and claims against the Group in relation to these restrictive measures. While there are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices, Management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

57.0. | POLITICAL RISK

External factors which are beyond the control of the Group, such as political developments and government actions in Lebanon (Note 1) and other countries may adversely affect the operations of the Group, its strategy and prospects. Other important political risk factors include government intervention on the Group's activities and social developments in the countries in which the Group operates, political developments in Lebanon, and the political and social unrest and political

instability or military conflict in neighbouring countries and/or other overseas areas. Given the above, the Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on the Group's activities, operating results and position.

58.0. | CAPITAL MANAGEMENT

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

On 3 February 2020, the Central Bank of Lebanon issued Intermediary Circular 543 in which it decreased the minimum regulatory capital adequacy ratios levels as reflected in the table below. Under the same circular, the regulator has increased the risk weight on foreign currency

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Year ended 31 December 2019			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%
Year ended 31 December 2018			
Minimum required capital ratios	5.50%	8.50%	10.50%
With capital conservation buffer	10.00%	13.00%	15.00%

exposures to the Central Bank of Lebanon from 50% to 150%, excluding deposits with original maturities less than one year, which are still subject to a 50% risk weight. The Central Bank of Lebanon also requires minimum levels of 7%, 8.50% and 10.50% for CET1, Tier 1 and Total CAR respectively for dividends' payments eligibility, and 4.5%, 6% and 8% respectively, excluding the capital conservation buffer. The capital conservation buffer of 2.5%, comprised of Common Equity Tier 1, is established above the regulatory minimum capital requirement. When capital levels fall within this range, banks are required to increase capital levels above the conservation range within 3 years. In addition, constraints related to dividends are imposed.

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

	2019	2018
Capital adequacy – Common Tier 1	6.61%	11.37%
Capital adequacy – Tier 1	8.71%	14.01%
Capital adequacy – Total capital	11.30%	18.91%

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

To meet the requirements of Intermediary Circular 532 towards increasing its regulatory capital by 10% by 31 December 2019, the Bank initiated the process of increasing its regulatory capital subsequently and has increased its capital by LBP 315,278 million effective 20 February 2020 through the issuance of 188,789,011 common shares at a nominal value of LBP 1,670.

The capital adequacy ratios as at 31 December 2019 were calculated based on the recorded figures and do not take into consideration the adjustments that will result from the resolution of the uncertainties reflected in Note 1. The Group is currently assessing the impact of the future effects of the economic crisis and the restructuring plan on its capital adequacy ratios, based on the various available scenarios. However, until all uncertainties are resolved, the amount of the recapitalisation needs that will be required cannot be determined presently.

59.0. | SUBSEQUENT EVENTS

OUTBREAK OF COVID-19

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

In the case of the Group, similar to many entities for which the operating environment is mostly in Lebanon, the impact of COVID-19 cannot be isolated and assessed independently from the economic crisis that the country is witnessing, which is described in Note 1. COVID-19 will add up to the severity of the economic downturn from a commercial, regulatory

and risk perspective. Future impairment charges, already subject to high uncertainty and volatility due to the severe crisis in Lebanon described in Note 1, may be subject to further uncertainty and volatility as a result of the COVID-19 pandemic and related containment measures. More adverse economic scenarios and macro-economic variables, with higher probabilities than as at 31 December 2019, will be considered for Expected Credit Losses financial impact in the first half of 2020.

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

The regulatory capital including net (loss) income for the year as of 31 December is as follows:

	2019 LBP Million	2018 LBP Million
Tier 1 capital	3,856,763	4,886,738
<i>Of which: common Tier 1</i>	<i>2,925,854</i>	<i>3,965,452</i>
Tier 2 capital	1,143,595	1,707,936
Total capital	5,000,358	6,594,674

OTHER MAJOR SUBSEQUENT EVENTS

These relate to the subsequent sale of Lebanese government Eurobonds and the subsequent capital increase, which are disclosed in Notes 28 and 58 to these financial statements, respectively.