

**BANK OF BEIRUT S.A.L.**

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

**BANK OF BEIRUT S.A.L.**  
**SEPARATE FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**  
**YEAR ENDED DECEMBER 31, 2019**

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BT 4222/DTT

**INDEPENDENT AUDITORS' REPORT**

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

**Disclaimer of Opinion**

We were engaged to audit the separate financial statements of Bank of Beirut S.A.L. (the "Bank") which comprise the separate statement of financial position as at December 31, 2019, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

**Basis for Disclaimer of Opinion**

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

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

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

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

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

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

2. We draw attention to Note 3 to the accompanying financial statements which states that these separate financial statements have been prepared in accordance with International Financial Reporting Standards. Included in the separate statement of financial position at December 31, 2019, are net financial assets measured at amortized cost amounting to LBP9,416billion, which have significant exposure to sovereign debt in both Lebanese Pounds and foreign currencies; foreign currency deposits with and certificates of deposit issued by the Central Bank of Lebanon and deposits held with other Lebanese Banks which are credit impaired as at December 31, 2019 due to the current uncertainty in the Lebanese banking industry and the Lebanese economy as a whole. Furthermore, the Bank has not performed an appropriate credit assessment of the loans and advances to customers portfolio granted by the Bank in Lebanon, amounting to LBP4,755billion, taking into account the circumstances and available information that have led to additional impairment considerations as at December 31, 2019 to reflect the appropriate credit staging. Consequently the Bank has not recognized the appropriate level of impairment losses under the expected credit loss model in relation to these financial assets, which constitutes a significant departure from IFRS 9 *Financial Instruments*. It is not possible to determine with reasonable certainty the exact value of the impairment losses as the Bank has not performed an updated expected credit loss assessment considering the factors noted above. In these circumstances, we are unable to quantify the effect of the departure from the accounting standard and in our opinion the effects would be both material and pervasive to the financial statements as a whole.
- 3.a The Bank's financial assets at fair value, which are carried in the statement of financial position at LBP53.2billion, are issued by the Central Bank of Lebanon, Lebanese Government as well as unquoted equity securities issued by corporate entities domiciled in the Republic of Lebanon. Management has stated the aforementioned financial assets at fair value by using inputs into the determination of fair value which are not indicative of economic reality and market conditions existing at the reporting date, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount.
- 3.b Management has not disclosed in the separate financial statements the fair value of its financial assets and financial liabilities measured at amortized cost and the valuation techniques as required by IFRS 13 *Fair Value Measurement*, which constitutes a departure from IFRSs. We were unable to determine the fair value or the details which should be disclosed in the separate financial statements.
4. As disclosed under Note 14, the Bank holds full ownership interests in Bank of Beirut Invest S.A.L. carried at LBP30billion as at December 31, 2019. This investment is impaired, however given the uncertainties described in Note 1 to the accompanying financial statements, the Bank's management was unable to determine the impairment loss amount in the said Lebanese banking subsidiary. Therefore the Bank has not recognized any such impairment. We were unable to determine the adjustments necessary to this amount.

#### **Other Matter**

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

## **Responsibilities of the Board of Directors and Those Charged with Governance for the Separate Financial Statements**

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

In preparing the separate financial statements, the management is responsible for assessing the Bank’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 Bank or to cease operations, or has no realistic alternative but to do so.


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

## **Auditors’ Responsibilities for the Audit of the Separate Financial Statements**

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

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants (IESBA Code)* together with the *Code of Ethics of the Lebanese Association of Certified Public Accountants* that are relevant to our audit of the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Beirut, Lebanon  
September 14, 2020

  
DFK Fiduciare du Moyen Orient

  
Deloitte & Touche

**BANK OF BEIRUT S.A.L.**  
**SEPARATE STATEMENT OF FINANCIAL POSITION**

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Cash and deposits at central banks	6	9,019,689,543	6,806,292,006
Deposits with banks and financial institutions	7	436,462,879	1,472,215,525
Financial assets at fair value through profit or loss	8	36,592,393	42,518,242
Loans to banks	9	5,253,014	33,033,372
Loans and advances to customers	10	5,148,623,799	6,572,232,654
Loans and advances to related parties	11	52,176,734	397,318,877
Investment securities	12	5,216,035,123	7,218,750,869
Customers' liability under acceptances	13	305,980,418	399,234,046
Investments in and loans to subsidiaries	14	664,308,793	641,642,570
Assets acquired in satisfaction of loans	15	80,731,766	24,566,718
Property and equipment	16	174,636,443	173,756,999
Right-of-use assets	17	32,199,807	-
Other assets	18	54,403,803	60,825,225
<b>Total Assets</b>		<u>21,227,094,515</u>	<u>23,842,387,103</u>
<b>Financial instruments with off-balance sheet risks</b>			
Letters of guarantee and standby letters of credit	41	995,345,133	1,260,707,606
Documentary and commercial letters of credit	41	108,842,688	207,431,511
Forward exchange contracts	41	806,549,279	1,255,053,955
<b>Fiduciary accounts</b>	42	132,501,542	165,422,536

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE  
FINANCIAL STATEMENTS

**BANK OF BEIRUT S.A.L.**  
**SEPARATE STATEMENT OF FINANCIAL POSITION**

(Continued)

<u>LIABILITIES</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Deposits from banks and financial institutions	19	1,724,126,402	2,172,725,534
Customers' and related parties' deposits	20	15,740,029,980	18,066,459,127
Liabilities under acceptance	13	308,464,957	399,934,367
Other borrowings	21	1,147,538,473	567,959,504
Lease liability	17	30,467,775	-
Other liabilities	22	173,854,947	199,341,553
Provisions	23	53,682,974	57,860,982
Total liabilities		<u>19,178,165,508</u>	<u>21,464,281,067</u>
 <u>EQUITY</u> 			
Common share capital	24	82,102,954	82,102,954
Common priority shares	24	150,753,015	150,753,015
Preferred shares	25	844,124,625	844,124,625
Shareholders' cash contribution to capital	26	20,978,370	20,978,370
Retained earnings		252,712,827	197,664,865
Reserves	27	943,587,298	912,272,413
Fixed currency positions hedging reserve	14	( 52,012,151)	( 52,122,857)
Investment revaluation reserve	12	6,871,369	6,872,444
Treasury shares	30	( 5,466,583)	( 3,681,848)
(Loss)/profit for the year	28	( 194,722,717)	219,142,055
Total equity		<u>2,048,929,007</u>	<u>2,378,106,036</u>
Total Liabilities and Equity		<u>21,227,094,515</u>	<u>23,842,387,103</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE  
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**BANK OF BEIRUT S.A.L.**  
**SEPARATE STATEMENT OF PROFIT OR LOSS**

	Notes	Year Ended December 31,	
		2019 LBP'000	2018 LBP'000
Interest income	31	2,034,488,121	1,349,406,100
Less: tax on interest	31	( 86,401,569)	( 51,866,526)
Interest income, net of tax		1,948,086,552	1,297,539,574
Interest expense	32	( 1,224,285,132)	( 907,907,721)
Net interest income		<u>723,801,420</u>	<u>389,631,853</u>
Fee and commission income	33	112,114,040	99,546,544
Fee and commission expense	34	( 19,015,227)	( 15,068,737)
Net fee and commission income		<u>93,098,813</u>	<u>84,477,807</u>
Net (loss)/income on financial assets at fair value through profit or loss	35	( 1,986,855)	1,230,787
(Loss)/gain on sale of financial assets at amortized cost	12	( 56,399,089)	300,132
Other operating income (net)	36	<u>42,104,604</u>	<u>44,279,575</u>
Net financial revenues		800,618,893	519,920,154
Allowance for expected credit losses (net)	40	( 747,952,233)	( 696,489)
Write-back of other provisions		<u>336,994</u>	-
Net financial revenues after impairment charges		53,003,654	519,223,665
Staff costs	37	( 122,330,933)	( 144,639,245)
General and administrative expenses	38	( 83,701,267)	( 93,368,709)
Depreciation and amortization	39	( 25,186,633)	( 21,425,652)
(Loss)/profit before income tax	28	( 178,215,179)	259,790,059
Income tax expense	22,28	( 16,507,538)	( 40,648,004)
(Loss)/profit for the year	28	<u>( 194,722,717)</u>	<u>219,142,055</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE  
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**BANK OF BEIRUT S.A.L.**  
**SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	<u>Notes</u>	<b>Year Ended</b>	
		<b>December 31,</b>	
		<u>2019</u>	<u>2018</u>
		<b>LBP'000</b>	<b>LBP'000</b>
<b>(Loss)/profit for the year</b>		( 194,722,717)	219,142,055
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Change in fair value of investment securities at fair value through other comprehensive income		-	4,596,755
		-	4,596,755
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Revaluation of fixed and special currency positions to hedge investments in foreign entities	14	110,706	( 12,855,298)
		110,706	( 12,855,298)
<b>Total other comprehensive gain/(loss) for the year</b>		110,706	( 8,258,543)
<b>Total comprehensive (loss)/income for the year</b>		( 194,612,011)	210,883,512

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF  
THE FINANCIAL STATEMENTS

**BANK OF BEIRUT S.A.L.**  
**SEPARATE STATEMENT OF CHANGES IN EQUITY**

	Common Share Capital LBP'000	Common Priority Shares LBP'000	Non-Cumulative Preferred Shares LBP'000	Shareholders' Cash Contribution to Capital LBP'000	Owning Building Revaluation Surplus LBP'000	Cumulative change in fair value of fixed positions designated as Hedging Instruments LBP'000	Cumulative change in fair value of investment securities at fair value through other Comprehensive Income LBP'000	Reserve for Assets Acquired in Satisfaction of Loans LBP'000	Reserves and Retained Earnings LBP'000	Treasury Shares LBP'000	(Loss)/ Profit for the year LBP'000	Total LBP'000
Balance at January 1, 2018	77,649,954	150,753,015	844,124,625	20,978,370	1,668,934	(39,267,559)	2,278,016	9,629,526	(45,533,742)	199,449,034	(2,174,015,561)	233,091,014
Effect of adoption of IFRS9 Transfer from regulatory deferred liability (Note 22 "b"))	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of 2017 profit	-	-	-	-	-	-	-	2,294,781	-	-	(199,449,034)	227,477,400
Dividends paid on preferred shares (Note 29)	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid on common shares (Note 29)	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid on priority shares (Note 29)	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification from free reserves (Note 15)	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of common shares (Note 24)	4,453,000	-	-	-	-	-	-	366,913	-	-	-	51,106
Change in treasury shares	-	-	-	-	-	-	-	-	81,987,050	41,851,894	-	86,440,050
Effect of exchange difference	-	-	-	-	-	(2,227)	-	-	-	-	-	41,851,894
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	(12,855,293)	4,596,755	-	-	-	219,142,055	210,883,512
Balance at December 31, 2018	82,102,954	150,753,015	844,124,625	20,978,370	1,668,934	(52,122,857)	6,872,444	11,557,394	3,681,848	219,142,055	(2,194,142,055)	237,816,036
Allocation of 2018 profit	-	-	-	-	-	-	-	2,299,435	-	-	-	-
Dividends paid on preferred shares (Note 29)	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid on common shares (Note 29)	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid on priority shares (Note 29)	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification from free reserves (Note 15)	-	-	-	-	-	-	-	-	-	-	-	-
Change in treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Effect of exchange difference	-	-	-	-	-	-	(1,075)	-	-	-	-	1,075
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	-	110,706	-	-	-	-	(194,722,717)	(194,612,011)
Balance at December 31, 2019	82,102,954	150,753,015	844,124,625	20,978,370	1,668,934	(52,012,151)	6,871,369	12,568,138	5,466,583	(194,722,717)	(2,088,923,007)	2,088,923,007

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

**BANK OF BEIRUT S.A.L.**  
**SEPARATE STATEMENT OF CASH FLOWS**

	Notes	Year Ended	
		December 31,	
		2019	2018
		LBP'000	LBP'000
Cash flows from operating activities:			
(Loss)/profit for the year		( 194,722,717)	219,142,055
Adjustments for:			
Income tax expense	22	16,507,538	40,468,004
Depreciation and amortization	39	25,186,633	21,425,652
Provision for end of service indemnity for employees	23	454,784	3,680,546
Allowance for expected credit losses (Net)	40	747,952,233	696,489
Write-back of other provisions		( 336,994)	-
Finance lease cost	17	1,360,524	-
Write-back of allowance for impairment for assets acquired in satisfaction of debts	15	( 27,351)	-
Unrealized loss on assets at fair value through profit or loss	35	3,635,802	1,588,528
Gain on sale of assets acquired in satisfaction of loans	15	( 3,573,703)	( 651,803)
Loss on sale on property and equipment		-	25,063
Other adjustments and effect of difference on exchange		( 1,442,981)	( 25,755)
		594,993,768	286,348,779
Net decrease in financial assets at fair value through profit or loss	8	2,290,047	23,025,013
Net decrease in loans to banks	9&46	28,349,223	37,105,597
Net decrease/(increase) in loans and advances to customers	10	1,312,865,969	( 123,336,118)
Net decrease/(increase) in loans and advances to related parties	46	346,372,363	( 50,294,273)
Net increase in cash and deposits at central banks	46	( 2,232,026,823)	( 1,277,348,523)
Net decrease in deposits with banks and financial institutions	46	786,446,699	35,075,847
Net decrease in investment securities	46	1,355,726,695	317,815,074
Net decrease in other assets	46	4,190,302	2,232,860
Net (decrease)/increase in deposits from banks and financial institutions		( 845,166,948)	238,582,893
Net decrease in other liabilities	46	( 41,994,144)	( 27,182,836)
Net decrease in other provisions	46	( 1,153,819)	( 2,595,529)
Net (decrease)/increase in customers' and related parties' accounts at amortized cost		( 2,326,429,147)	99,140,396
Settlement of end-of-service indemnity		( 3,703,222)	( 1,360,787)
Net cash used in operating activities		( 1,019,239,037)	( 442,791,607)
Cash flows from investing activities:			
Acquisition of property and equipment		( 20,041,973)	( 28,707,842)
Proceeds from sale of assets acquired in satisfaction of loans		21,418,830	1,092,680
Proceeds from sale of property and equipment		49,677	5,950
Increase in investment in and loans to subsidiaries		( 21,223,242)	( 41,783,400)
Net cash used in investing activities		( 19,796,708)	( 69,392,612)
Cash flows from financing activities:			
Dividends paid		( 132,781,067)	( 129,445,612)
Proceeds from issuance of common shares		-	86,440,050
Net decrease in other borrowings		( 46,033,531)	( 173,100,045)
Payment of lease liabilities		( 6,837,262)	-
Change in treasury shares		( 1,784,735)	41,851,894
Net cash used in financing activities		( 187,436,595)	( 174,253,713)
Net decrease in cash and cash equivalents		( 1,226,472,340)	( 686,437,932)
Cash and cash equivalents - Beginning of year	46	795,484,933	1,481,922,865
Cash and cash equivalents - End of year	46	( 430,987,407)	795,484,933

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE  
FINANCIAL STATEMENTS

**BANK OF BEIRUT S.A.L.**  
**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2019**

**1. GENERAL INFORMATION**

Bank of Beirut S.A.L. (the “Bank”) is a Lebanese joint stock company listed on the Beirut stock exchange, registered under number 13187 in the Lebanese commercial register and under number 75 in the list of banks published by the Central Bank of Lebanon. The Bank was established in Lebanon in 1963 and provides a full range of banking services and operates through a network of 72 branches throughout Lebanon with a focus in the city of Beirut and its suburbs. The Bank has a branch in Cyprus and 5 branches in the Sultanate of Oman, two subsidiary banks in the United Kingdom and Australia and representative offices in Dubai in the United Arab Emirates, Nigeria and Ghana. Information on other related party transactions of the Bank is provided in Note 43.

The headquarters of Bank of Beirut S.A.L. are located in Fosh Street, Down Town Beirut, Lebanon.

**The Macro Economic Environment**

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

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

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

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

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

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

#### *The Bank's Financial particulars*

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

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

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

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

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

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

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

As disclosed in Note 47 to these separate financial statements, the Bank's capital adequacy ratio as at December 31, 2019, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties reflected above once these uncertainties become reasonably quantifiable. The Management did not comply with Central Bank of Lebanon intermediary circular 532 towards increasing its regulatory capital by 10% by December 31, 2019 and another 10% by June 30, 2020, which both periods were extended until December 31, 2020 as per BDL intermediary circular 567 issued on August 26, 2020.

## **2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)**

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

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

#### **IFRS 16 Leases**

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

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

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

The Bank has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. Therefore, there is no cumulative effect of adopting IFRS16 as an adjustment to the opening balance of retained earnings at January 1, 2019, nor a restatement of the comparative information.

### **Impact of the new definition of a lease**

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

### **Impact on Lessee Accounting**

#### *Former operating leases*

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

#### *Right-of-use assets*

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

#### *Lease liabilities*

At the commencement date of the lease, the Bank 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 Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.



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

- Right-of-use assets of LBP35.94billion were recognised and presented within right-of-use assets in the separate statement of financial position and mainly represent head office and branch premises.
- Lease liabilities of LB35.94billion were recognised and presented within lease liability in the separate statement of financial position.

Set out below, are the carrying amounts of the Bank's right-of-use assets and lease liabilities and the movements during the period:

	<u>Right- of-use Assets</u> LBP'000	<u>Lease Liabilities</u> LBP'000
As at January 1, 2019	35,944,513	35,944,513
Depreciation expense	( 3,744,706)	-
Interest expense	-	1,360,524
Payments	-	( 6,837,262)
As at December 31, 2019	<u>32,199,807</u>	<u>30,467,775</u>

The Bank recognized rent expense from short-term leases of LBP3.88billion during the year ended December 31, 2019. Moreover, depreciation charge for right-of-use assets is presented within "Depreciation and amortization" in the separate statement of profit or loss. The interest charge on lease liabilities is presented as "Lease liability expense" under interest expense in the separate statement of profit or loss.

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

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

- Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.
- Amendments to IFRS 9 *Financial Instruments*: Related to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
- Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

- IFRIC 23 *Uncertainty over Income Tax Treatments*
  - The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
    - Whether tax treatments should be considered collectively;
    - Assumptions for taxation authorities' examinations;
    - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
    - The effect of changes in facts and circumstances

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

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

<u>New and revised IFRSs</u>	<u>Effective for Annual Periods Beginning on or After</u>
<p>Definition of Material - Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i></p> <p>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.'</p>	January 1, 2020
<p>Definition of a Business – Amendments to IFRS 3 <i>Business Combinations</i></p> <p>The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.</p>	January 1, 2020
<p>IFRS 17 <i>Insurance Contracts</i></p> <p>IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i>.</p>	January 1, 2023

### New and revised IFRSs

### Effective for Annual Periods Beginning on or After

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

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

Effective date deferred indefinitely. Adoption is still permitted.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

These separate financial statements are issued for statutory purposes. The Bank prepares and issues consolidated financial statements that are available at the Bank's premises.

#### Basis of Preparation and Measurement:

The financial statements have been prepared on the historical cost basis except for the following:

- Financial assets and liabilities at fair value through profit or loss are measured at fair value.
- Equity securities at fair value through other comprehensive income are measured at fair value.
- Derivative financial instruments measured at fair value.

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

The principal accounting policies adopted are set out below:

#### A. Foreign Currencies:

The financial statements are presented in Lebanese Pounds ("LBP"), which is the Bank's reporting currency. However, the primary currency of the economic environment in which the Bank operates (functional currency) is the U.S. Dollar ("USD"). The official exchange rate of the USD against the LBP has been constant for several years.

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

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

#### **B. Financial Instruments:**

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

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

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

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss).
- Value adjustment related to certain non-conventional transactions is captured to reflect excessive earnings over market yields after modifying transactions particularities to unfavorable probable changes that may apply to the underlying terms and conditions depending on circumstances.
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

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

### **C. Financial Assets:**

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

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

Specifically:

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

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

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

### Debt instruments at amortised cost or at FVTOCI

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

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

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

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

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

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

### Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

### Reclassifications

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

## Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

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

#### Credit-impaired financial assets

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

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

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

#### Purchased or originated credit-impaired (POCI) financial assets

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

#### Definition of default

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

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

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Bank.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

#### Significant increase in credit risk

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

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

#### Modification and derecognition of financial assets

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

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

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

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

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

#### Exchange of securities

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

#### Repurchase and Reverse Repurchase Agreements:

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

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

#### Write-off

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

#### Presentation of allowance for ECL in the statement of financial position

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

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

#### **D. Financial Liabilities and Equity Instruments:**

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

### Equity instruments

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

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

### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

#### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Fair value is determined as described under note 49 below.

#### Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

#### Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

#### **E. Offsetting**

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

#### **F. Derivative financial instruments**

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

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

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

#### **Embedded derivatives**

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

#### **G. Financial guarantee contracts**

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

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

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

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

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

## **H. Hedge accounting**

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

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

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

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

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

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

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

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

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

#### Fair value hedges

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

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

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

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

#### Cash flow hedges

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

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

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

#### Hedges of net investments in foreign operations

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

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

#### I. Investments in Subsidiaries:

A subsidiary is an entity that the Bank controls. Control is achieved when the Bank:

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

As a result, focus is no longer on voting rights. The new definition of control takes into consideration “the power and the returns” which, although similar, is more focused on the ability to exercise power over the majority of activities affecting returns. The Bank’s investment in subsidiaries is accounted for at cost in these separate financial statements, less any impairment.

**J. Property and Equipment:**

Property and equipment except for buildings acquired prior to 1993 are stated at historical cost, less accumulated depreciation and any impairment loss. Buildings acquired prior to 1993 are stated at their revalued amounts based on market prices prevailing during 1996 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under “Equity”.

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

	<u>Rate</u>	<u>Years</u>
Buildings	2%	50
Furniture and equipment	8%	12.5
Computer equipment	20%	5
Vehicles	10%	10
Installation and improvement	25%	4

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized 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 recognized under “Other operating income” in the statement of profit or loss in the year the asset is derecognized.

**K. Intangible Assets Other than Goodwill:**

Intangible assets other than goodwill, are amortized on a straight-line basis at the rate of 20%. Intangible assets are subject to impairment testing. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates all other expenditure is expressed when incurred.

#### **L. Assets acquired in satisfaction of loans:**

The Lebanese banking entities of the Bank account for collateral foreclosed in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267. Foreclosed assets should be sold within two years from the date of approval of foreclosure by the Banking Control Commission. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of foreclosed assets, any gain or loss realized is recognized in the separate statement of profit or loss under "Other operating income" or "Other operating expenses". Gains resulting from the sale of foreclosed assets are transferred to "Reserves for assets acquired in satisfaction of loans" starting in the following financial year.

For assets which were not disposed of within the specified period of two years, an amount computed as percentage of their gross carrying value is transferred to "Reserves for assets acquired in satisfaction of loans" in the following financial year.

#### **M. Impairment of Tangible and Intangible Assets (Other than Goodwill):**

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

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the statement of financial position date, less cost to sell, if any. To determine fair value the Bank adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.
- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

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

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

The recoverable amount of the Bank's owned properties and of properties acquired in satisfaction of loans, is the estimated market value as determined by real estate appraisers on the basis of market compatibility by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale after adjustment for an illiquidity factor and market constraints.

The impairment loss is charged to the statement of profit or loss.

#### **N. Provision for Employees' End-of-Service Indemnity:**

The provision for employees' end-of-service indemnity is based on the liability that would arise if the employment of all the employees' were voluntary terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund.

#### **O. Provisions:**

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the obligation at the statement of financial position date.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **P. Interest Income and Expense:**

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

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

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

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

#### **Q. Net fee and commission income**

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

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

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

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

#### **S. Dividend income**

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

#### **T. Income Tax:**

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

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the statement of financial position date.

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

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or 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, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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 utilized, except:

- When 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, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is possible that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits 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 realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized 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 recognized in profit or loss.

#### **U. Fiduciary Accounts:**

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

#### **V. Leases:**

*Policy applicable up to December 31, 2018:*

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the separate statement of profit or loss on a straight line basis over the lease term.

*Policy applicable effective January 1, 2019:*

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

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

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

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

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

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

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

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

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

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

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

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

The Bank applies IAS36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Property, plant and equipment' policy.

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

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

#### **W. Cash and Cash Equivalents:**

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

#### **X. Dividends:**

Dividends paid on common, priority and preferred shares are recognized as a liability and deducted from equity when they are approved by the General Assembly of the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no 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.

#### **Y. Deferred Restricted Contributions:**

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

#### **4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Bank's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

##### **A. Critical accounting judgments in applying the Bank's accounting policies:**

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the financial statements.

##### **Going Concern:**

Notwithstanding the uncertainties resulting from the events and conditions disclosed under Note 1, these separate financial statements have been prepared based on the going concern assumption which assumes that the Bank will have adequate resources to continue in operational existence for the foreseeable future. However, the Directors highlight that the current market circumstances and uncertainties disclosed in Note 1, which has been worsened by the COVID-19 pandemic and the Beirut port explosion, which are outside their control, represent material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. The Board of Directors and those charged with governance believe that they are monitoring the current situation and taking all possible attainable remediation actions under the circumstances to ensure the sustainability of the business and viability of the Bank.

##### **Business Model Assessment:**

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

Significant increase of credit risk:

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 3 and note 48 for more details.

Establishing groups of assets with similar credit risk characteristics:

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 for details of the characteristics considered in this judgement. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used:

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 and note 48 for more details on ECL.

**B. Key Sources of Estimation Uncertainty:**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Bank based their assumptions and estimates on parameters available when the 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 Bank. Such changes are reflected in the assumptions when they occur.

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario:

When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default:

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default:

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Impairment of investment in subsidiaries:

The Bank assesses at each reporting date whether there is an indication that an investment may be impaired. If any indication exists, the Bank estimates the investment's recoverable amount. When the cost of the investment exceeds the recoverable amount, the investment is considered impaired and a provision for impairment is setup representing the difference between the investment's recoverable amount and its carrying value. The provision is charged to the separate statement of profit or loss.

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 49. For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

## 5. FOREIGN BRANCHES

The separate financial statements include the accounts of 5 branches in Oman located at Ghubra, Shatti Al- Qurum, The Wave Mall, Baraka, and Sohar and a branch in Limassol, Cyprus, and they consist of the following:

### A. Oman Branches

#### STATEMENT OF FINANCIAL POSITION

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
<b><u>ASSETS</u></b>		
Cash and deposits at central banks	187,424,139	236,420,978
Deposits with banks and financial institutions including deposits with head office	154,006,816	155,438,893
Loans and advances to customers (net)	362,408,884	559,804,330
Loans and advances to related parties	3,582,756	1,331,297
Investment securities	93,532,539	93,655,059
Customers' liability under acceptances	10,930,716	77,852,886
Property and equipment	15,435,504	17,719,232
Other assets	1,052,987	1,368,138
Total Assets	<u>828,374,341</u>	<u>1,143,590,813</u>
<b><u>LIABILITIES</u></b>		
Deposits and borrowings from banks	7,680,011	3,105,208
Customers' and related parties' deposits at amortized cost	568,426,171	820,177,457
Liabilities under acceptance	10,930,964	77,854,575
Other liabilities	3,902,073	3,847,813
Provisions	892,793	3,140,449
Total liabilities	<u>591,832,012</u>	<u>908,125,502</u>
<b><u>HEAD OFFICE ACCOUNT</u></b>		
Ordinary share capital	158,580,990	158,580,990
Reserves and retained earnings	76,884,321	71,097,265
Profit for the year	1,077,018	5,787,056
Total head office account	<u>236,542,329</u>	<u>235,465,311</u>
Total liabilities and Head Office Account	<u>828,374,341</u>	<u>1,143,590,813</u>

**STATEMENT OF PROFIT OR LOSS**

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Interest income	37,813,103	44,051,957
Interest expense	( 23,938,273)	( 25,393,014)
Net interest income	<u>13,874,830</u>	<u>18,658,943</u>
Fee and commission income	4,790,970	8,915,816
Fee and commission expense	( 90,427)	( 135,960)
Net fee and commission income	<u>4,700,543</u>	<u>8,779,856</u>
Other operating income (net)	<u>2,333,046</u>	<u>2,010,998</u>
Net financial revenues	20,908,419	29,449,797
Set up of allowance for expected credit losses (net)	( 101,603)	( 3,771,393)
Net financial-revenues after allowance for credit losses	<u>20,806,816</u>	<u>25,678,404</u>
Staff costs	( 10,958,826)	( 10,996,773)
General and administrative expenses	( 5,871,669)	( 5,689,296)
Depreciation and amortization	( 2,614,421)	( 2,735,409)
Profit before income tax	1,361,900	6,256,926
Income tax expense	( 284,882)	( 469,870)
Profit for the year	<u>1,077,018</u>	<u>5,787,056</u>

B. Cyprus Branch

STATEMENT OF FINANCIAL POSITION

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
<b><u>ASSETS</u></b>		
Cash and deposits at central banks	6,803,451	1,045,747
Deposits with banks and financial institutions including deposits with head office	95,445,428	54,063,793
Loans to banks	-	3,574,970
Loans and advances to customers (net)	79,311,574	91,807,652
Customers' liability under acceptances	6,292,793	16,374,614
Property and equipment	118,199	138,632
Other assets	253,537	276,294
Total Assets	<u>188,224,982</u>	<u>167,281,702</u>
<b><u>LIABILITIES</u></b>		
Deposits and borrowings from banks	113,630,908	71,702,493
Customers' and related parties' deposits at amortized cost	66,194,181	76,547,953
Liabilities under acceptance	6,292,793	16,374,614
Other liabilities	450,765	249,840
Provisions	592,831	566,568
Total liabilities	<u>187,161,478</u>	<u>165,441,468</u>
<b><u>HEAD OFFICE ACCOUNT</u></b>		
Profit for the year	<u>1,063,504</u>	<u>1,840,234</u>
Total head office account	<u>1,063,504</u>	<u>1,840,234</u>
Total liabilities and Head Office Account	<u>188,224,982</u>	<u>167,281,702</u>

**STATEMENT OF PROFIT OR LOSS**

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Interest income	7,238,480	7,918,913
Interest expense	( 5,185,383)	( 5,150,697)
Net interest income	<u>2,053,097</u>	<u>2,768,216</u>
Fee and commission income	1,472,876	1,146,390
Fee and commission expense	( 142,907)	( 75,321)
Net fee and commission income	<u>1,329,969</u>	<u>1,071,069</u>
Other operating income (net)	<u>2,039,709</u>	<u>20,946</u>
Net financial revenues	<u>5,422,775</u>	<u>3,860,231</u>
Set up of allowance for expected credit losses (net)	( 2,011,653)	-
Net financial revenues after allowance for credit losses	<u>3,411,122</u>	<u>3,860,231</u>
Staff costs	( 1,125,708)	( 971,430)
General and administrative expenses	( 837,156)	( 577,765)
Depreciation and amortization	( 90,932)	( 70,207)
Profit before income tax	1,357,326	2,240,829
Income tax expense	( 293,822)	( 400,595)
Profit for the year	<u>1,063,504</u>	<u>1,840,234</u>

**6. CASH AND DEPOSITS AT CENTRAL BANKS**

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Cash on hand	33,277,249	58,681,061
Non-interest earning accounts:		
Compulsory reserves with the Central Bank of Lebanon (BDL)	385,248,089	382,903,022
Interest earning accounts:		
Current accounts with BDL	129,719,048	92,871,622
Current accounts with other central banks	612,314,726	764,915,388
Term placements with BDL	3,583,637,818	4,813,057,661
Term placements with BDL subject to leverage arrangements	3,800,968,290	655,913,250
Term placements with other central banks	2,055,680	97,890
Value adjustments	393,225,512	-
Accrued interest receivable, net of tax	<u>175,305,262</u>	<u>70,808,557</u>
	9,115,751,674	6,839,248,451
Allowance for expected credit losses (Note 48)	( 96,062,131)	( 32,956,445)
	<u>9,019,689,543</u>	<u>6,806,292,006</u>

The non-interest earning compulsory reserves with the Central Bank of Lebanon (“BDL”) represent deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers’ deposits in Lebanese Pounds in accordance with local banking regulations.

Current accounts with other central banks also include the equivalent in Euro of LBP1.6billion as at December 31, 2019 (LBP962million as at December 31, 2018) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (1% as at December 31, 2018) of banks’ and customers’ deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

Current accounts with other central banks also include as at December 31, 2019 the equivalent in Omani Riyal (OMR) of LBP1.96billion (LBP1.96billion as at December 31, 2018) as minimum reserve requirements at Central Bank of Oman.

Compulsory deposits are not available for use in the Bank’s day-to-day operations.

Term placements with the Central Bank of Lebanon include as of December 31, 2019 and 2018, the equivalent in foreign currencies of LBP1,741billion and LBP1,834billion, respectively deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers’ deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions.

Accrued interest receivable as at December 31, 2019, is stated net of tax in the amount of LBP21.53billion on deposits with the Central Bank of Lebanon (LBP5.2billion as at December 31, 2018).

Term placements with BDL subject to leverage arrangements triggered investment in term placements with the Central Bank of Lebanon and Lebanese Treasury bills classified at amortized cost in LBP earning coupon rates ranging between 6.74% per annum and 11% per annum and having maturities ranging between 2022 and 2035, originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP, bearing interest at the rate of 2% per annum and carrying same maturities, thus significantly enhancing the yield on the initial investment in U.S. Dollar. During 2019, the Bank signed with Central Bank of Lebanon a netting agreement allowing to offset the “assets under leverage arrangement” versus the borrowing from the Central Bank of Lebanon. The agreement covered financial assets and liabilities resulting from transactions that took place before the netting agreement date that have not yet matured. Prior year figures were represented for comparative purpose. The related details are presented as follows:

	<u>December 31,</u> <u>2019</u> <u>LBP'000</u>	<u>December 31,</u> <u>2018</u> <u>LBP'000</u>
Term placements with the Central Bank of Lebanon (BDL)	4,595,783,000	475,616,000
Lebanese treasury bills classified at amortized cost	347,423,258	347,423,258
Total assets under leverage arrangements	4,943,206,258	823,039,258
Offsetting to leverage arrangement with BDL	( 4,943,206,258)	( 823,039,258)
Net	<u>-</u>	<u>-</u>

#### 7. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	<u>December 31,</u>	
	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Checks in course of collection	41,520,962	60,249,000
Current accounts	119,762,234	317,751,212
Current accounts with subsidiaries	14,314,787	167,140,813
Current accounts with a related bank (Note 43)	-	7,426,776
Overnight placements	87,653,749	342,697,420
Term placements	21,668,145	312,071,393
Term placements with subsidiaries (Note 43)	73,771,242	129,802,824
Pledged deposits (Note 44)	58,045,676	132,810,209
Pledged deposits with subsidiaries (Note 43)	16,680,518	-
Accrued interest receivable	3,084,868	2,344,636
	<u>436,502,181</u>	<u>1,472,294,283</u>
Allowance for expected credit losses (Note 48)	( 39,302)	( 78,758)
	<u>436,462,879</u>	<u>1,472,215,525</u>

The Bank has as of December 31, 2019 and 2018, current accounts and term placements with banks amounting to LBP5.26billion and LBP97.7billion, respectively, subject to right of set-off against trade finance exposures related to financial institutions in the form of letters of credit, acceptances and letters of guarantee.

**8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>December 31, 2019</b>		
	<b>LBP</b>	<b>C/V</b>	<b>Total</b>
	<b>LBP'000</b>	<b>of F/Cy</b>	<b>LBP'000</b>
Quoted equity securities	-	53,826	53,826
Unquoted equity securities	-	9,693,225	9,693,225
Lebanese treasury bills	7,246,618	-	7,246,618
Lebanese Government bonds	-	3,977,423	3,977,423
Certificates of deposit issued by the Central Bank of Lebanon	15,087,801	-	15,087,801
Accrued interest receivable, net of tax	445,213	88,287	533,500
	<u>22,779,632</u>	<u>13,812,761</u>	<u>36,592,393</u>

	<b>December 31, 2018</b>		
	<b>LBP</b>	<b>C/V</b>	<b>Total</b>
	<b>LBP'000</b>	<b>of F/Cy</b>	<b>LBP'000</b>
Quoted equity securities	-	52,888	52,888
Unquoted equity securities	-	9,693,225	9,693,225
Lebanese treasury bills	8,270,467	-	8,270,467
Lebanese Government bonds	-	8,600,002	8,600,002
Certificates of deposit issued by the Central Bank of Lebanon	15,327,555	-	15,327,555
Accrued interest receivable, net of tax	470,222	103,883	574,105
	<u>24,068,244</u>	<u>18,449,998</u>	<u>42,518,242</u>

Net interest income, gains and losses on financial assets' portfolio at fair value through profit or loss are detailed under Note 35.

Accrued interest receivable as at December 31, 2019, is stated net of tax in the amount of LBP49.6million on interest from Lebanese Treasury bills in LBP and certificates of deposit issued by the Central Bank of Lebanon (LBP35million as at December 31, 2018).

**9. LOANS TO BANKS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Loans to a resident housing bank (a)	5,254,400	9,278,800
Discounted acceptances (b)	650,017	5,920,062
Short term loans (c)	131,082	18,274,743
Accrued interest receivable	10,858	188,170
Less: Unearned interest	( 10,491)	( 58,702)
	<u>6,035,866</u>	<u>33,603,073</u>
Allowance for expected credit losses (Note 48)	( 782,852)	( 569,701)
	<u>5,253,014</u>	<u>33,033,372</u>

- (a) Loans to a resident housing bank represent 12 year LBP loans granted to this bank. Interest is collected semi-annually and reset every 3 years. The loans are payable after a grace period of 2 years from the withdrawal date in 10 annual equal installments. As a guarantee for these loans, the borrower has pledged in favor of the Bank bills related to the housing loans granted to its customers.
- (b) Discounted acceptances represent facilities derived from trade finance activity (discounted letters of credit) mainly granted to Middle Eastern and African banks. These balances are denominated in foreign currencies.
- (c) Short term loans represent short term financing provided by the Bank to other banks mainly against trade finance operations.

**10. LOANS AND ADVANCES TO CUSTOMERS**

	<b>December 31, 2019</b>		
	<b>Gross Amount</b>	<b>Expected Credit Loss</b>	<b>Carrying Amount</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Performing loans</b>			
Retail	1,941,127,937	( 5,406,782)	1,935,721,155
Corporate and SME	2,989,776,423	( 117,590,346)	2,872,186,077
<b>Credit impaired</b>			
Retail	72,077,107	( 14,370,105)	57,707,002
Corporate and SME	474,190,726	( 196,180,024)	278,010,702
Accrued interest receivable	4,998,863	-	4,998,863
	<u>5,482,171,056</u>	<u>( 333,547,257)</u>	<u>5,148,623,799</u>

	<b>December 31, 2018</b>		
	<b>Gross Amount</b> LBP'000	<b>Expected Credit Loss</b> LBP'000	<b>Carrying Amount</b> LBP'000
<b>Performing loans</b>			
Retail	2,180,972,163	( 3,942,644)	2,177,029,519
Corporate and SME	4,298,196,153	( 147,148,372)	4,151,047,781
<b>Credit impaired</b>			
Retail	47,121,798	( 14,667,799)	32,453,999
Corporate and SME	336,371,290	( 129,689,347)	206,681,943
Accrued interest receivable	5,019,412	-	5,019,412
	<u>6,867,680,816</u>	<u>( 295,448,162)</u>	<u>6,572,232,654</u>

Loans and advances to customers as at December 31, 2018, included advances denominated in USD, Euro, AUD and Arab Emirates Dirham (AED) in the equivalent amount of LBP531.6billion, LBP149billion, LBP13.5billion and LBP21.8billion, respectively, granted to certain customers against credit balances in the same currencies under "customers' and related parties' deposits". During 2019, the customers settled the advances against the credit balances.

Performing loans and advances to customers as at December 31, 2018, include loan balances in U.S. Dollar aggregating to LBP6.8billion granted to customers against credit balances in Lebanese Pounds aggregating LBP8.6billion and margins in U.S. Dollar aggregating LBP3.7billion reflected under "Customers' and related parties' deposits".

Loans and advances to customers include creditors accidentally debtors' balances aggregating to LBP25.25billion as at December 31, 2019 (LBP10.4billion in 2018).

The movement of allowance for expected credit losses during 2019 and 2018 is summarized under Note 48.

#### **11. LOANS AND ADVANCES TO RELATED PARTIES**

	<b>December 31, 2019</b>		
	<b>Gross Amount</b> LBP'000	<b>Expected Credit Loss</b> LBP'000	<b>Carrying Amount</b> LBP'000
<b>Performing loans</b>			
Retail	3,527,393	( 22,458)	3,504,935
Corporate and SME	50,215,423	( 1,591,557)	48,623,866
Accrued interest receivable	47,933	-	47,933
	<u>53,790,749</u>	<u>( 1,614,015)</u>	<u>52,176,734</u>

	<b>December 31, 2018</b>		
	<b>Gross</b>	<b>Expected</b>	<b>Carrying</b>
	<b>Amount</b>	<b>Credit Loss</b>	<b>Amount</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Performing loans:</b>			
Retail	4,253,257	( 38,330)	4,214,927
Corporate and SME	395,655,441	( 2,805,906)	392,849,535
Accrued interest receivable	254,415	-	254,415
	<u>400,163,113</u>	<u>( 2,844,236)</u>	<u>397,318,877</u>

Loans and advances to related parties are partially covered by collaterals (Refer to Note 43).

## **12. INVESTMENT SECURITIES**

This caption consists of:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Financial assets at fair value through other comprehensive income (A)	<u>16,631,674</u>	<u>15,681,430</u>
Financial assets at amortized cost (B)	5,819,050,230	7,138,169,966
Accrued interest receivable, net of tax	73,502,697	111,038,511
Allowance for expected credit losses (Note 48)	<u>( 693,149,478)</u>	<u>( 46,139,038)</u>
	<u>5,199,403,449</u>	<u>7,203,069,439</u>
	<u>5,216,035,123</u>	<u>7,218,750,869</u>

### **A) Financial assets at fair value though other comprehensive income:**

Investments at fair value through other comprehensive income consisting of unquoted equity securities include an amount of LBP6.5billion as at December 31, 2019 representing the Bank's share in startups/incubators established based on co-sharing agreements with the regulator providing the funding (LBP5.5billion as at December 31, 2018).

**B) Financial assets at amortized cost:**

	<b>December 31, 2019</b>			
	<b>Amortized Cost</b>	<b>Accrued Interest Receivable</b>	<b>Expected Credit Loss</b>	<b>Net Carrying Amount</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Lebanese treasury bills	784,210,786	12,582,432	( 11,752,075)	785,041,143
Lebanese Government bonds	2,699,817,426	14,949,504	( 673,491,966)	2,041,274,964
Foreign government bonds	89,703,408	917,954	-	90,621,362
Certificates of deposit issued by the Central Bank of Lebanon	<u>2,245,318,610</u>	<u>45,052,807</u>	<u>( 7,905,437)</u>	<u>2,282,465,980</u>
	<u>5,819,050,230</u>	<u>73,502,697</u>	<u>( 693,149,478)</u>	<u>5,199,403,449</u>
	<b>December 31, 2018</b>			
	<b>Amortized Cost</b>	<b>Accrued Interest Receivable</b>	<b>Expected Credit Loss</b>	<b>Net Carrying Amount</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Lebanese treasury bills	965,330,555	15,969,862	( 4,903,430)	976,396,987
Lebanese Government bonds	3,325,160,575	37,840,865	( 36,476,346)	3,326,525,094
Foreign Government bonds	89,663,141	917,954	-	90,581,095
Certificates of deposit issued by the Central Bank of Lebanon	<u>2,734,122,958</u>	<u>56,204,763</u>	<u>( 4,747,153)</u>	<u>2,785,580,568</u>
Bonds issued by financial private sector	<u>23,892,737</u>	<u>105,067</u>	<u>( 12,109)</u>	<u>23,985,695</u>
	<u>7,138,169,966</u>	<u>111,038,511</u>	<u>( 46,139,038)</u>	<u>7,203,069,439</u>

During 2019, the Bank entered into one exchange transaction with the Central Bank of Lebanon of Lebanese treasury bills classified at amortized cost with a nominal value of LBP83billion against certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds with a nominal value of LBP88billion.

The above transaction resulted in aggregate losses in the amount of LBP5.7billion which are deferred as a yield adjustment to be amortized to profit or loss over the period remaining to maturity of the acquired securities. An amount of LBP167million was amortized and recorded under "Interest income" in the separate statement of profit or loss for the year ended December 31, 2019.

During 2018, the Bank entered into several exchange transactions with the Central Bank of Lebanon of certificates of deposit in Lebanese Pounds classified at amortized cost with a nominal value of LBP1,212billion and Lebanese treasury bills classified at amortized cost with a nominal value of LBP322.7billion against certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds with a nominal value of LBP1,570billion.

The above transactions resulted in aggregate losses in the amount of LBP38.1billion which are deferred as a yield adjustment to be amortized to profit or loss over the period remaining to maturity of the acquired securities. An amount of LBP1.6billion was amortized and recorded under "Interest income" in the statement of profit or loss for the year ended December 31, 2019 (LBP1.2billion for the year ended December 31, 2018).

During 2019 and 2018, the Bank entered into several sales transactions of debt securities at amortized cost that resulted in net losses of LBP56.4billion in 2019 (Gains of LBP300million in 2018) recognized in the separate statement of profit or loss. (Losses)/gains on derecognition of financial assets at amortized cost resulted from the sale of the following debt securities:

	<u>2019</u> LBP'000	<u>2018</u> LBP'000
Lebanese Government bonds	( 54,033,949)	299,958
Lebanese treasury bills	-	174
Certificates of deposit issued by the Central Bank of Lebanon	( 2,447,760)	-
Bonds issued by financial private sector	82,620	-
	<u>( 56,399,089)</u>	<u>300,132</u>

The sales transactions were entered into for the purpose of liquidity gap and yield management, exchange of financial assets with the Central Bank of Lebanon, deterioration of the credit rating and currency risk management.

Certain investment securities at amortized cost are pledged against facilities (Note 44).

### 13. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

	<u>December 31,</u>	
	<u>2019</u> LBP'000	<u>2018</u> LBP'000
Customers' liability under acceptance	308,464,957	399,934,367
Allowance for expected credit losses (Note 48)	( 2,484,539)	( 700,321)
	<u>305,980,418</u>	<u>399,234,046</u>

**14. INVESTMENTS IN AND LOANS TO SUBSIDIARIES**

	Activity	Country of Incorporation	Date of acquisition of Incorporation	Economic ownership		December 31,	
				2019 %	2018 %	2019 LBP'000	2018 LBP'000
<b>Investments:</b>							
Beirut Broker Company S.A.R.L.	Brokerage Firm	Lebanon	1999	100	100	213,572	213,572
Bank of Beirut UK Ltd (a)	Bank	UK	2002	100	100	67,548,359	65,082,387
Bank of Sydney Ltd (c)	Bank	Australia	2011	100	100	338,852,009	319,937,360
BOB Finance S.A.L.	Money Transfer	Lebanon	2006	100	100	9,999,000	9,999,000
Bank of Beirut Invest S.A.L.	Bank	Lebanon	2007	100	100	30,000,000	30,000,000
Cofida Holding S.A.L.	Holding Company	Lebanon	2008	100	100	75,375,000	75,375,000
Medawar 247 S.A.L.	Real Estate Company	Lebanon	2015	100	100	30,150,000	30,150,000
Medawar 1216 S.A.L.	Real Estate Company	Lebanon	2015	100	100	22,612,500	22,612,500
						<u>574,750,440</u>	<u>553,369,819</u>
<b>Loans:</b>							
Bank of Beirut UK LTD (a) (Note 43)						61,797,840	60,642,480
Medawar 247 S.A.L. (b) (Note 43)						25,847,612	25,847,612
Accrued interest receivable						<u>1,912,901</u>	<u>1,782,659</u>
						<u>89,558,353</u>	<u>88,272,751</u>
						<u>664,308,793</u>	<u>641,642,570</u>

The movement of the investments in subsidiaries during 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Balance at January 1	553,369,819	580,997,018
Subscription in the capital increase of a subsidiary	21,093,000	11,143,400
Foreign currency fluctuation	<u>287,621</u>	<u>( 38,770,599)</u>
Balance at December 31	<u>574,750,440</u>	<u>553,369,819</u>

- (a) During 2007, the Bank granted a subordinated loan to Bank of Beirut UK Ltd. in the amount of USD20million (equivalent to LBP30.15billion) maturing in 10 years and bearing an annual interest rate of 3 months Libor + 2%. In 2012, the maturity of the loan was extended to May 29, 2027. This loan will be settled in one payment at maturity.

During 2018, the Bank granted a new subordinated loan to Bank of Beirut UK Ltd. in the amount of GBP16million (equivalent to LBP30.64billion as at December 31, 2018) maturing in 15 years and bearing an annual interest rate of GBP Libor one year + 4%. This loan will be settled in equal principal payments for the amount of GBP1,600,000 each starting at the end of the 6<sup>th</sup> year.

Related interest income amounted to LBP2.4billion net of tax and LBP2.2billion as at December 31, 2019 and December 31, 2018, respectively, and is recorded under "Interest income" in the statement of profit or loss (Note 31).

The Bank had a fixed foreign currency position for an amount of GBP13.6million to partially hedge its investment in Bank of Beirut UK Ltd. The revaluation of this position as at December 31, 2019 resulted in an unfavorable variance of LBP4.62billion (unfavorable variance of LBP5.44billion in 2018) recorded in "Fixed currency position hedging reserve" under equity.

- (b) During 2017, the Bank granted Medawar 247 S.A.L. a loan in the amount of LBP25.8billion for the purpose of acquiring a plot of land adjacent to previously acquired plots in Medawar area.
- (c) During 2019, the Bank subscribed into the full increase of the capital of Bank of Sydney Ltd in the amount of AUD20,000,000 (equivalent to LBP21.1billion). During 2018, the Bank subscribed into the full increase of the capital of Bank of Sydney Ltd in the amount of AUD10,000,000 (equivalent to LBP11.14billion).

The Bank had a fixed foreign currency position for an amount of AUD98million to partially hedge its investment in Bank of Sydney Ltd. The revaluation of this position as at December 31, 2019 resulted in an unfavorable variance of LBP47.39billion (unfavorable variance of LBP46.68billion in 2018) recorded in "Fixed currency position hedging reserve" under equity.

(d) Dividends received from subsidiaries amounted to LBP19.5billion during 2019 (LBP16billion in 2018), recorded under "Dividends received from investment in subsidiaries" under "Other operating income" in the separate statement of profit or loss (Note 36).

### 15. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through extinguishment and/or restructuring of debt.

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

	<u>Real Estate</u> LBP'000
<b>Gross Amount:</b>	
Balance January 1, 2018	23,768,970
Additions	2,264,891
Disposals	( 440,877)
Balance December 31, 2018	25,592,984
Additions	73,980,965
Disposals	( 17,845,127)
Balance December 31, 2019	<u>81,728,822</u>
<b>Allowance for impairment:</b>	
Balance January 1, 2019	
Write-back to statement of profit or loss	( 1,026,266)
Allocation to free reserves	27,351
Balance December 31, 2019	<u>1,859</u>
	<u>( 997,056)</u>
<b>Carrying Amount:</b>	
Balance December 31, 2019	<u>80,731,766</u>
Balance December 31, 2018	<u>24,566,718</u>

During 2019, the Bank sold assets acquired in satisfaction of loans with an aggregate cost of LBP17.86billion (LBP441million during 2018). The sales resulted in a gain in the amount of LBP3.57billion during 2019 (LBP652million during 2018) recorded in the statement of profit or loss under "Other operating income (net)" (Note 36).

The fair value of assets acquired in satisfaction of loans amounted to LBP106billion as at December 31, 2019 (LBP36.7billion as at December 31 2018). The valuation is made by Bank's internal experts and/or external experts.

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and should be liquidated within 2 years. Up to July 20, 2018, in case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non-performing loans are met and subject to the approval of the Central Bank of Lebanon. Effective July 20, 2018, the regulatory reserve of all assets acquired in satisfaction of loans where the 2 years grace period for disposal elapses on or after July 20, 2018 should be appropriated from profit over a period of 20 years. This regulatory reserve is reflected under equity. In this connection, an amount of LBP2.29billion was appropriated in 2019 (LBP2.29billion in 2018). An amount of LBP1.29billion was transferred during 2019 to retained earnings upon the sale of the related foreclosed assets (LBP367million in 2018) (Note 27).

## 16. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2019 and 2018 was as follows:

	Lands and Buildings LBP'000	Furniture LBP'000	Equipment LBP'000	Vehicles LBP'000	Installations and Improvement LBP'000	Advances on Capital Expenditure LBP'000	Total LBP'000
<b>Gross Amount:</b>							
Balance January 1, 2018	141,052,453	40,898,039	52,223,905	760,542	69,463,009	10,523,119	314,921,067
Additions	9,573,472	2,326,389	2,338,705	-	899,525	15,313,886	30,451,977
Disposals	-	-	(299,081)	(70,482)	(994,259)	-	(1,363,822)
Transfers between categories	-	165,223	109,444	-	10,449,728	(10,724,395)	-
Transfers to intangible assets (Note 18)	-	-	-	-	-	(1,704,528)	(1,704,528)
Write off to general and administrative expenses	(673,676)	-	-	-	-	(735,793)	(1,409,469)
Other	-	-	-	-	-	(334,666)	(334,666)
Balance December 31, 2018	149,952,249	43,389,651	54,372,973	690,060	79,818,003	12,337,623	340,560,559
Additions	1,468,011	1,846,665	1,685,325	55,722	158,635	15,683,467	20,897,825
Disposals	-	(189,596)	(2,074)	(162,828)	(136,337)	-	(490,835)
Transfers between categories	-	749,018	2,399,287	-	10,326,427	(13,474,732)	-
Transfers to intangible assets (Note 18)	-	-	-	-	-	(305,755)	(305,755)
Write off to general and administrative	-	-	-	-	-	(858,205)	(858,205)
Balance December 31, 2019	151,420,260	45,795,738	58,455,511	582,954	90,166,728	13,382,398	359,803,589
<b>Accumulated depreciation:</b>							
Balance January 1, 2018	(29,634,022)	(24,253,324)	(39,526,634)	(470,106)	(55,430,835)	-	(149,314,921)
Additions (Note 39)	(2,828,234)	(2,890,526)	(4,505,720)	(87,366)	(8,209,602)	-	(18,521,448)
Disposal	-	-	268,070	70,480	994,259	-	1,332,809
Balance December 31, 2018	(32,462,256)	(27,143,850)	(43,764,284)	(486,992)	(62,646,178)	-	(166,503,560)
Additions (Note 39)	(2,897,511)	(2,928,276)	(4,560,955)	(75,330)	(8,345,025)	-	(18,807,097)
Disposal	-	174,414	207	130,200	136,337	-	441,158
Exchange Difference	3,916	1,788	-	(3,351)	-	-	2,353
Balance December 31, 2019	(35,355,851)	(29,895,924)	(48,325,032)	(435,473)	(70,854,866)	-	(184,867,146)
<b>Impairment allowance:</b>							
Balance December 31, 2019 and 2018	(300,000)	-	-	-	-	-	(300,000)
<b>Carrying amount:</b>							
December 31, 2019	115,764,409	15,899,814	10,130,479	147,481	19,311,862	13,382,398	174,636,443
December 31, 2018	117,189,993	16,245,801	10,608,689	203,068	17,171,825	12,337,623	173,756,999

Additions during 2019 and 2018 to “installation and improvement”, “furniture”, “equipment” and “advance payments on capital expenditures” represent mainly costs incurred in connection with the opening and refurbishment of branches in Lebanon.

Additions during 2018 to “Lands and Buildings” represent mainly costs incurred in connection with the acquisition of new premises for the purpose of expanding, existing or opening branches in the future.

#### 17. RIGHT-OF-USE ASSETS / LEASE LIABILITY

The Bank is a lessee in a number of leases consisting of retail branches. Leases of Buildings and Freehold Improvements generally have lease terms between 2 and 12 years. The Bank’s obligations under its leases are secured by the lessor’s title to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options.

The Bank also has certain leases with lease terms of 12 months or less. The Bank applies the ‘short-term lease’ recognition exemption for these leases.

The carrying amounts of the Bank’s right-of-use assets and lease liabilities and the movements during the year ended December 31, 2019 is as follows :

	<u>Right-of-use Assets</u> LBP’000	<u>Lease Liabilities</u> LBP’000
Balance at January 1, 2019	35,944,513	35,944,513
Depreciation expense (Note 39)	( 3,744,706)	-
Interest expense (Note 32)	-	1,360,524
Payments of lease liabilities	-	( 6,837,262)
Balance at December 31, 2019	<u>32,199,807</u>	<u>30,467,775</u>

#### 18. OTHER ASSETS

	<u>December 31,</u>	
	<u>2019</u> LBP’000	<u>2018</u> LBP’000
Intangible assets (a)	7,005,172	9,128,414
Fair value of forward contracts	20,403,017	21,304,573
Prepayments	5,825,870	10,664,579
Sundry accounts receivable	12,081,755	10,613,152
Medical costs receivable from National Social security Fund (b)	8,867,627	8,912,292
Other	1,338,209	1,307,581
	<u>55,521,650</u>	<u>61,930,591</u>
Allowance for expected credit losses (Note 48)	( 1,117,847)	( 1,105,366)
	<u>54,403,803</u>	<u>60,825,225</u>

(a) The movement of intangible assets is disclosed as follows:

	<u>Software</u> LBP'000	<u>Key Money</u> LBP'000	<u>Total</u> LBP'000
<b>Cost:</b>			
Balance, January 1, 2018	15,359,303	1,658,250	17,017,553
Additions	3,145,101	-	3,145,101
Transfers from property and equipment (Note 16)	<u>1,704,528</u>	-	<u>1,704,528</u>
Balance, December 31, 2018	20,208,932	1,658,250	21,867,182
Additions	205,833	-	205,833
Transfers from property and equipment (Note 16)	<u>305,755</u>	-	<u>305,755</u>
Balance, December 31, 2019	<u>20,720,520</u>	<u>1,658,250</u>	<u>22,378,770</u>
<b>Amortization:</b>			
Balance, January 1, 2018	( 9,834,564)	-	( 9,834,564)
Amortization for the year (Note 39)	<u>( 2,904,204)</u>	-	<u>( 2,904,204)</u>
Balance, December 31, 2018	( 12,738,768)	-	( 12,738,768)
Amortization for the year (Note 39)	<u>( 2,634,830)</u>	-	<u>( 2,634,830)</u>
Balance, December 31, 2019	<u>( 15,373,598)</u>	-	<u>( 15,373,598)</u>
<b>Net Book Value:</b>			
Balance, December 31, 2019	<u>5,346,922</u>	<u>1,658,250</u>	<u>7,005,172</u>
Balance, December 31, 2018	<u>7,470,164</u>	<u>1,658,250</u>	<u>9,128,414</u>

(b) Medical costs receivable from the National Social Security Fund represent medical expenses settled by the Bank to employees and expected to be recovered within three years from the date they were incurred because of substantial settlement delays by the National Social Security Fund.

#### 19. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Current accounts from banks and financial institutions	440,374,149	286,400,413
Current accounts – subsidiaries (Note 43)	19,988,055	19,100,151
Current accounts – related bank (Note 43)	279,641	621,830
Repurchase agreements (a)	30,907,519	258,296,934
Short term deposits (b)	1,162,602,912	1,500,801,961
Short term deposits - subsidiaries (Note 43)	53,955,628	94,220,575
Pledge deposits (c)	3,022,915	3,007,873
Accrued interest payable	<u>12,995,583</u>	<u>10,275,797</u>
	<u>1,724,126,402</u>	<u>2,172,725,534</u>

(a) During 2019 and 2018, the Bank entered into the following repurchase transactions with foreign financial institutions to sell Lebanese Eurobonds under agreement to repurchase them. These transactions are subject to call margin to be deposited by the Bank as collateral in case the securities decline in value. As at December 31, 2019, the carrying amount and the fair value of the Lebanese Eurobonds sold under agreements to repurchase was LBP1,812billion (USD1,202million) and LBP832billion (USD552million) (LBP706billion (USD468million) and LBP560billion (USD371.5million) at December 31, 2018), respectively. Those securities are reflected in the statement of financial position under "Financial assets at amortized cost" (note 12). As a result of the decline in value of these collateralized Lebanese Eurobonds, the Bank deposited a call margin in the amount of LBP648billion as of December 31, 2019 (LBP43billion as of December 31, 2018) that was netted from the corresponding repurchase agreements as follows:

	<u>December 31,</u> <u>2019</u> <u>LBP'000</u>	<u>December 31,</u> <u>2018</u> <u>LBP'000</u>
Proceeds from repurchase agreements:		
- 6.55% maturity January 14, 2020	150,750,000	-
- 5.815% maturity March 6, 2023	301,500,000	301,500,000
- 5.915% maturity March 28, 2024	<u>226,596,094</u>	<u>-</u>
Proceeds from repurchase agreements	678,846,094	301,500,000
Less: Cash margin	<u>( 647,938,575)</u>	<u>( 43,203,066)</u>
Net	<u>30,907,519</u>	<u>258,296,934</u>

(b) Short term deposits include withdrawals from the Arab Trade Finance Program facility in the amount of LBP7.6billion (USD5,049,810) as of December 31, 2019 (LBP10.9billion (USD7,225,535) in 2018). This facility was granted to the Bank to finance imports and exports among Arab countries.

(c) Pledged deposits represent deposits pledged by non-resident banks to the favor of the Bank against trade finance activities.

## 20. CUSTOMERS' AND RELATED PARTIES' DEPOSITS

	<b>December 31, 2019</b>		
	<b>LBP</b>	<b>F/Cy</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Deposits from customers:</b>			
Current and demand deposits	417,196,181	1,140,030,391	1,557,226,572
Term deposits	3,788,190,612	8,827,834,552	12,616,025,164
Credit accounts against loans and advances	315,276,323	468,194,660	783,470,983
Margins for irrevocable import letters of credit	70,619,732	26,799,059	97,418,791
Margins on letters of guarantee	8,865,814	42,319,140	51,184,954
Other margins	<u>6,211,323</u>	<u>19,801,754</u>	<u>26,013,077</u>
	4,606,359,985	10,524,979,556	15,131,339,541
Accrued interest payable	<u>62,222,759</u>	<u>51,922,232</u>	<u>114,144,991</u>
	<u>4,668,582,744</u>	<u>10,576,901,788</u>	<u>15,245,484,532</u>
<b>Deposits from related parties:</b>			
Current and demand deposits	24,518,998	42,942,158	67,461,156
Term deposits	70,782,042	329,130,768	399,912,810
Credit accounts against loans and advances	236,734	17,480,117	17,716,851
Margins on letters of guarantee	50,606	25,090	75,696
Other margins	<u>1,046,753</u>	<u>641,917</u>	<u>1,688,670</u>
	96,635,133	390,220,050	486,855,183
Accrued interest payable	<u>976,760</u>	<u>6,713,505</u>	<u>7,690,265</u>
	<u>97,611,893</u>	<u>396,933,555</u>	<u>494,545,448</u>
<b>Total deposits</b>	<u><u>4,766,194,637</u></u>	<u><u>10,973,835,343</u></u>	<u><u>15,740,029,980</u></u>

	<b>December 31, 2018</b>		
	<b>LBP</b>	<b>F/Cy</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Deposits from customers:</b>			
Current and demand deposits	370,194,234	991,051,402	1,361,245,636
Term deposits	4,380,544,230	9,964,315,958	14,344,860,188
Credit accounts against loans and advances	370,943,431	1,101,250,418	1,472,193,849
Margins for irrevocable import letters of credit	-	86,158,834	86,158,834
Margins on letters of guarantee	11,533,036	96,125,892	107,658,928
Other margins	<u>6,752,869</u>	<u>21,985,234</u>	<u>28,738,103</u>
	5,139,967,800	12,260,887,738	17,400,855,538
Accrued interest payable	<u>51,711,885</u>	<u>65,350,919</u>	<u>117,062,804</u>
	<u>5,191,679,685</u>	<u>12,326,238,657</u>	<u>17,517,918,342</u>
<b>Deposits from related parties:</b>			
Current and demand deposits	18,556,901	37,255,435	55,812,336
Term deposits	69,277,886	347,586,715	416,864,601
Credit accounts against loans and advances	278,482	72,401,111	72,679,593
Margins on letters of guarantee	48,296	9,981	58,277
Other margins	<u>985,428</u>	<u>620,645</u>	<u>1,606,073</u>
	89,146,993	457,873,887	547,020,880
Accrued interest payable	<u>340,867</u>	<u>1,179,038</u>	<u>1,519,905</u>
	<u>89,487,860</u>	<u>459,052,925</u>	<u>548,540,785</u>
<b>Total deposits</b>	<u><u>5,281,167,545</u></u>	<u><u>12,785,291,582</u></u>	<u><u>18,066,459,127</u></u>

Customers' and related parties' deposits at amortized cost are allocated by brackets of deposits as follows (excluding accrued interest payable):

<b>December 31, 2019</b>				
<u>LBP</u>	<u>F/Cy</u>			
<u>Total</u>	<u>Total</u>	<u>% of</u>	<u>% of</u>	
<u>Deposits</u>	<u>Deposits</u>	<u>Customers</u>	<u>Deposits</u>	
<u>LBP'000</u>	<u>LBP'000</u>			
<b>Deposits from customers:</b>				
Less than LBP 500 million	2,198,796,008	3,048,068,825	96.88	34.67
From LBP 500 million to LBP 1.5 billion	794,888,244	2,061,572,517	2.37	18.88
From LBP 1.5 billion to LBP 5 billion	441,853,142	1,726,505,503	0.58	14.33
Over LBP 5 billion	<u>1,170,822,591</u>	<u>3,688,832,711</u>	<u>0.17</u>	<u>32.12</u>
	<u>4,606,359,985</u>	<u>10,524,979,556</u>	<u>100.00</u>	<u>100.00</u>
<b>Deposits from related parties:</b>				
Less than LBP 500 million	1,894,911	4,995,860	76.47	1.42
From LBP 500 million to LBP 1.5 billion	2,652,972	9,224,631	10.29	2.44
From LBP 1.5 billion to LBP 5 billion	4,032,203	16,675,213	5.15	4.25
Over LBP 5 billion	<u>88,055,047</u>	<u>359,324,346</u>	<u>8.09</u>	<u>91.89</u>
	<u>96,635,133</u>	<u>390,220,050</u>	<u>100.00</u>	<u>100.00</u>
	<u>4,702,995,118</u>	<u>10,915,199,606</u>		

<b>December 31, 2018</b>				
<u>LBP</u>	<u>F/Cy</u>			
<u>Total</u>	<u>Total</u>	<u>% of</u>	<u>% of</u>	
<u>Deposits</u>	<u>Deposits</u>	<u>Customers</u>	<u>Deposits</u>	
<u>LBP'000</u>	<u>LBP'000</u>			
<b>Deposits from customers:</b>				
Less than LBP 500 million	2,459,822,515	2,761,430,324	96.70	30.01
From LBP 500 million to LBP 1.5 billion	901,838,318	2,004,405,248	2.40	16.70
From LBP 1.5 billion to LBP 5 billion	562,605,859	1,904,920,203	0.70	14.18
Over LBP 5 billion	<u>1,215,701,108</u>	<u>5,590,131,963</u>	<u>0.20</u>	<u>39.11</u>
	<u>5,139,967,800</u>	<u>12,260,887,738</u>	<u>100.00</u>	<u>100.00</u>
<b>Deposits from related parties:</b>				
Less than LBP 500 million	2,758,416	5,204,763	78.02	1.46
From LBP 500 million to LBP 1.5 billion	1,526,191	5,737,172	7.80	1.33
From LBP 1.5 billion to LBP 5 billion	5,151,075	15,354,831	5.67	3.75
Over LBP 5 billion	<u>79,711,311</u>	<u>431,577,121</u>	<u>8.51</u>	<u>93.46</u>
	<u>89,146,993</u>	<u>457,873,887</u>	<u>100.00</u>	<u>100.00</u>
	<u>5,229,114,793</u>	<u>12,718,761,625</u>		

Deposits from customers include as at December 31, 2019 coded deposit accounts in the aggregate of LBP35.2billion (LBP33.1billion as at December 31, 2018). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include as at December 31, 2019 deposits of fiduciary nature received from resident and non-resident banks for a total amount of LBP51billion and LBP31.5billion respectively (LBP167billion and LBP512billion in 2018).

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

Year	Average Balance of Deposits LBP'000	Allocation of Deposits		Cost of Funds LBP'000	Average Cost of Funds %
		LBP	F/Cy		
		%	%		
Year 2019	15,913,002,208	32	68	1,042,635,966	6.55
Year 2018	16,075,943,729	34	66	814,998,104	5.07
Year 2017	15,378,076,064	36	64	706,377,393	4.59

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

Year	Average Balance of Deposits LBP'000	Allocation of Deposits		Cost of Funds LBP'000	Average Cost of Funds %
		LBP	F/Cy		
		%	%		
Year 2019	543,191,591	17	83	35,943,925	6.62
Year 2018	506,469,268	14	86	21,304,173	4.21
Year 2017	540,394,946	11	89	20,509,813	3.79

## 21. OTHER BORROWINGS

	December 31,	
	2019	2018
	LBP'000	LBP'000
Borrowings from Central Bank of Lebanon (a)	510,351,342	556,311,685
Borrowings from the European Investment Bank (b)	2,516,740	5,784,294
Short term borrowing from Central Bank of Lebanon (c)	625,612,500	-
	1,138,480,582	562,095,979
Accrued interest payable	9,057,891	5,863,525
	<u>1,147,538,473</u>	<u>567,959,504</u>

(a) Borrowings from Central Bank of Lebanon as of December 31, 2019 and 2018 represent facilities in accordance with Central Bank of Lebanon Basic Decision No.6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans that the Bank granted at its own risk to customers pursuant to certain conditions, rules and mechanism.

(b) Borrowings from European Investment Bank are summarized as follows:

<u>December 31, 2019</u> C/V LBP'000	<u>December 31, 2018</u> C/V LBP'000	<u>Final Maturity Year</u>	<u>Average Interest Rate</u> %
-	1,870,370	2019	4.03
255,490	748,174	2020	4.93
<u>2,261,250</u>	<u>3,165,750</u>	2022	4.84
<u>2,516,740</u>	<u>5,784,294</u>		

Borrowings from the European Investment Bank were obtained to finance loans granted to customers in the manufacturing sector.

(c) During 2019, the Bank was granted several loans from the Central Bank of Lebanon, of which USD415million (LBP625.6billion) was outstanding at year-end. These loans bear an interest rate of 20% annually.

The movement of other borrowings is detailed as follows:

	<u>2019</u> LBP'000	<u>2018</u> LBP'000
Balance at January 1	562,095,979	733,069,825
Financing cash flows	2,127,014,664	24,148,732
Settlements	(1,550,630,061)	(195,122,578)
Balance at December 31	<u>1,138,480,582</u>	<u>562,095,979</u>

## 22. OTHER LIABILITIES

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Checks and incoming payment orders in course of settlement	37,951,801	46,215,354
Fair value of forward contracts	4,191,450	5,058,923
Dividends payable	-	2,652,564
Accrued expenses	43,736,800	25,510,054
Deferred income	5,301,075	6,609,603
Income tax payable (a)	16,866,459	40,616,017
Withheld taxes	12,255,995	12,957,926
Fair value of financial guarantees	3,574,862	3,897,789
Margins on letters of credit - banks	12,229,403	14,627,716
Margins on letters of credit - related bank (Note 43)	-	264
Margins on Letters of guarantee	3,491,887	9,766,405
Sundry accounts payable	24,022,065	15,164,199
Unfavorable exchange difference on fixed currency position (Note 24)	49,082	49,082
Discount on forward deals (net)	10,184,068	16,215,657
	<u>173,854,947</u>	<u>199,341,553</u>

(a) The following table explains the relationship between taxable income and accounting income:

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
(Loss)/profit before tax	( 178,215,179)	259,790,059
Less: Non-taxable revenues	( 533,214,334)	( 52,959,006)
Add: Non-deductible expenses	807,847,765	35,652,226
Less: Profit of foreign branches	( 2,719,226)	( 8,497,755)
Taxable income	<u>93,699,026</u>	<u>233,985,524</u>
Income tax (17%)	15,928,834	39,777,539
Add: Income tax on foreign branches	578,704	870,465
Tax expense for the year	<u>16,507,538</u>	<u>40,648,004</u>
Less: Foreign branch tax paid	( 293,822)	( 400,595)
Accrued tax payable brought forward balance	652,743	368,608
Income tax payable as at December 31	<u>16,866,459</u>	<u>40,616,017</u>

The tax returns of the Bank for the years 2015 to 2019 remain subject to examination and final tax assessment by the tax authorities. Any additional liability depends on the result of these reviews.

Oman branch's tax assessments for the years 2015 to 2019 have yet to be finalized by the Secretariat General for Taxation. The management believes that additional taxes, if any, in respect of open tax assessments would not be material to the Bank's results and financial position as of the reporting date.

- (b) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from sale of treasury bills in Lebanese pounds against investment in medium term certificates of deposits in foreign currency issued by the Central Bank of Lebanon under deferred liability which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted Credit risks, and that in anticipation of implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

In light with the above, the Bank appropriated on January 1, 2018 an amount of LBP227.5billion, net of tax, out of this surplus to equity under "Reserves and Retained Earnings" to offset the expected loss provisions resulted from the application of IFRS 9 and transferred an amount of LBP11.3billion net of tax to provision for risks and charges (note 23) to be appropriated against impairment loss of an indirect investment in an associate, in accordance with the Central Bank of Lebanon requirements as indicated above.

### 23. PROVISIONS

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Provision for employees' end-of-service indemnity (a)	28,913,421	32,161,859
Provision for risks and charges (b)	20,810,355	20,810,355
Provision for loss on foreign currency position	194,000	194,000
Other provisions	121,870	123,192
Provision for expected credit losses on off-balance sheet commitments (Note 48)	<u>3,643,328</u>	<u>4,571,576</u>
	<u>53,682,974</u>	<u>57,860,982</u>

(a) The movement of provision for employees' end-of-service indemnity during 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Balance at January 1	32,161,859	29,842,100
Additions (Note 37)	454,784	3,680,546
Settlements	( 3,703,222)	( 1,360,787)
Balance at December 31	<u>28,913,421</u>	<u>32,161,859</u>

(b) The movement of provision for risks and charges is summarized as follows:

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Balance at January 1	20,810,355	9,495,355
Prior year adjustments	-	15,000
Transfer from regulatory deferred liability (Note 22 "d")	-	11,300,000
Balance at December 31	<u>20,810,355</u>	<u>20,810,355</u>

#### **24. SHARE CAPITAL**

At December 31, 2019 and 2018, the authorized ordinary share capital of the Bank was LBP82.1billion consisting of 56,234,900 fully paid shares of LBP1,460 par value each.

During 2018, the Bank issued 3,050,000 common shares, listed on the Beirut Stock Exchange at an issue price of USD18.8 per share aggregating to USD57,340,000. The par value of each share is LBP1,460 which resulted in issue premiums in the amount of LBP82billion reflected under equity. The approval of the Capital Markets Authority was obtained on April 18, 2018. The approval of the Central Bank of Lebanon was obtained on September 10, 2018.

As of December 31, 2019 and 2018, the Bank had 4,762,000 Series 2014 priority shares (common shares) in the amount of USD100,002,000 with an issue price of USD21 and a par value of LBP1,460. These priority shares earn non-cumulative annual dividends of 4% of the issue price. Any dividends remaining after the payment of priority dividends following the payment of preferred shares dividends, shall be shared on a prorata basis exclusively among the holders of the priority and common shares of the Bank.

Subject to the absence of the Extension Period set below, the earning by the Series 2014 Priority Shares of the Priority Dividend will, automatically and without the need to the approval of, or consultation with, the holders of the Priority Shares, finally cease immediately following the Ordinary General Meeting of the Bank's shareholders that will examine the Bank's audited financial statements for the financial year 2019; without prejudice, however, to the right of the holders of such Priority Shares to receive the distribution of the Priority Dividend; if any, resolved by the Bank's Ordinary General Meeting of shareholders for the financial year 2019. As a result, the Series 2014 Priority Shares will cease to be identified as a special class within the Common Shares of the Bank and become mere Common Shares subject to the rights and obligations devolving on all the Bank's Common Shares.

The Bank shall have the right, but not the obligation, to resolve, prior to the holding of the above mentioned General Meeting, the extension of the Priority Period for two consecutive years (the "Extension Period").

As of December 31, 2019 and 2018, the Bank's capital was partly hedged by maintaining a fixed foreign currency position to the extent of USD13.17million. The revaluation of this position resulted in unfavorable exchange difference in the amount of LBP49million recorded under "other liabilities" as at December 31, 2019 and 2018 (Note 22).

## 25. PREFERRED SHARES

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Non-cumulative perpetual redeemable Series "G" preferred shares	188,362,125	188,362,125
Non-cumulative perpetual redeemable Series "H" preferred shares	203,512,500	203,512,500
Non-cumulative perpetual redeemable Series "I" preferred shares	188,437,500	188,437,500
Non-cumulative perpetual redeemable Series "J" preferred shares	113,062,500	113,062,500
Non-cumulative perpetual redeemable Series "K" preferred shares	<u>150,750,000</u>	<u>150,750,000</u>
	<u>844,124,625</u>	<u>844,124,625</u>

The Bank's issued preferred shares carry the following terms:

<u>Non-cumulative perpetual redeemable preferred shares</u>	<u>Number of Shares</u>	<u>Share's issue price</u>	<u>Benefits</u>	<u>Listed on Beirut Stock Exchange</u>
Series "G"	3,570,000	USD 35	6.75% per year	No
Series "H"	5,400,000	USD 25	7.00% per year	Yes
Series "I"	5,000,000	USD 25	6.75% per year	Yes
Series "J"	3,000,000	USD 25	6.50% per year	Yes
Series "K"	4,000,000	USD 25	6.50% per year	Yes

The Bank has the right, at its sole discretion, to redeem on each redemption date all or part of the Series "G", "H", "I", "J" and "K" preferred shares (but not less than 25%). Redemption date means for the first time the financial year during which falls the 5<sup>th</sup> anniversary of the Extraordinary General Meeting of the Bank's shareholders which ascertains the validity and payment of the capital increase by virtue of which the Preferred Shares are issued; and every consecutive 2 years thereafter.

In the event of liquidation of the Bank, holders of preferred shares Series "G", "H", "I", "J" and "K" rank senior to the holders of common and priority shares.

## **26. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL**

The shareholders' cash contribution to capital is for a total amount of LBP20.98billion (USD13,916,000) as at December 31, 2019 and 2018 and it is non-interest bearing.

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

## **27. RESERVES**

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Legal reserve (a)	206,278,981	184,364,776
Reserves restricted for capital increase (b)	40,560,678	32,168,878
Issue premiums on common shares (c)	385,505,908	385,505,908
Special reserves setup from net release of provision for credit losses	2,094,833	2,096,757
Non-distributable general reserves (d)	294,909,766	294,909,766
Owned buildings' revaluation surplus	1,668,934	1,668,934
Regulatory reserve for assets acquired in satisfaction of loans (Note 15)	12,568,198	11,557,394
	<u>943,587,298</u>	<u>912,272,413</u>

- (a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit for Lebanese entities. This reserve is not available for distribution. During 2019, an amount of LBP21.9billion was appropriated to legal reserve (LBP19.9billion during 2018).

(b) The movement of reserves restricted for capital increase during 2019 and 2018 was as follows :

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Opening balance	32,168,878	31,427,755
Additions	<u>8,391,800</u>	<u>741,123</u>
Ending Balance	<u>40,560,678</u>	<u>32,168,878</u>

During 2019, in compliance with the BCC Circular No.173, the Bank appropriated an amount of LBP652million (LBP370billion in 2018) representing gains from disposals of assets acquired in satisfaction of debts from net income of the previous year to reserves restricted for capital increase (Note 15).

(c) The movement of issue premiums on common shares during 2019 and 2018 was as follows:

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Balance at January 1	385,505,908	303,518,858
Additions (Note 24)	<u>-</u>	<u>81,987,050</u>
Balance at December 31	<u>385,505,908</u>	<u>385,505,908</u>

(d) The movement of non-distributable general reserves during 2019 and 2018 was as follows:

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Balance at January 1	294,909,766	-
Transfer from reserve for general banking risk (e)	-	287,709,766
Transfer from general reserves for performing loans (f)	<u>-</u>	<u>7,200,000</u>
Balance at December 31	<u>294,909,766</u>	<u>294,909,766</u>

In accordance with BDL Basic Circular #143 issued in November 2017, banks are no longer by the end of the year 2017, required to setup reserves for general banking risks and other reserves for credit risks. Banks are required to appropriate the excess after implementation of IFRS 9 *Impairment* on January 1, 2018, to non-distributable general reserve.

- (e) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Lebanese bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution. During 2018, this reserve was transferred to non-distributable general reserve in accordance with BDL Basic circular #143.
- (f) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Bank and its local banking subsidiaries are required to transfer from net profit to general reserve for performing loans the equivalent of:
- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.
  - 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

During 2018, this reserve was transferred to non-distributable general reserves in accordance with BDL Basic circular # 143 .

## **28. (LOSS)/PROFIT FOR THE YEAR**

The allocation of the profit for the year between Lebanon branches and foreign branches is as follows:

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Loss Before Tax LBP'000	Income Tax LBP'000	Loss LBP'000	Profit Before Tax LBP'000	Income Tax LBP'000	Profit LBP'000
Lebanon branches	(180,934,405)	( 15,928,834)	(196,863,239)	251,292,304	( 39,777,539)	211,514,765
<u>Foreign branches</u>						
Cyprus Branch	1,357,326	( 293,822)	1,063,504	2,240,829	( 400,595)	1,840,234
Oman Branches	<u>1,361,900</u>	<u>( 284,882)</u>	<u>1,077,018</u>	<u>6,256,926</u>	<u>( 469,870)</u>	<u>5,787,056</u>
	<u>(178,215,179)</u>	<u>( 16,507,538)</u>	<u>(194,722,717)</u>	<u>259,790,059</u>	<u>( 40,648,004)</u>	<u>219,142,055</u>

## 29. DIVIDENDS PAID

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
LBP1,150 (LBP1,150 for 2018) per ordinary share (common and priority)	70,146,435	66,638,935
LBP1,266.3 priority shares Series 2014	6,030,121	6,030,121
LBP3,561.47 (LBP3,561.47 for 2018) per preferred share Series "G"	12,714,443	12,714,443
LBP2,638.13 (LBP2,638.13 for 2018) per preferred share Series "H"	14,245,875	14,245,875
LBP2,543.91 (LBP2,543.91 for 2018) per preferred share Series "I"	12,719,531	12,719,531
LBP2,449.69 (LBP2,449.69 for 2018) per preferred share Series "J"	7,349,063	7,349,063
LBP2,449.69 (LBP2,449.69 for 2018) per preferred share Series "K"	9,798,750	9,798,750
	<u>133,004,218</u>	<u>129,496,718</u>

## 30. TREASURY SHARES

The Bank is authorized to buy back up to one third of its listed shares on the Beirut Stock Exchange from its free reserves.

The movement of treasury shares during 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
	<u>USD</u>	<u>USD</u>
<b>Common shares and priority shares:</b>		
Opening balance	2,442,354	30,204,804
Buy back	1,183,904	2,277,726
Disposals	-	( 30,040,176)
Ending balance	<u>3,626,258</u>	<u>2,442,354</u>
C/V in LBP'000	<u>5,466,583</u>	<u>3,681,848</u>

During 2018, the Bank sold 2,131,788 common shares with an aggregate carrying value of USD30million.

### 31. INTEREST INCOME

	2019		
	<u>Total Interest Income</u> LBP'000	<u>Withheld Taxes</u> LBP'000	<u>Net Interest Income</u> LBP'000
Interest income from:			
Deposits with central banks	1,082,563,473	( 60,950,098)	1,021,613,375
Deposits with banks and financial institutions	19,347,488	( 35,496)	19,311,992
Deposits with related banks and financial institutions	2,653,642	( 41,617)	2,612,025
Loans to banks	792,593	-	792,593
Investment securities at amortized cost	483,989,647	( 24,794,804)	459,194,843
Loans and advances to customers	436,223,806	-	436,223,806
Loans and advances to related parties	5,973,928	-	5,973,928
Subordinated loans with related banks	2,943,544	( 579,554)	2,363,990
	<u>2,034,488,121</u>	<u>( 86,401,569)</u>	<u>1,948,086,552</u>

	2018		
	<u>Total Interest Income</u> LBP'000	<u>Withheld Taxes</u> LBP'000	<u>Net Interest Income</u> LBP'000
Interest income from:			
Deposits with central banks	414,030,845	( 26,635,999)	387,394,846
Deposits with banks and financial institutions	11,880,551	( 48,279)	11,832,272
Deposits with related banks and financial institutions	3,335,434	-	3,335,434
Loans to banks	4,546,336	-	4,546,336
Investment securities at amortized cost	513,141,368	( 24,511,457)	488,629,911
Loans and advances to customers	383,430,009	-	383,430,009
Loans and advances to related parties	16,156,489	-	16,156,489
Subordinated loans with related banks	2,885,068	( 670,791)	2,214,277
	<u>1,349,406,100</u>	<u>( 51,866,526)</u>	<u>1,297,539,574</u>

### 32. INTEREST EXPENSE

	2019	2018
	<u>LBP'000</u>	<u>LBP'000</u>
Interest expense on:		
Deposits from banks and financial institutions	120,991,879	59,225,099
Deposits from related banks and financial institutions	3,881,411	3,605,737
Deposits from customers	1,042,635,966	814,998,104
Deposits from related parties	35,943,925	21,304,173
Other borrowings	19,471,427	8,774,608
Lease liability	1,360,524	-
	<u>1,224,285,132</u>	<u>907,907,721</u>

**33. FEE AND COMMISSION INCOME**

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Commissions on documentary credits	15,694,927	27,012,760
Commissions on letters of guarantee	11,836,014	12,471,043
Commissions on money transfers' transactions	34,151	47,237
Commissions on asset management	143,918	221,909
Commissions on fiduciary accounts	2,134,425	1,703,952
Commissions on banking services	29,754,675	29,070,676
Commissions on credit cards	16,059,713	14,630,890
Commissions on capital market transactions	33,645,417	13,095,906
Other	2,810,800	1,292,171
	<u>112,114,040</u>	<u>99,546,544</u>

**34. FEE AND COMMISSION EXPENSE**

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Commissions on transactions with banks and financial institutions	1,092,667	691,875
Commissions on credit cards	9,507,160	7,010,365
Commissions on fiduciary deposits	1,920,830	1,558,746
Commissions on loans	1,360,439	2,951,355
Other	5,134,131	2,856,396
	<u>19,015,227</u>	<u>15,068,737</u>

**35. NET (LOSS)/ INCOME ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Interest income, net of tax	1,035,612	2,076,653
Change in fair value (net)	( 3,635,802)	( 1,588,528)
(Loss)/gain on sale	( 5,661)	101,871
Dividends received	618,996	640,791
	<u>( 1,986,855)</u>	<u>1,230,787</u>

**36. OTHER OPERATING INCOME (NET)**

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Dividends received from investment in subsidiaries (Note 14)	19,507,500	15,909,750
Dividends received from other investments	9,774	8,613
Loss on sale of property and equipment	-	( 25,063)
Gain on sale of assets acquired in satisfaction of loans (Note 15)	3,573,703	651,803
Loss on forward contracts	4,990,551	4,851,901
Foreign exchange gain	13,455,325	14,557,290
Other (net)	<u>567,751</u>	<u>8,325,281</u>
	<u>42,104,604</u>	<u>44,279,575</u>

**37. STAFF COSTS**

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Salaries	109,525,936	111,294,239
Social Security contributions	12,350,213	13,164,460
Executive board members remunerations	-	16,500,000
Provision for end-of-service indemnity (Note 23)	<u>454,784</u>	<u>3,680,546</u>
	<u>122,330,933</u>	<u>144,639,245</u>

**38. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Management fees	3,272,349	6,935,322
Cleaning	2,567,137	2,529,409
Telephone, mail and other communication expenses	4,316,753	4,753,736
Office supplies	3,632,515	2,750,276
Advertising and marketing expenses	7,122,029	10,980,422
Electricity and fuel	3,801,272	3,490,924
Maintenance and repair fees	12,364,071	11,295,376
Subscription fees	1,798,866	1,985,264
Donation and gifts	921,734	1,490,248
Reception and entertainment	1,230,784	1,471,632
Professional and regulatory fees	8,787,994	8,268,444
Research and development expenses	1,242,201	1,599,532
Rent expense under operating leases (Note 2)	3,879,669	7,373,778
Insurance expenses	1,504,660	1,301,310
Travel and related expenses	1,512,398	3,580,783
Centrale des risques	1,166,224	692,273
Taxes and fiscal charges	7,513,038	8,484,851
Miscellaneous expenses	<u>17,067,573</u>	<u>14,385,129</u>
	<u>83,701,267</u>	<u>93,368,709</u>

### **39. DEPRECIATION AND AMORTIZATION**

	<u>2019</u> LBP'000	<u>2018</u> LBP'000
Depreciation of right-use assets (Note 17)	3,744,706	-
Depreciation of property and equipment (Note 16)	18,807,097	18,521,448
Amortization of deferred software charges (Note 18)	<u>2,634,830</u>	<u>2,904,204</u>
	<u>25,186,633</u>	<u>21,425,652</u>

### **40. ALLOWANCE FOR EXPECTED CREDIT LOSSES (NET)**

	<u>2019</u> LBP'000	<u>2018</u> LBP'000
Allowances for expected credit losses ,net (Note 48)	747,419,299	( 49,173)
Loss from write-off of loans	<u>532,934</u>	<u>745,662</u>
	<u>747,952,233</u>	<u>696,489</u>

### **41. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS**

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

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

#### **42. FIDUCIARY ACCOUNTS**

Fiduciary accounts are invested as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Back-to-back lending	47,240,286	60,966,658
Equity securities (long position)	63,102,045	80,255,420
Derivatives	( 2,307,879)	( 1,979,580)
Debt leverage	24,467,090	26,180,038
	<u>132,501,542</u>	<u>165,422,536</u>

#### **43. BALANCES / TRANSACTIONS WITH RELATED PARTIES**

In the ordinary course of its activities, the Bank conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Balances with related parties consist of the following:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
<b>Shareholders, directors and other key management personnel and close family members and their related companies</b>		
<i>Direct facilities and credit balances:</i>		
Secured loans and advances	20,523,022	71,274,342
Unsecured loans and advances	33,219,794	88,009,489
Deposits	( 486,855,183)	( 547,020,880)
Accrued interest receivable	47,933	254,415
Accrued interest payable	( 7,690,265)	( 1,519,907)
<i>Indirect facilities:</i>		
Letters of guarantee	34,661,950	4,499,890
<b>Subsidiaries and a related bank and companies</b>		
<i>Direct facilities and credit balances:</i>		
Secured loans and advances	-	240,624,866
Deposits with a related bank (Note 7)	-	7,426,776
Term placements with subsidiaries (Note 7)	73,771,242	129,802,824
Pledged deposits with subsidiaries (Note 7)	16,680,518	-
Loans to subsidiaries (Note 14)	87,645,452	86,490,092
Margin on letter of credit (Note 22)	-	( 264)
Current account from a related bank and subsidiaries (Note 19)	( 20,267,696)	( 19,721,981)
Short term deposits from subsidiaries (Note 19)	( 53,955,628)	( 94,220,575)

Secured loans and advances are covered as of December 31, 2019 by real estate mortgages to the extent of LBP2.3billion (LBP6.9billion as of December 31, 2018), and pledged deposits of the respective borrowers to the extent of LBP14.9billion (LBP79.9billion as of December 31, 2018).

The remuneration of executive management amounted to LBP1.39billion during 2019 (LBP1.39billion during 2018) in addition to incentives linked to performance representing 6% of profit before tax.

General and administrative expenses for the year ended December 31, 2019 include rent expenses to related parties for USD175,000 (USD165,750 for the year ended December 31, 2018) and management expenses to related parties for USD900,000 (USD900,000 for the year ended December 31, 2018).

#### 44. COLLATERAL GIVEN

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

	December 31, 2019			
	Pledged Amount LBP'000	Nature of Facility	Corresponding Facilities	
		Amount of Facility LBP'000	Nature of Facility	Amount of Facility LBP'000
Pledged deposits with banks	381,647	Performance bonds	4,220,456	-
Pledged deposits with banks	57,664,029	Foreign currency (Bought)	238,954,175	Foreign currency (Sold) 239,704,903
Lebanese government bonds	1,812,015,000			
Cash margin	647,938,575	Repurchase agreements	678,846,094	-
	2,459,953,575			
December 31, 2018				
	Corresponding Facilities			
	Pledged Amount LBP'000	Nature of Facility	Amount of Facility LBP'000	Nature of Facility
Pledged deposits with banks	381,647	Performance bonds	4,231,757	-
Pledged deposits with banks	108,638,328	Foreign currency (Bought)	375,067,964	Foreign currency (Sold) 360,661,062
Pledged deposits with banks	23,790,234	Short term deposits	21,105,000	-
Lebanese government bonds and bonds issued by financial private sector	800,254,868			
Cash margin	43,203,066	Repurchase agreements	301,500,000	-
	843,457,934			

#### **45. CONTINGENCIES**

As of the date of the separate statement of financial position, there are lawsuits and litigations, whereby the Bank is either plaintiff or defendant, pending before the competent courts and the outcome of which cannot be determined at present. One of these litigations might be sensitive with risk relatively low and not based on valid grounds according to the Bank's legal advisor.

Also, The Bank, amongst 10 other banks in the country, is defendant in a civil action brought on January 1, 2019 under the Anti-Terrorism Act ("ATA"), at United States District Court, Eastern District of New York, by a group of plaintiffs claiming to have suffered losses by reason of acts of international terrorism occurring between 2004 and 2011. The Bank's management states that the Bank has not been involved in any wrong doing and has appointed lawyers to defend its case. Management is of the opinion that the risk derived from the outcome of the lawsuit is relatively low and will not result in an adverse impact on the Bank's financial statements.

#### **46. NOTE TO THE CASH FLOWS STATEMENT**

##### **A. Cash and cash equivalents**

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Cash (Note 6)	33,277,249	58,681,061
Current accounts with central banks	316,374,378	321,869,166
Time deposits with central banks	474,862,500	399,487,500
Checks for collection	41,520,962	60,249,000
Current accounts with banks and financial institutions and related banks	134,077,021	492,318,801
Overnight placements	87,653,749	342,697,420
Term placements with banks and financial institutions	9,608,159	274,301,669
Current accounts from banks and financial institutions and related parties	( 440,374,149)	( 286,400,413)
Short term deposits from banks and financial institutions	( 462,374,776)	( 867,719,271)
Short term borrowings from the Central Bank of Lebanon	( 625,612,500)	-
	<u>( 430,987,407)</u>	<u>795,484,933</u>

Time deposits with and from central banks and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

## B. Non-cash transactions

The statement of cash flow is prepared after excluding the effect of the following non-cash transactions:

	December 31,	
	2019	2018
	LBP'000	LBP'000
<b>Operating Activities:</b>		
Other liabilities	-	238,777,401
Provisions	-	( 18,479,469)
Loans to banks	-	( 569,015)
Customers' liability under acceptance	-	( 650,383)
Cash and deposits at central banks	-	( 32,962,950)
Deposits with banks and financial institutions	647,938,575	( 114,361)
Loans and advances to customers	( 73,980,965)	( 143,896,656)
Loans and advances related parties	-	( 2,844,236)
Other assets	416,461	( 12,183,368)
Retained earnings		5,613,614
Deposits from banks and financial institutions	( 647,938,575)	-
Change in fair value of fixed currency positions designated as hedging instruments	( 110,706)	12,855,298
Investment securities	-	( 46,105,705)
	<u>( 73,675,210)</u>	<u>( 559,830)</u>
<b>Investing Activities:</b>		
Assets acquired in satisfaction of loans	73,980,965	2,264,891
Property and equipment	( 305,755)	( 1,705,061)
	<u>73,675,210</u>	<u>559,830</u>

## 47. CAPITAL MANAGEMENT

The Bank manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon, the Bank's lead regulator, and retain an economic capital enough to meet the Bank's medium term expansion plan.

Furthermore, the Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad in addition to the minimum regulatory capital required by the host country.

On February 3, 2020 BDL issued intermediate circulars no. 542 and 543 addressed to banks. In details, circular 543 requires banks to abide by the below solvency ratios:

<u>Ratio</u>	<u>December 31, 2018</u>	<u>December 31, 2019</u>
	%	%
Common Equity Tier 1 ratio	10.00	7.00
Tier 1 ratio	13.00	8.50
Total Capital ratio	15.00	10.50

In addition, the circular tied dividend distributions by banks to the satisfaction of certain thresholds, namely a 7% common equity tier 1 ratio, a 10% tier 1 ratio and a 12% total capital ratio. The circular also stipulates that banks must constitute a Capital Conservation Buffer of 2.5% of Risk Weighted Assets and that banks that fail in achieving said buffer must propose an action plan to the Banking Control Commission to build this threshold within a period of three years. Circular 543 also recommended adjusting the risk weight on Foreign Currency placements with BDL (including Certificates of Deposit) having a maturity of more than one year from 50% to 150%. The Central Bank specified in annex 6 of the circular the regulatory expected credit losses (ECLs) that will be applicable by banks in the calculation of the above Capital Adequacy Ratios. More specifically, an ECL of 1.89% will be applied on placements with the Central Bank in USD, 9.45% on USD placements with the government and on corporate loans for resident institutions among others, noting that an ECL of 0% will be applied on LBP placements with the government and with the Central Bank.

On its part, circular no. 542 stipulates that the expected accounting credit loss rates on placements with BDL (including Certificates of Deposit) and on sovereign placements must not exceed the regulatory credit loss rates mentioned above.

On August 26, 2020 the Central Bank of Lebanon issued intermediate circulars no. 567 in which, among other things, it amends the regulatory ECL on foreign placements with the government to 45% and allows the constitution of the regulatory ECL progressively over a period of five years, noting that the BDL central council may accept to extend the term to 10 years for banks that manage to complete the 20% cash contribution to capital requirement mentioned below.

The Bank's capital is split as follows:

**Tier I capital:** Comprises share capital (after deduction of treasury shares), shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits and retained earnings (inclusive of current year's net profit after deduction of proposed dividends). Goodwill, intangible assets, cumulative unfavorable change in fair value of securities at fair value through other comprehensive income, certain other reserves and items of other comprehensive income are deducted from Tier I Capital.

**Tier II capital:** Comprises qualifying subordinated liabilities, 50% of cumulative favorable change in fair value of securities at fair value through other comprehensive income and revaluation surplus of owned properties.

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Common equity (net)	1,335,810,568	1,602,929,251
Additional Tier I capital (net)	<u>844,124,625</u>	<u>844,124,625</u>
	2,179,935,193	2,447,053,876
Net Tier II capital	<u>355,007,568</u>	<u>104,325,076</u>
Total regulatory capital (including remaining net profit after distribution of dividends)	<u>2,534,942,761</u>	<u>2,551,378,952</u>
Credit risk	20,245,223,514	13,878,265,052
Market risk	134,272,826	69,854,594
Operational risk	<u>1,222,048,750</u>	<u>1,143,598,125</u>
Risk weighted assets and risk weighted off-balance sheet items	<u>21,601,545,090</u>	<u>15,091,717,771</u>
Common equity Tier I ratio	6.33%	10.62%
Tier I ratio	10.33%	16.21%
Risk based capital ratio – Tier I and Tier II capital	12.01%	16.91%

The Bank's capital strategy is based on the following constraints:

- Comply with regulatory ratios, on individual and consolidated basis, primarily in respect of the Capital Adequacy Ratio under Basle III.
- Ensure a high return on equity for the common shareholders.
- Dividends payout policy is consistent to provide shareholders with acceptable dividend yield.

The Bank's strategy is to maintain a satisfactory economic capital beyond the regulatory threshold.

On November 4, 2019 BDL 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 December 31, 2018 through cash contributions in US Dollar, in two phases: 10% by December 31, 2019 and another 10% by June 30, 2020. On August 26, 2020 BDL issued Intermediary Circular 567 extending the period of the regulatory capital increase by 20% until December 31, 2020.

## **48. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The main risks arising from the Bank's financial instruments are:

- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign currency risk; and
- Other operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various Committees at Group and each entity's level to develop and monitor the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

### **A- Credit Risk**

Credit risk is the risk that a customer or counterparty will default on its contractual obligations (whether payment of principal or interest), resulting in financial loss to the Bank. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

### **Credit Risk Management**

The Bank's Credit Committee is responsible for managing the Bank's credit risk by:

- Ensuring that the Bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Bank's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Bank, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Bank against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorization structure for the approval and renewal of credit facilities.
- Developing and maintaining the Bank's risk grading to categories exposures according to the degree of risk of default. Risk grades are subject to regular reviews.

## **Expected Credit Losses**

### *Governance and Oversight Of Expected Credit Losses*

The Bank's IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the ECL measurement framework by:

- Developing and maintaining the Bank's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the methods used to measure ECL, while also approving staging classifications for material exposures.
- Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Regularly reviewing Impairment policy requirements to maintain adherence to accounting standards and evolving business models. 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.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, and collateral information, among others. 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 Bank has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models were validated by a qualified independent risk consultant to the model development party, before first use and will be subject to annual review to perform required enhancements going forward in order to enhance the models accuracy and/or account for situations where known or expected risk factors and information have not been considered in the modelling process. Each model 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 using independent and qualified econometric models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum annually, to align with the Bank's medium-term planning exercise, but also in the event of significant change in the prevailing economic conditions. The scenario probability weights are also updated when the scenarios are updated.

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

### *Default Definition and Credit Curing*

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

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Bank.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. As a part of a qualitative assessment of whether a customer is in default, the Bank carefully considers whether the events listed above should result in classifying the exposures in Stage 3 for ECL calculations or whether Stage 2 is appropriate. It is the Bank'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 significant increase in credit risk's criteria compared to initial recognition and is examined on a case by case basis.

### *Internal Ratings and PD Mapping Process*

#### i) Treasury (Including Sovereign) and Interbank Exposures

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

#### ii) Commercial Loans

Bank Risk Management function, which is independent from business lines, is responsible for the development and maintenance of internal rating models, and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Bank uses an internal rating scale comprised of 19 performing grades and 3 non performing grades. The grades generated by internal rating models are mapped to PDs using historical default observations that are specific to each country and loan portfolio. The mapping of rating to PD, which is done initially on a through-the-cycle basis is then adjusted to a point-in-time basis in line with IFRS 9 requirements. These internal rating models for the Bank's key lending portfolios including Corporate and SME obligors incorporate both qualitative and quantitative criteria such as:

- Historical and projected financial information including debt service coverage, operations, liquidity and capital structure.
- Account behavior, 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 rating grades issued by rating agencies, independent analyst reports and other market disclosures.
- Any other objectively supportable information on the obligor's willingness and capacity of repayment. Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Analysis Division function, which is independent from commercial lending business lines. The Credit Analysis function is responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

### iii) Retail Loans

Retail lending comprises mainly of personal loans, car loans, credit cards and housing loans. The Bank utilizes application scorecards to score retail applicants and for either, the automation of decisions according to a certain cut-off score or as a tool to support the approval or reject decision by specialized retail credit officers. To estimate the probability of default for each Retail product, the Bank performs a historical behavioral analysis on the repayment history of its retail borrowers (secured and unsecured) and uses a pooling methodology to estimate the probability of default and the resulting expected losses for retail products based on past-due brackets. This estimation is then adjusted by a forward looking component in line with the IFRS9 standard.

### *Significant Increase In Credit Risk*

As explained in note 3, the Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition, using reasonable and supportable information that is relevant and available without undue cost or effort. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime ECL rather than 12-month ECL. The Bank assessment of significant increase in credit risk is being performed at least quarterly based on the following:

#### i) Commercial Borrowers

Migration of obligor risk rating by a certain number of notches from origination to reporting date (i.e. distance-to-default) as a key indicator of the change in the risk of default at origination with the risk of default at reporting date. The Bank also considers in its assessment of significant increase in credit risk, various qualitative factors including significant adverse changes in the business condition, restructuring due to credit quality weakness during the past 12-months, classification of an exposure under the "Follow-up and Regularization" supervisory-BDL classification.

## ii) Retail Borrowers

Thresholds are based on the analysis of past-due data by bracket to determine significant increase in credit risk. In addition, the Bank considers specific events that might be indicative of a significant increase in credit risk, such as the event of restructuring of Retail exposures.

To note that irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

The Bank assesses the quality of its credit portfolio using the following credit rating methodologies:

- (i) External ratings from approved credit rating agencies for financial institutions and financial assets.
- (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. These internal rating models include a "Corporate" model, "SME" model, "Project & Real Estate Financing" model and "High Net worth Individual" model.
- (iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.
- (iv) Supervisory ratings, comprising six main categories:
  1. "*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.
  2. "*Follow-up*" represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions.
  3. "*Follow-up and Regularization*" includes credit worthy borrowers requiring close monitoring without being impaired. These loans 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 utilization above limit.
  4. "*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.
  5. "*Doubtful loans*" where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally,
  6. "*Bad loans*" with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

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

The table below provides a mapping of the Bank's internal credit risk grades to external ratings as applied to Commercial Loans:

Commercial Loans' Grading:

<u>Bank's Credit Risk Grades</u>	<u>Equivalent Moody's Rating</u>	<u>Credit Quality Description</u>
Performing:		
1	Aaa	Low Risk
2	Aa1 to Aa3	Low Risk
3	A1 to A3	Fair Risk
4	Baa1 to Baa3	Fair Risk
5	Ba1 to Ba3	Monitoring
6	B1 to B3	Monitoring
7	Caa1	High Risk
Non-Performing		
8	Caa2 to Caa3	Substandard
9	Ca	Doubtful
10	C	Impaired

The above Credit Quality descriptions can be summarized as follows:

- Low Risk: there is a very high likelihood of the asset being recovered in full. The counterparty exhibits very high ability and willingness to meet its full obligation on due time.
- Fair Risk: there is a high likelihood that the asset will be recovered in full. The counterparty exhibits high to medium ability and willingness to meet its full obligation on due time.
- Monitoring: there is an acceptable likelihood that the asset will be recovered in full. At the lower end of this scale, there are customers that are being more closely monitored, with some evidence of reduced financial strength.
- High Risk: there is concern over the obligor's ability to make payments when due. However, this has not materialized in an event of default. Under such a classification, the borrower is continuing to make payments on due time, albeit some and/or recurring delays. The counterparty is still expected to settle all outstanding amounts of principal and interest, however with a higher probability of default.

### *Measurement of ECL*

The Bank measures ECLs based on a three probability-weighted scenario to measure the expected cash shortfalls, discounted at an approximation to the effective Interest Rate (EIR).

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. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.
- **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 Bank would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims.
- **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. The Bank's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

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

The Bank measures ECLs using a Three-Stage Approach based on the extent of credit deterioration since origination:

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

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments, the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management, the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated, taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, i.e. reduction in limits or cancellation of the loan commitment.

#### *Groupings based on shared risks characteristics*

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as: instrument type; credit risk grade; collateral type; date of initial recognition; remaining term to maturity; industry; geographic location of the borrower; income bracket of the borrower. The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

### *Write off*

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when it determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such as the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

### *Incorporation Of Forward-Looking Information*

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios (i.e. upside & downside scenarios). The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period.

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. The impact on ECL is not material. The changes were applied in isolation and to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

### **Risk Mitigation Policies**

#### *Collateral*

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

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

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

Other specific risk mitigation policies include:

#### *Netting Arrangements*

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

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

#### **Credit Quality**

During 2019, the severe and unprecedented economic situation in Lebanon exerted significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types. The above deterioration in the credit quality of the loans' portfolio in Lebanon was intensified in the subsequent period as a result of the massive and devastating explosion that occurred on August 4, 2020 and which resulted in the destruction of thousands of residential units and businesses in downtown Beirut as well as the eastern side of the capital leaving thousands of citizens homeless and/or jobless.

The Bank monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

	<u>Notes</u>	<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
		<u>Gross</u>	<u>Gross</u>
		<u>Maximum</u>	<u>Maximum</u>
		<u>Exposure</u>	<u>Exposure</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Deposits at central banks (excluding cash on hand)	6	9,082,474,425	6,780,567,390
Deposits with banks and financial institutions	7	436,502,181	1,472,294,283
Trading assets at fair value through profit or loss	8	36,592,393	42,518,242
Loans to banks	9	6,035,866	33,603,073
Loans and advances to customers	10	5,482,171,056	6,867,680,816
Loans and advances to related parties	11	53,790,749	400,163,113
Investment securities measured at amortized cost	12	5,892,552,927	7,249,208,477
Investment securities measured at fair value through other comprehensive income	12	16,631,674	15,681,430
Customers' liability under acceptances	13	308,464,957	399,934,367
Other financial assets		<u>42,690,608</u>	<u>42,137,598</u>
Total		<u>21,357,906,836</u>	<u>23,303,788,789</u>
Financial instruments-with off-balance sheet risk		1,910,737,100	2,723,193,072
Fiduciary accounts	42	<u>132,501,542</u>	<u>165,422,536</u>
Total		<u>2,043,238,642</u>	<u>2,888,615,608</u>
Total credit risk exposure		<u>23,401,145,478</u>	<u>26,192,404,397</u>

An analysis of the Bank's credit risk concentration is provided in the following tables. Unless, specifically indicated, for financial assets, the amounts in the table represents gross carrying amounts.

**Concentration of loans by industry or sector:**

	December 31, 2019						
	Agriculture LBP'000	Manufacturing and Industry LBP'000	Financial Services LBP'000	Real Estate and Construction LBP'000	Trade and Services LBP'000	Others LBP'000	Total LBP'000
<b>BALANCE SHEET EXPOSURE</b>							
Loans to banks	-	-	6,035,866	-	-	-	6,035,866
Loans and advances to customers	30,956,155	599,129,650	534,151,398	1,401,273,251	1,524,035,491	1,392,625,111	5,482,171,056
Loans and advances to related parties	-	6,182,743	5,993,761	2,475,937	35,948,253	3,190,055	33,790,749
	<u>30,956,155</u>	<u>605,312,393</u>	<u>546,181,025</u>	<u>1,403,749,188</u>	<u>1,559,983,744</u>	<u>1,395,815,166</u>	<u>5,541,997,671</u>

	December 31, 2018						
	Agriculture LBP'000	Manufacturing and Industry LBP'000	Financial Services LBP'000	Real Estate and Construction LBP'000	Trade and Services LBP'000	Others LBP'000	Total LBP'000
<b>BALANCE SHEET EXPOSURE</b>							
Loans to banks	-	-	33,603,073	-	-	-	33,603,073
Loans and advances to customers	27,969,915	701,959,581	464,563,823	2,132,617,513	2,044,365,652	1,496,204,332	6,867,680,816
Loans and advances to related parties	-	6,892,438	291,675,390	4,534,683	93,928,981	3,131,621	400,163,113
	<u>27,969,915</u>	<u>708,852,019</u>	<u>789,842,286</u>	<u>2,137,152,196</u>	<u>2,138,294,633</u>	<u>1,499,335,953</u>	<u>7,301,447,002</u>

## Concentration of financial assets and liabilities by geographical location:

	December 31, 2019					Total LBP'000
	Lebanon LBP'000	Middle East and Africa LBP'000	Europe LBP'000	North America LBP'000	Australia LBP'000	
<b>FINANCIAL ASSETS</b>						
<i>Gross amount:</i>						
Cash and deposits at central banks	8,497,456,626	611,491,597	6,803,451	-	-	9,115,751,674
Deposits with banks and financial institutions	63,454,168	44,010,598	200,324,833	127,595,699	598,767	436,502,181
Financial assets at fair value through profit or loss	36,057,230	535,163	-	-	-	36,592,393
Loans to banks	6,035,866	-	-	-	-	6,035,866
Loans and advances to customers	4,973,887,126	425,835,740	80,117,698	2,111,747	198,495	5,482,171,056
Loans and advances to related parties	53,790,749	-	-	-	-	53,790,749
Investment securities	5,818,480,363	90,704,238	-	-	-	5,909,184,601
Customers' liability under acceptances	290,500,273	12,431,130	5,533,554	-	-	308,464,957
Other financial assets	42,180,093	497,366	13,149	-	-	42,690,608
	<u>19,781,842,494</u>	<u>1,185,505,832</u>	<u>292,792,685</u>	<u>129,707,446</u>	<u>797,262</u>	<u>21,391,184,085</u>
<b>FINANCIAL LIABILITIES</b>						
<i>Gross amount:</i>						
Deposits from banks and financial institutions	708,630,304	907,981,053	106,927,214	-	587,831	1,724,126,402
Customers' and related parties' deposits	13,584,611,142	1,369,600,298	663,764,295	94,744,838	14,617,017	15,740,029,980
Liabilities under acceptance	81,031,498	104,086,196	108,614,487	2,146,215	-	308,464,957
Other borrowings	1,147,538,473	-	-	-	-	1,147,538,473
Lease liability	30,467,775	-	-	-	-	30,467,775
Other financial liabilities	80,652,413	1,234,193	-	-	-	81,886,606
	<u>15,632,931,605</u>	<u>2,382,901,740</u>	<u>879,305,996</u>	<u>96,891,053</u>	<u>15,204,848</u>	<u>19,032,514,193</u>
Net position	<u>4,148,910,889</u>	<u>(1,197,395,908)</u>	<u>(586,513,311)</u>	<u>32,816,393</u>	<u>(14,407,586)</u>	<u>2,358,669,892</u>

December 31, 2018

	Lebanon LBP'000	Middle East and Africa LBP'000	Europe LBP'000	North America LBP'000	Australia LBP'000	Others LBP'000	Total LBP'000
Cash and deposits at central banks	6,068,785,383	769,417,321	1,045,747	-	-	-	6,839,248,451
Deposits with banks and financial institutions	123,245,075	158,593,111	513,731,179	627,652,604	43,358,542	5,713,772	1,472,294,283
Financial assets at fair value through profit or loss	41,983,079	535,163	-	-	-	-	42,518,242
Loans to banks	11,696,032	21,907,041	-	-	-	-	33,603,073
Loans and advances to customers	5,859,922,947	801,642,439	169,514,835	36,475,685	90,566	34,344	6,867,680,816
Loans and advances to related parties	400,163,083	-	-	30	-	-	400,163,113
Investment securities	7,150,324,213	90,673,395	-	-	-	-	7,264,889,907
Customers' liability under acceptances	302,795,855	80,300,384	14,578,094	2,260,034	-	-	399,934,367
Other financial Assets	41,317,143	808,513	11,942	-	-	-	42,137,598
	20,000,232,810	1,923,877,367	698,881,797	666,388,353	67,341,407	5,748,116	23,362,469,850

**FINANCIAL ASSETS**

Deposits from banks and financial institutions	955,520,977	742,222,227	413,693,225	-	61,289,105	-	2,172,725,534
Customers' and related parties' deposits	14,588,042,003	2,066,135,403	1,224,428,249	154,741,483	15,608,612	17,503,377	18,066,459,127
Liabilities under acceptance	26,008,413	148,025,064	204,527,974	391,234	-	20,981,682	399,934,367
Other borrowings	567,959,504	-	-	-	-	-	567,959,504
Other financial Liabilities	92,294,735	1,190,690	-	-	-	-	93,485,425
	16,229,825,632	2,957,573,384	1,842,649,448	155,132,717	76,897,717	38,485,059	21,300,563,957
Net position	3,770,407,178	(1,033,696,017)	(1,143,767,651)	511,255,636	(9,556,310)	(32,736,943)	2,061,905,893

**FINANCIAL LIABILITIES**

An analysis of the Bank's credit risk exposure per class of financial asset, and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

### Credit risk exposure per class of financial asset and stage

	December 31, 2019							
	Gross Exposure			Impairment Allowance			Net Exposure LBP'000	
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000	Stage 1 LBP'000	Stage 2 LBP'000		Stage 3 LBP'000
Cash and deposit with central banks	9,115,751,674	-	-	9,115,751,674	( 96,062,131)	-	( 96,062,131)	9,019,689,543
Deposits with banks and financial institutions	430,466,628	6,035,553	-	436,502,181	( 24,379)	( 14,923)	( 39,302)	436,462,879
Loans to banks	120,592	5,915,274	-	6,035,866	-	( 782,852)	( 782,852)	5,253,014
Loans and advances to customers	3,047,694,396	1,888,208,827	546,267,833	5,482,171,056	( 20,645,904)	( 102,351,224)	( 210,550,129)	5,148,623,799
Loans and advances to related parties	43,080,123	10,710,626	-	53,790,749	( 1,614,015)	-	( 1,614,015)	52,176,734
Investment securities at amortized cost*	5,892,552,927	-	-	5,892,552,927	( 693,149,478)	-	( 693,149,478)	5,199,403,449
Customer liabilities under acceptances	246,698,191	61,766,766	-	308,464,957	( 123,867)	( 2,360,672)	( 2,484,539)	305,980,418
Other assets	41,676,142	-	1,014,466	42,690,608	( 84,537)	( 18,844)	( 1,117,847)	41,572,761
Off-balance Sheet commitments	832,144,962	379,248,296	32,110,165	1,243,503,423	( 2,415,491)	( 1,227,837)	( 3,643,328)	1,239,860,095
	<u>19,650,185,635</u>	<u>2,351,885,342</u>	<u>579,392,464</u>	<u>22,581,463,441</u>	<u>( 814,119,802)</u>	<u>( 106,756,352)</u>	<u>( 211,564,595)</u>	<u>21,449,022,692</u>

	December 31, 2018							
	Gross Exposure			Impairment Allowance			Net Exposure LBP'000	
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000	Stage 1 LBP'000	Stage 2 LBP'000		Stage 3 LBP'000
Cash and deposits at central banks	6,839,248,451	-	-	6,839,248,451	( 32,956,445)	-	( 32,956,445)	6,806,292,006
Deposits with banks and financial institutions	1,472,294,283	-	-	1,472,294,283	( 78,758)	-	( 78,758)	1,472,215,525
Loans to banks	33,603,073	-	-	33,603,073	( 569,701)	-	( 569,701)	33,033,372
Loans and advances to customers	4,782,176,220	1,702,011,508	383,493,088	6,867,680,816	( 8,489,783)	( 142,602,150)	( 144,356,229)	6,572,232,654
Loans and advances to related parties	324,439,977	75,723,136	-	400,163,113	( 2,384,499)	( 459,737)	( 2,844,236)	397,318,877
Investment securities at amortized cost	7,249,208,477	-	-	7,249,208,477	( 46,139,038)	-	( 46,139,038)	7,203,069,439
Customers' liability under acceptances	330,625,561	69,308,806	-	399,934,367	( 556,834)	( 143,487)	( 700,321)	399,234,046
Other financial assets	41,123,132	-	1,014,466	42,137,598	( 90,900)	-	( 1,105,366)	41,032,232
Off-balance sheet commitments	2,142,836,340	243,862,809	1,844,042	2,388,543,191	( 4,271,541)	( 220,926)	( 79,109)	2,383,971,615
	<u>23,215,555,514</u>	<u>2,090,906,259</u>	<u>386,351,596</u>	<u>25,692,813,369</u>	<u>( 95,537,499)</u>	<u>( 143,426,300)</u>	<u>( 145,449,804)</u>	<u>25,308,399,766</u>

**Credit risk exposure for loans and advances to customers as per internal rating and stage:**

	<b>December 31, 2019</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12-month</b>	<b>Lifetime</b>	<b>Lifetime</b>	
	<b>ECL</b>	<b>ECL</b>	<b>ECL</b>	
<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	
Grades 1-3: low to fair risk	3,047,694,396	1,038,586,052	-	4,086,280,448
Grades 4-6: Monitoring	-	849,622,775	-	849,622,775
Grades 7-8: Substandard	-	-	140,346,369	140,346,369
Grade 9: Doubtful	-	-	136,282,633	136,282,633
Grade 10: Impaired	-	-	269,638,831	269,638,831
Total gross carrying amount	3,047,694,396	1,888,208,827	546,267,833	5,482,171,056
Loss allowance	( 20,645,904)	(102,351,224)	( 210,550,129)	( 333,547,257)
Carrying Amount	<u>3,027,048,492</u>	<u>1,785,857,603</u>	<u>335,717,704</u>	<u>5,148,623,799</u>

	<b>December 31, 2018</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12-month</b>	<b>Lifetime</b>	<b>Lifetime</b>	
	<b>ECL</b>	<b>ECL</b>	<b>ECL</b>	
<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	
Grades 1-3: low to fair risk	4,782,176,220	843,813,358	-	5,625,989,578
Grades 4-6: Monitoring	-	858,198,150	-	858,198,150
Grades 7-8: Substandard	-	-	98,810,999	98,810,999
Grade 9: Doubtful	-	-	38,397,354	38,397,354
Grade 10: Impaired	-	-	246,284,735	246,284,735
Total gross carrying amount	4,782,176,220	1,702,011,508	383,493,088	6,867,680,816
Loss allowance	( 8,489,783)	( 142,602,150)	( 144,356,229)	( 295,448,162)
Carrying Amount	<u>4,773,686,437</u>	<u>1,559,409,358</u>	<u>239,136,859</u>	<u>6,572,232,654</u>

**Movement of the allowance for expected credit losses:**

The movement of the allowance for expected credit losses for all class for financial assets during 2019 and 2018 is summarized as follows:

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>12-month</b>	<b>Lifetime</b>	<b>Lifetime</b>	
	<b>ECL</b>	<b>ECL</b>	<b>ECL</b>	
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Balance at January 1, 2019	95,537,499	143,426,300	145,449,804	384,413,603
Net change in the loss allowance	718,582,303	( 36,669,948)	65,506,944	747,419,299
Effect of exchange rate changes and other movements	-	-	607,847	607,847
Balance at December 31, 2019	<u>814,119,802</u>	<u>106,756,352</u>	<u>211,564,595</u>	<u>1,132,440,749</u>

	<b>Stage 1 12-month ECL LBP'000</b>	<b>Stage 2 Lifetime ECL LBP'000</b>	<b>Stage 3 Lifetime ECL LBP'000</b>	<b>Total LBP'000</b>
Balance at January 1, 2018	105,038,978	152,579,983	128,530,332	386,149,293
Net change in the loss allowance	( 9,501,479)	( 9,153,683)	18,605,989	( 49,173)
Write-offs	-	-	( 595,056)	( 595,056)
Effect of exchange rate changes and other movements	-	-	( 1,091,461)	( 1,091,461)
Balance at December 31, 2018	<u>95,537,499</u>	<u>143,426,300</u>	<u>145,449,804</u>	<u>384,413,603</u>

The movement of the allowance for expected credit losses for loans advances to customers during 2019 and 2018 is summarized as follows:

	<b>Stage 1 12-month ECL LBP'000</b>	<b>Stage 2 Lifetime ECL LBP'000</b>	<b>Stage 3 Lifetime ECL LBP'000</b>	<b>Total LBP'000</b>
Balance at January 1, 2019	8,489,783	142,602,150	144,356,229	295,448,162
Net change in the loss allowance	<u>12,156,121</u>	( 40,250,926)	66,193,900	<u>38,099,095</u>
Balance at December 31, 2019	<u>20,645,904</u>	<u>102,351,224</u>	<u>210,550,129</u>	<u>333,547,257</u>

	<b>Stage 1 12-month ECL LBP'000</b>	<b>Stage 2 Lifetime ECL LBP'000</b>	<b>Stage 3 Lifetime ECL LBP'000</b>	<b>Total LBP'000</b>
Balance at January 1, 2018	16,074,734	151,373,943	127,427,885	294,876,562
Net change in the loss allowance	( 7,584,951)	( 8,771,793)	18,614,861	2,258,117
Write-offs	-	-	( 595,056)	( 595,056)
Effect of exchange rate changes and other movements	-	-	( 1,091,461)	( 1,091,461)
Balance at December 31, 2018	<u>8,489,783</u>	<u>142,602,150</u>	<u>144,356,229</u>	<u>295,448,162</u>

Net change in the loss allowance includes re-measurement as a result of change in the size of portfolios, reclassifications between stages and reallocations of provisions.

**Collateral held as security and other enhancements:**

The Bank holds the following collaterals received against loans and advances to customers:

		December 31, 2019									
		Gross Exposure					Fair Value of Collateral Received				
		Expected Credit Loss	Net Exposure	Pledged Funds	First Degree Mortgage on Property	Debt Securities	Bank Guarantees	Vehicles	Other	Total	
		LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing loans	4,935,903,223	( 122,997,128)	4,812,906,095	958,440,941	4,375,737,293	14,404,728	49,878,290	140,436,544	2,686,178,773	8,225,076,569	
Non-performing loans	546,267,833	( 210,550,129)	335,717,704	34,905,283	304,175,040	8,616,875	-	8,365,954	40,868,619	396,931,771	
	5,482,171,056	( 333,547,257)	5,148,623,799	993,346,224	4,679,912,333	23,021,603	49,878,290	148,802,498	2,727,047,392	8,622,008,340	

		December 31, 2018									
		Gross Exposure					Fair Value of Collateral Received				
		Expected Credit Loss	Net Exposure	Pledged Funds	First Degree Mortgage on Property	Debt Securities	Bank Guarantees	Vehicles	Other	Total	
		LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing loans	6,484,187,728	( 151,091,016)	6,333,096,712	1,724,633,647	4,410,311,900	31,287,830	86,041,789	229,800,083	2,984,588,142	9,466,663,391	
Non - Performing loans	383,493,088	( 144,357,146)	239,135,942	17,377,237	271,362,815	8,616,875	-	7,721,719	34,057,558	339,136,204	
	6,867,680,816	( 295,448,162)	6,572,232,654	1,742,010,884	4,681,674,715	39,904,705	86,041,789	237,521,802	3,018,645,700	9,805,799,595	

## **B – Liquidity Risk**

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

### **Management of liquidity risk**

Liquidity is the "Bank's ability to ensure the availability of funds to meet commitments (including off-balance sheet commitments) at a reasonable price at all times." In 'business as usual' circumstances the day-to-day cash management of a bank should not lead to any threats to its solvency.

Liquidity risk is defined as the risk of the Bank's ability to meet its current and future payment obligations in full or on time.

Liquidity risk arises when, in the case of a liquidity crisis, refinancing may only be raised at higher market rates (funding risk) or assets may only be liquidated at a discount to the market rates (market liquidity risk). It also results from the mismatches in the maturity pattern of assets and liabilities.

#### **a) Liquidity Measurement**

Liquidity is measured on a "business as usual basis" using:

- Balance Sheet Liquidity Ratios (purchased and stored liquidity ratios): such as immediate liquidity, loans / deposits, liquid assets ratio, interbank ratio, medium-term funding ratio, wholesale borrowing capacity, etc
- The liquidity relationship between the sub-components of the balance sheet at a particular point in time: Cash Flow Gap Scheduling which is the Gap between cash inflows and outflows determined within a series of time buckets.
- Stress testing: by stress testing "the business as usual" assumptions via standardized scenarios, the potential shortage of liquidity can be measured. This shortage needs to be covered by the Liquidity Buffer, which consists of unencumbered assets that can be reported or used as collateral at a Central Bank to generate cash.

The Bank's objectives are to comply with the Central Bank instructions for liquidity risk monitoring and set other internal prudential limits as described hereafter. Some of the internal limits are:

- Liquidity gap ratios for Lebanese Pounds and foreign currencies (special focus on the foreign currencies): One month GAP/Tier One Capital
- Liquid assets in foreign currencies (including Placement with the Central Bank) / Total Deposits in foreign currencies.
- Placements with Non Resident Banks in foreign currencies/Total Deposits in foreign currencies
- Long-term foreign currency Funds (including equity)/Long-term Loans (above one year)

## b) The Contingency Funding Plan

Liquidity problems will usually arise only when the Bank encounters a crisis. In this case, there is a need to put in place a Contingency Funding Plan that both quantifies the adequacy of the Bank's resources (Liquidity Buffer) to withstand a set of potential liquidity crises and sets out an Action Plan to be activated in the event of a liquidity crisis.

A mechanism to identify stress situations ahead of time, and to plan dealing with such unusual situations in a timely and effective manner should be in existence. The Contingency Plan is reviewed regularly and tested.

The responsibilities and authorities of overseeing efficient implementation of liquidity risk mitigation is distributed in the best way to achieve proficient handling of the problems facing the Bank and thus ensuring a smooth continuation of the activity without jeopardizing the business. Accordingly, officials and committees of the Bank (namely ALCO, Treasury Department, Finance Department) assess the situation, decide on the activation of the contingency plan and act as follows:

- ALCO Committee is informed immediately, and quickly makes its assessment as to whether the plan should be activated.
- ALCO Committee takes all major decisions on loans or deposits, investment purchases, borrowing, whether to stop making additional loans, etc.
- ALCO Committee provides general, ongoing guidance on communicating with major depositors and other sources of funding, internal staff, and the press.
- The Treasury Department is responsible for maintaining sufficient liquidity to meet the Bank's obligations and to meet the specific liquidity requirements of the supervisory authorities. The key measure used by the Bank for managing liquidity risk is the ratio of behaviorally adjusted net liquid assets (maturing in less than one month) to total deposits.
- In the unlikely event of a liquidity crisis, the Treasury Department would immediately endeavour to sell the Bank's liquid assets, or if more expedient, seek additional funds from the shareholders or borrow in the market to alleviate the shortfall.

**Residual contractual maturities of financial assets and liabilities:**

The tables below show the Bank's financial assets and liabilities segregated by maturity:

	December 31, 2019							Total LBP'000
	With No Maturity LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	5 to 10 Years LBP'000	Over 10 Years LBP'000	
<b>FINANCIAL ASSETS</b>								
Cash and deposits at central banks	904,872,541	1,355,624,468	90,450,000	1,127,031,101	759,032,500	1,741,173,892	3,137,567,172	9,115,751,674
Deposits with banks and financial institutions	-	383,739,681	52,762,500	3,409,420	6,218,253	-	-	436,502,181
Financial assets at fair value through profit or loss	5,732,463	15,461,330	134,523	4,254,400	11,079	3,778,410	1,857,994	36,592,393
Loans to banks	-	770,387	1,000,000	974,185,389	312,128,984	-	-	6,035,866
Loans and advances to customers	435,695,325	1,298,683,937	2,143,648,276	4,502,541	140,593	305,041,679	12,787,466	5,482,171,056
Loans and advances to related parties	128,253	31,749,389	17,269,973	847,412,525	964,193,854	-	-	53,790,749
Investment securities	16,651,674	111,559,170	284,177,492	-	-	1,681,210,392	2,003,999,494	5,909,184,601
Customers' liability under acceptances	-	308,464,957	-	-	-	-	-	308,464,957
Other financial assets	42,158,432	532,176	-	-	-	-	-	42,690,608
	<u>1,405,218,688</u>	<u>3,506,585,495</u>	<u>2,589,442,764</u>	<u>2,960,795,376</u>	<u>2,041,725,263</u>	<u>3,731,204,373</u>	<u>5,156,212,126</u>	<u>21,391,184,085</u>
<b>FINANCIAL LIABILITIES</b>								
Deposits from banks and financial institutions	-	825,343,412	256,438,108	113,947,288	528,397,594	-	-	1,724,126,402
Customers' and related parties' deposits	-	12,139,575,040	2,507,354,448	688,783,080	105,258,247	107,704,781	191,354,384	15,740,029,980
Liabilities under acceptance	-	308,464,957	-	-	-	-	-	308,464,957
Other borrowings	-	692,166,249	-	-	-	-	-	1,147,538,473
Lease liability	-	1,490,446	5,285,324	8,965,892	4,363,663	6,609,441	3,753,009	30,467,775
Other financial liabilities	80,687,223	1,199,383	2,769,077,880	811,696,260	638,019,504	114,314,222	650,479,617	81,886,606
	<u>80,687,223</u>	<u>13,968,239,487</u>	<u>2,769,077,880</u>	<u>811,696,260</u>	<u>638,019,504</u>	<u>114,314,222</u>	<u>650,479,617</u>	<u>19,032,514,193</u>
Net Maturity Gap	<u>1,324,531,465</u>	<u>(10,461,653,992)</u>	<u>(179,635,116)</u>	<u>2,149,099,116</u>	<u>1,403,705,759</u>	<u>3,616,890,151</u>	<u>4,505,732,509</u>	<u>2,358,669,892</u>

December 31, 2018

**FINANCIAL ASSETS**

	With No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cash and deposits at central banks	470,402,305	1,741,458,496	354,262,500	661,034,750	718,740,450	1,681,707,950	1,211,642,000	6,839,248,451
Deposits with banks and financial institutions	1,297	1,404,455,545	67,837,441	17,984,730	-	-	-	1,472,294,283
Financial assets at fair value through profit or loss	9,397,332	-	1,080,878	8,381,600	3,876,270	7,582,363	2,596,669	42,518,242
Loans to banks	-	24,460,567	760,906	8,381,600	-	-	-	33,603,073
Loans and advances to customers	293,126,970	2,176,308,053	2,789,345,928	814,252,571	369,241,932	306,939,470	118,465,892	6,867,680,816
Loans and advances to related parties	744	138,761,643	224,768,250	36,307,069	325,407	-	-	400,163,113
Investment securities	15,714,762	142,509,875	463,123,733	1,133,460,461	1,086,784,650	2,199,859,102	2,223,437,324	7,264,889,907
Customers' liability under acceptances	42,011,808	399,934,367	-	-	-	-	-	399,934,367
Other financial assets	830,655,218	125,790	3,901,179,636	2,671,421,181	2,178,968,709	4,196,088,885	3,556,141,885	23,362,469,850

**FINANCIAL LIABILITIES**

Deposits from banks and financial institutions	-	1,447,619,737	187,311,680	232,789,179	305,004,938	-	-	2,172,725,534
Customers' and related parties' deposits	-	13,512,419,835	3,276,390,984	942,645,334	98,591,503	44,454,526	191,956,945	18,066,459,127
Liabilities under acceptance	-	399,934,367	-	-	-	-	-	399,934,367
Other borrowings	-	75,420,519	492,538,985	-	-	-	-	567,959,504
Other financial liabilities	89,387,772	4,097,653	-	-	-	-	-	93,485,425
	89,387,772	15,439,492,111	3,956,241,649	1,175,434,513	403,596,441	44,454,526	191,956,945	21,300,563,957
Net Maturity Gap	741,267,446	(9,411,477,775)	(55,062,013)	1,495,986,668	1,775,372,268	4,151,634,359	3,364,184,940	2,061,905,893

## C – Market Risks

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

### Management of market risks

#### a) Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Bank's net interest income, while a long term impact is on Bank's net worth since the economic value of Bank's assets, liabilities and off-balance sheet exposures are affected.

#### b) Interest Rate Risk Measurement

Major concern is to be given to interest rates movements both in the local and international markets whenever hedging against rates rise should be undertaken as part of the Bank's strategy.

Interest rate risk is the risk that changes in interest rates will affect the Bank's income or the value of its holdings group of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimizing the return on risk.

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The policy of the Bank is to price all placements / exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

Interest rate sensitivity analyses for financial assets and financial liabilities as at December 31, 2019:

Interest Rate Sensitivity Balance Sheet

	Non- Interest Generating LBP'000	Floating						Fixed						Grand Total LBP'000	
		Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000		
<b>FINANCIAL ASSETS</b>															
Cash and deposits at central banks	1,102,365,468	-	-	-	-	-	-	-	-	-	-	-	-	-	
Deposits with banks and financial institutions	43,861,387	-	-	-	-	-	-	-	-	-	-	-	-	-	
Financial assets at fair value through profit or loss	5,732,463	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loans to Banks	367	131,082	5,254,400	-	-	-	5,385,482	15,461,330	134,523	3,409,420	6,218,233	5,636,404	30,859,930	36,592,393	
Loans and advances to customers	744,202,211	1,638,917,006	43,169,892	-	-	1,682,086,898	1,029,851,657	650,017	1,155,459,373	392,978,551	2,621,055	2,234,527,563	3,055,881,947	5,482,171,056	
Investment securities	168,982,755	19,627,480	-	-	-	19,627,480	27,877,568	27,877,568	3,476,121	2,621,055	140,592	3,625,247,129	3,411,536	5,170,790,749	
Customers' liability under acceptance	308,464,957	-	-	-	-	-	37,678,605	-	281,278,342	839,713,520	956,284,250	-	5,740,201,846	5,909,184,691	
Other financial assets	42,650,608	-	-	-	-	-	-	-	-	-	-	-	-	308,464,957	
	2,416,348,149	1,638,675,568	48,424,292	-	-	1,707,099,360	3,485,576,005	1,530,798,359	2,026,928,046	1,462,728,158	8,781,705,508	17,267,736,076	21,391,184,085		
<b>FINANCIAL LIABILITIES</b>															
Deposits from banks and financial institutions	14,992,719	-	-	-	-	-	810,350,693	256,438,108	113,947,288	528,397,594	-	1,709,133,683	1,724,126,402		
Customers and related parties' deposits	208,414,231	-	-	-	-	-	12,020,241,658	2,523,095,908	674,329,993	88,412,568	225,535,622	15,531,615,749	15,740,029,980		
Liabilities under acceptance	308,464,957	-	-	-	-	-	680,591,618	-	-	-	455,372,224	1,135,963,842	308,464,957		
Other borrowings	11,574,631	-	-	-	-	-	-	-	-	-	-	-	30,467,775		
Lease liability	-	1,490,446	5,285,324	-	-	8,965,892	4,363,663	10,362,450	30,467,775	-	-	81,886,606	81,886,606		
Other financial liabilities	81,886,606	-	-	-	-	-	-	-	-	-	-	-	-		
	625,333,144	1,490,446	5,285,324	-	-	8,965,892	4,363,663	10,362,450	30,467,775	13,511,183,969	2,729,534,016	788,277,281	616,810,162	19,093,514,193	
Interest rate Gap	1,791,015,005	1,657,185,122	43,138,968	-	-	8,965,892	(4,363,663)	(10,362,450)	(1,676,632,085)	(10,025,602,964)	(1,248,235,652)	1,238,650,765	845,917,296	8,080,297,662	
														(1,108,977,188)	2,358,669,892

Interest rate sensitivity analyses for financial assets and financial liabilities as at December 31, 2018:

	Interest Rate Sensitivity Balance Sheet													
	Floating							Fixed						
	Non-Generating LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Grand Total LBP'000
<b>FINANCIAL ASSETS</b>														
Cash and deposits at central banks	586,172,542	-	-	-	-	-	-	1,988,639,959	354,262,500	403,608,050	613,215,450	2,893,349,950	6,253,075,909	6,839,248,451
Deposits with banks and financial institutions at fair value through profit or loss	78,138,042	-	-	-	-	-	-	1,331,210,094	62,946,147	-	-	-	1,394,156,241	1,472,294,283
Loans to Banks	9,397,332	976,428	8,381,600	-	-	-	-	24,115,578	1,080,877	17,984,730	3,876,270	10,179,033	33,120,910	42,518,242
Loans and advances to customers	427,787,390	2,221,349,788	29,100,748	265,040	-	-	9,358,028	1,666,502,872	1,412,098,476	438,247,736	278,884,690	393,444,076	24,115,578	33,603,073
Loans and advances to related parties	255,157	13,780,030	-	-	-	-	13,780,030	364,271,337	15,660,290	5,771,929	424,370	4,189,177,850	6,867,680,816	
Investment securities	230,398,894	23,892,300	-	-	-	-	23,892,300	28,344,717	499,308,754	1,089,825,312	1,075,144,966	4,359,074,964	400,163,113	
Customers' liability under acceptance	399,934,367	-	-	-	-	-	-	28,344,717	-	-	-	-	7,010,598,713	7,364,889,907
Other financial assets	42,011,808	-	-	-	-	-	-	125,799	-	-	-	-	399,934,367	42,127,528
	1,774,224,999	2,259,998,546	37,482,348	265,040	-	-	2,297,745,934	5,501,210,347	2,305,357,044	1,955,937,757	1,871,545,746	7,656,948,023	19,290,498,517	23,562,469,830
<b>FINANCIAL LIABILITIES</b>														
Deposits from banks and financial institutions	14,111,193	4,079,779	1,932,732	-	-	-	6,012,511	1,492,873,034	141,220,816	216,668,791	301,839,189	-	2,152,601,830	2,172,725,534
Customers and related parties' deposits	118,583,300	-	-	-	-	-	-	13,385,660,844	3,284,566,675	942,645,334	98,591,503	236,411,471	17,947,875,827	18,066,459,127
Liabilities under acceptance	399,934,367	-	-	-	-	-	-	66,719,958	492,538,985	-	-	-	599,258,943	599,934,367
Other borrowings	8,700,561	-	-	-	-	-	-	37,898,610	3,918,326,476	1,159,214,125	400,430,692	236,411,471	93,485,425	567,959,504
Other financial liabilities	55,888,815	4,079,779	1,932,732	-	-	-	6,012,511	14,982,152,446	3,918,326,476	1,159,214,125	400,430,692	236,411,471	37,898,610	93,485,425
	596,916,236	4,079,779	1,932,732	-	-	-	6,012,511	14,982,152,446	3,918,326,476	1,159,214,125	400,430,692	236,411,471	37,898,610	93,485,425
Interest rate gap	-1,177,308,763	-2,255,918,762	-35,549,616	-265,040	-	-	-2,291,733,423	-9,581,942,099	-1,612,969,432	-796,123,632	-1,571,113,024	-7,420,536,552	-1,407,136,293	-2,061,902,893

### c) Foreign Exchange Risk

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimizing the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Bank that it will, at all times, adhere to the limits laid down by the Central Bank as referred to below. It is not the Bank's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The Bank does not currently deal, and has no plans to deal, in Foreign Exchange Futures, Foreign Exchange Options or Options on Foreign Exchange Futures.

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book).

At the outset the Bank's overall currency risk exposures is split into:

- Operational FX positions: The management of these risks is done via Trading books under the responsibility of the Global Markets Division.
- Structural FX positions: ALCO Committee decides on the level of the Structural FX positions to be held against the LBP denominated equity and foreign investment, to ensure proper hedging.

Treasury Department is responsible to monitor the compliance to the regulatory ratios set by the regulatory authorities. ALCO Committee is notified by the Finance department of any breach.

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

The table shown below gives details of the Bank's exposure to currency risk:

	December 31, 2019						
	LBP LBP'000	USD LBP'000	EUR LBP'000	GBP LBP'000	AUD LBP'000	Other LBP'000	Total LBP'000
<b>ASSETS</b>							
Cash and deposits at central banks	2,809,670,293	5,113,777,797	877,644,297	221,649	49,732	218,325,775	9,019,689,543
Deposits with banks and financial institutions	13,460,560	346,426,588	18,719,502	5,683,695	31,102,333	21,070,201	436,462,879
financial assets at fair value through profit or loss	22,779,632	13,812,761	-	-	-	-	36,592,393
Loans to Banks	4,614,076	638,938	-	-	-	-	5,253,014
Loans and advances to customers	1,578,730,618	3,033,459,406	147,882,313	3,995,206	117,122	384,439,134	5,148,623,799
Loans and advances to related parties	5,031,426	29,835,732	2,665,493	6,003,342	-	8,640,741	52,176,734
Investment securities	1,995,365,899	3,129,986,401	248,157	-	-	90,434,666	5,216,035,123
Customers' liability under acceptances	-	283,283,275	10,243,788	-	-	12,453,355	305,980,418
Investments in an associate	40,212,572	184,746,156	-	100,498,056	338,852,009	-	664,308,793
Assets acquired in satisfaction of loans	2,388,744	78,343,022	-	-	-	-	80,731,766
Property and equipment	158,900,420	300,519	-	-	-	15,435,504	174,636,443
Right of use asset	45,041	32,154,766	-	-	-	-	32,199,807
Other Assets	22,654,215	10,344,780	147,653	-	-	854,138	34,000,786
	6,653,833,496	12,257,110,141	1,057,551,203	116,401,948	370,121,196	751,653,514	21,206,691,498
<b>LIABILITIES</b>							
Deposits from banks and financial institutions	295,644,498	911,431,914	386,101,348	47,576,961	38,480	83,333,201	1,724,126,402
Customers' and related parties' deposits	4,766,194,761	9,628,993,140	652,209,313	114,403,289	34,216,381	544,013,096	15,740,029,980
Liabilities under acceptance	-	285,767,566	10,243,788	-	-	12,453,603	308,464,957
Other borrowings	513,219,679	634,318,794	-	-	-	-	1,147,538,473
Lease liability	-	30,467,775	-	-	-	-	30,467,775
Other liabilities	96,601,797	49,128,688	8,171,889	74,029	-	5,500,868	159,479,429
Provisions	40,407,665	11,733,320	647,196	-	-	892,793	53,682,974
	5,712,068,400	11,551,843,197	1,057,373,534	162,054,279	34,257,019	646,193,561	19,163,789,990
Currencies to be delivered	-	243,382,603	(179,425,211)	(16,040,069)	(232,813,988)	(118,675,841)	(790,337,712)
Currencies to be received	-	534,022,552	161,562,587	86,161,244	316,395	24,486,501	806,549,279
Discount (net)	-	(10,289,669)	-	-	-	105,601	(10,184,068)
	-	280,350,280	(17,862,624)	70,121,175	(232,497,593)	(94,083,739)	6,027,499
Net exchange position	941,785,096	985,617,224	(17,684,955)	24,468,844	103,366,584	11,376,214	2,048,929,007

December 31, 2018

**ASSETS**

	LBP LBP'000	USD LBP'000	EUR LBP'000	GBP LBP'000	AUD LBP'000	Other LBP'000	Total LBP'000
Cash and deposits at central banks	2,262,814,893	3,242,517,236	886,187,477	4,040,668	29,855	410,701,877	6,806,292,006
Deposits with banks and financial institutions	12,578,922	1,116,190,134	168,542,150	66,595,326	5,911,771	102,397,222	1,472,215,525
Financial assets at fair value through profit or loss	24,068,244	18,449,998	-	-	-	-	42,518,242
Loans to banks	9,123,837	20,224,099	-	-	-	3,685,436	33,033,372
Loans and advances to customers	1,704,928,616	3,688,951,287	569,504,787	3,142,974	7,637,998	598,066,992	6,572,232,654
Loans and advances to related parties	52,577,340	331,131,912	1,014,600	126	-	12,594,899	397,318,877
Investment securities	2,920,910,557	4,183,007,689	253,723	-	23,997,806	90,581,094	7,218,750,869
Customers' liability under acceptances	-	349,494,785	16,982,729	-	-	32,756,532	399,234,046
Investments in subsidiaries	40,212,572	184,761,296	-	96,731,342	319,937,360	-	641,642,570
Assets acquired in satisfaction of loans	995,683	23,571,035	-	-	-	-	24,566,718
Property and equipment	155,821,522	216,245	-	-	-	17,719,232	173,756,999
Other Assets	21,403,185	16,600,883	99,112	858	-	1,416,614	39,520,652
	<u>7,205,435,371</u>	<u>13,175,116,599</u>	<u>1,642,584,578</u>	<u>170,511,294</u>	<u>357,514,790</u>	<u>1,269,919,898</u>	<u>23,821,082,530</u>

**LIABILITIES**

Deposits from banks and financial institutions	231,989,273	1,539,415,399	328,285,392	32,316,925	10,907,394	29,811,151	2,172,725,534
Customers' and related parties' deposits	5,281,167,615	10,790,964,468	872,154,365	201,101,544	65,344,228	855,726,907	18,066,459,127
Liabilities under acceptance	-	350,195,106	16,982,729	-	-	32,756,532	399,934,367
Other borrowings	564,940,336	3,019,168	-	-	-	-	567,959,504
Other liabilities	87,806,072	73,995,186	7,761,448	482,016	2,697	8,019,554	178,066,973
Provisions	43,713,291	13,163,352	622,152	-	-	362,187	57,860,982
	<u>6,209,616,587</u>	<u>12,770,752,679</u>	<u>1,225,806,086</u>	<u>233,900,485</u>	<u>76,254,319</u>	<u>926,676,331</u>	<u>21,443,006,487</u>
Currencies to be delivered	-	888,957,724	222,981,298	92,449,533	1,173,511	33,246,199	1,238,808,305
Currencies to be received	-	908,846,655	221,694,045	90,982,289	1,141,521	32,389,445	1,255,053,955
Discount (net)	-	16,738,429	348,013	77,084	-	251,843	16,215,657
	<u>-</u>	<u>3,150,502</u>	<u>939,240</u>	<u>1,544,328</u>	<u>32,030</u>	<u>604,911</u>	<u>29,993</u>
Net exchange position	995,818,784	407,514,422	415,839,252	64,933,519	281,228,441	342,638,656	2,378,106,036

## **D – Other Operational Risks**

### *Litigation Risk*

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

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

## **49. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

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

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

The principal or the most advantageous market must be accessible by the Bank. 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 Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

For the purpose of fair value disclosures, the Bank 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.

*Financial assets and liabilities originated in Lebanon:*

Due to the situation described in note 1 and the unprecedented levels of uncertainty surrounding the economic and financial crisis that Lebanon, and particularly the banking sector, is witnessing, management is unable to produce reasonable estimation of the fair value of financial assets and liabilities concentrated in Lebanon as the measurement of their fair value is either (i) dependent on prices quoted in a market that is severely inactive and illiquid; or (ii) determined using cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads that are not reflective of the economic reality and market conditions. In the absence of reliable data, the Bank did not disclose the fair value of financial assets and liabilities originated in Lebanon as required by IFRS 13 *Fair Value Measurements*.

#### **50. EVENTS AFTER THE REPORTING PERIOD**

Further to the subsequent events described in Note 1, Lebanon in general, and the Bank in particular, was also affected by the Novel Coronavirus (Covid-19) pandemic. The existence of Novel Coronavirus (Covid-19) was confirmed in January 2020 in mainland China and has subsequently spread to many other countries around the world. This event has caused widespread disruptions to the business, with a consequential negative impact on economic activity. The Bank considers this event to be a non-adjusting event after the reporting period and therefore has not made any adjustments to the financial statements as a result of this matter. The outcome of this event is unknown and therefore the impact on the Bank cannot be reasonably quantified at the date of issuance of these separate financial statements. The effect of Covid-19 on the Bank will be incorporated into the determination of the Bank's estimates in 2020.

#### **51. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements for the year ended December 31, 2019 were approved by the Board of Directors in its meeting held on September 3, 2020.