ANNUAL REPORT 2018

Creditbank S.A.L.

ANNUALREPORT2018

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CHAIRMAN'S LETTER

Seeing the modest growth of the Lebanese economy amidst a region steeped in strife, Creditbank is proud to present its positive end-of-year results. In 2018, we saw resilient growth across several parameters; assets, deposits and loans increased by 11%, 5.4% and 8.6% respectively, resulting in a 13.5% surge in net profit.

However, this should not distract us from the challenges ahead for Lebanon as a whole and the private sector in particular. A threatening mix of domestic and international circumstances has caused the national economy to flounder.

Typical of previous years, GDP growth in 2018 hovered around the 1% benchmark, which has not helped the country in addressing the structural issue of a towering national debt.

Lebanon continues to have one of the world's highest debt-to-GDP ratios, spiraling debt servicing costs and a widening budget deficit. Meanwhile, the country's infrastructure remains in need of rehabilitation and expansion on almost every level.

Regional conflict and strife continue to hamper the Middle East from flourishing. This is particularly harmful to an economy such as Lebanon's, the main pillars of which are trade, tourism and services.

Nevertheless, we sincerely hope the newly formed government will remain true to the Ministerial Statement and deliver on its promise to push for administrative reform and allow for the further formation of public private partnerships (PPPs).

Administrative reform is required not only to rein in public spending to reduce the national debt, but also to help unlock the USD 11 billion in aid and soft loans that have been pledged by a string of donor countries at the Paris CEDRE conference in April 2018.

We believe that PPPs are inevitable, offering the ideal gateway to circumvent the financial limitations of the state and capitalize on the management experience of the private sector.

We furthermore hope that the government will heed the conclusions of the McKinsey Plan issued in July 2018, which offers a promising blueprint for future growth. Our markets stand to benefit from attracting Lebanese and foreign investors to finance cornerstone projects. Political unity, stability and a thorough public policy, however, are a must.

Amid the above, Lebanon's banking sector in 2018 continued to shine as the economy's main engine, as has been confirmed by international observers. According to Bank Data, total assets of Lebanon's Alpha Banks grew by 11.1% to $258.6 billion in 2018, while customer deposits grew by 2%.

However, last year's political uncertainty in combination with the increased taxation on Lebanese banks has taken its toll on profitability, which contracted by 9.7%. In addition, the increasingly complicated international regulatory environment comes with a hefty price tag.

In terms of currency pressure, Lebanon in 2018 handled itself in a better manner than much larger neighbors such as Egypt and Turkey, for which the Lebanese Central Bank (BDL) cannot be credited enough. The BDL continues to play a pivotal role in maintaining financial stability and safeguarding the banking sector's crucial role within the economy.

Creditbank's end-of-year KPIs proved better than average figures recorded by fellow Alpha banks thanks to our calibrated yet determined growth strategy, and a proactive management approach in dealing with a demanding operational environment.

While we continue to carefully assess risks and opportunities, we never forget what we believe is a bank's primary role: being a market enabler and facilitator. Consequently, our loan-to-deposit ratio remains relatively high at 58.7%.

In addition, being a top of mind platform for commercial activity and a-go-to solution provider for businesses still is our main target. Customer centricity with a focus on state-of-the-art technology remains the core value in order to meet the modern client's demand for comfort and efficiency.

As dictated by our corporate governance framework, Creditbank continues to aim for the highest possible standards in terms of integrity, transparency and customer protection.

We believe it is the combination of all the above that feeds our client's trust and maintains our increasingly competitive positioning.

We look forward to the coming years hoping that they steer us to an era of hope to redress public finances and tackle geopolitical challenges that have too long ailed an economy with a solid legacy of truly being a free market.

Tarek Khalifé
Chairman - General Manager

GENERAL PROFILE

Creditbank was established in 1981 and has since rapidly expanded to become one of Lebanon's leading banks. The Bank was awarded the prestigious Alpha Bank status in 2013 when deposits exceeded the USD 2 billion benchmark. Currently, only 16 of Lebanon's 50 commercial banks are regarded Alpha Banks.

Creditbank was first founded as Crédit Bancaire by Joseph Khalifé and Fouad Zoghby who, despite the challenging circumstances facing Lebanon in that time, strongly believed in the country's financial sector's strength and ability to regain its position as the region's main banking hub.

Committed to a policy of natural progress, the Bank in 2002 acquired the leading French bank Credit Lyonnais s.a.l., prompting the name change from "Crédit Bancaire" to "Creditbank s.a.l".

Ever since, the Bank has continued to grow. Today, it has a branch network covering the whole of Lebanon's territory.

Internationally, Creditbank in 2013 finalized the acquisition of Anelik RU LLC in Russia and ID Bank CJSC (previously Anelik Bank CJSC) in Armenia.

In October 2016, Creditbank, then sole shareholder of ID Bank CJSC, realized an increase in equity of the latter by opening up its capital. As a consequence, Creditbank landed a 40.3% participation in ID Bank CJSC, which therefore has been deconsolidated from the Bank's annual financial statements since.

In conformity with its corporate strategy set a few years ago, Creditbank gradually phased out its presence in the Russian market by decreasing the activities of its Russian subsidiary Anelik RU. On August 9, 2017, Anelik RU ceased to operate altogether.

Instead, the Bank has consolidated its domestic market share, while taking steps to enlarge its shareholders' base by strategically positioning itself for further growth through acquisition.

Currently, Creditbank's network includes 26 branches spread across the country, with a total workforce of 656.

With a shareholders' equity of USD 413 million, Creditbank in 2018 saw assets and deposits grow by 11% and 5.4% respectively. The average growth rate among Alpha Banks in 2018 amounted to 11.1% for assets and 2% for deposits.

Strongly convinced that a bank's primary role is to first and foremost function as a market catalyzer, Creditbank's loans-to-deposits ratio in 2018 amounted to 58.7%. Furthermore, some 78% of loans was extended to commercial firms and entrepreneurs.

The Bank's main fields of expertise include all traditional and emerging banking operations, including Retail and Commercial Banking and Specialized Finance. The Bank is moreover widely known for its specialized consultancy and advisory services.

Ever since its establishment in 1981, Creditbank has been a pioneer in introducing state-of-the-art technologies in its products and services, as well as offering custom-made retail solutions to enhance customer satisfaction.

Furthermore, a revamped corporate identity has enabled Creditbank to manifest itself more distinctly and maturely within Lebanon's highly developed and competitive financial sector.

At its core lies the concept of customer centricity, which consists of two main pillars. First: the ability to interact with its customers and understand their needs on an equal basis. Second: the capacity to act and react professionally with the aim to establish long-term partnerships.

To underpin its new brand identity, Creditbank furthermore completed the transformation and modernization of its branch network. A revolutionary interior design and workflow model was introduced in 2014. The new generation branches are characterized by a consistent balance between customer comfort and technological advancement.

The digitalized waiting lounge and clever queuing system lead to a seamless banking experience, while the one-on-one service pods offer a high level of privacy and efficiency. Alternatively, customers can finalize 75% of their daily transactions through the Bank's 24/7 smart ATMs.

Last but not least, Creditbank is dedicated to the highest standards of transparency, business ethics and customer protection, as illustrated by its corporate governance framework, while it continues to pursue a consistent policy of Corporate Social Responsibility, particularly in the fields of youth, health and education.

CORPORATE GOVERNANCE

MR. TAREK JOSEPH KHALIFÉ
CHAIRMAN AND GENERAL MANAGER

Mr. Khalifé has been the Chairman-General Manager of the Bank since 2003. Previously a delegate Board Member, Mr. Khalifé was elected as Managing Director in 1994, before becoming Chairman and General Manager. Mr. Khalifé is fully dedicated to overviewing the Bank's management and implementing the Bank's strategy as formulated by the Board of Directors. Mr. Khalifé holds a degree in civil engineering and a Master's in Business Administration from San Diego State University. He also chairs the Bank's Board Committee on Corporate Governance.

MR. FADI BARBAR
BOARD MEMBER

Mr. Barbar represents Financial Profile Holding s.a.l., which was incorporated on August 24, 2009, and registered in the Commercial Register of Beirut under № 1901549. Holding a degree in Business Administration, Mr. Barbar has been a non-executive Board Member since January 21, 2010. Furthermore, Mr. Barbar represents Financial Profile Holding s.a.l. at the Bank's Board Committees on Audit and on Remuneration.

MRS. MARIA KHALIFÉ-BAZERJI
BOARD MEMBER

Mrs. Bazerji is the Bank's Deputy General Manager in charge of Administration and an executive Board Member. Mrs. Bazerji holds a master's degree in Business Administration and is a member of the Board Committee on Risk Management, as well as several of the Bank's Management Committees.

H.E. MR. DIMYANOS KATTAR

INDEPENDENT BOARD MEMBER

H.E. Mr. Kattar has been a non-executive independent Board Member since 2007. Mr. Kattar is a former Minister of Finance, Economy and Trade who presides the Board Committee on Audit and is a member of both the Board Committee on Remuneration and the Board Committee on Corporate Governance. Holding degrees in Management and Strategy as well as Political Economics, he has worked in both the business environment and the academic field. Mr. Kattar is a widely recognized expert on corporate and public governance.

DR. HENRI CHAOUL

INDEPENDENT BOARD MEMBER

Dr. Chaoul is a non-executive independent Board Member since 2011. Dr. Chaoul is a member of the Board Committees on Audit and Corporate Governance and heads the Board Committee on Risk Management, as well as the Board Committee on Remuneration. He holds a PhD in Economics and has most recently occupied the position of Chief Investment Officer at the Saudi investment firm Al Khabeer Capital. Through various tenures at companies in Europe, North America and the Middle East, Dr. Chaoul gained vast experience in investment banking, private equity, merger and acquisition analysis, corporate and business unit strategy, economic analysis and financial consulting.

MR. ALBERT LETAYF

INDEPENDENT BOARD MEMBER

Mr. Letayf is a non-executive independent Board Member who joined the Bank in 2018. Mr. Letayf presides the AML/CFT Board Committee. Holding a master of Science's degree in Management from the HEC School of Management (HEC Paris), he is the founder and Chief Executive Officer of Primecorp Invest, a company based in Beirut specialized in offering corporate finance advisory services to both national and international corporations. Through his positions at numerous banks and investment companies in France and Lebanon, Mr. Letayf gained wide experience in AML/CFT, investment banking and financial consultancy.

MICHEL TUENI Esq.
BOARD MEMBER

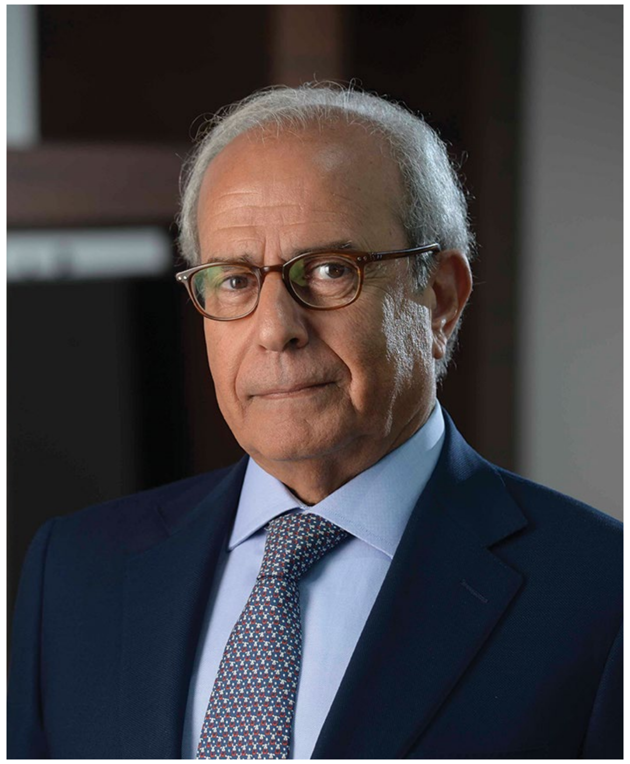
Me. Tueni represents Financial Trust Participation Holding s.a.l. (R.C. Beirut № 1900845) on the Board of the Bank.
He is also member of the Board Committee on Risk Management. Holder of master's degrees in Lebanese and French Law, Me. Tueni is a practicing attorney in Lebanon. His law firm focuses on business, corporate, banking, finance and international law. He is also a board member and attorney of several other banks and prominent companies and an active member in several non-governmental associations.

PAUL HARB Esq.
BOARD MEMBER

Me. Harb represents Holfiban s.a.l. Holding, which was incorporated on August 23, 2005 and registered in the Commercial Register of Beirut under № 1900532. Me. Harb has been a Board member since June 4, 2012.
Holding an LLB in Private Law and a master's degree in Advanced Private Law, Me. Harb is the Bank's General Counsel, the Secretary of the Board and the Board Committees on Corporate Governance and Remuneration, he is also a member of both the Board Committee on AML/CFT and the Executive and Investment Committee. Me. Harb has been a Senior Partner at the Abirached Harb Moussa law firm since 2012.

RENÉ ABIRACHED Esq.
SECRETARY OF THE BOARD

Me. Abirached is Secretary of the Board of Directors and Secretary of the Bank's Board Committee on Audit. Holding a Lebanese and French master's degree in law, Me. Abirached has been the Bank's legal advisor since 1987. A senior partner at the Abirached Harb Moussa law firm and a member of the Beirut Bar Association, Me. Abirached is "Chargé d'enseignement" of Criminal Law and International Private Law at the Saint Joseph University, a member of the International Arbitration Center in Lebanon, as well as the International Penal Law Association.



MAROUN ZEIN Esq.
SECRETARY OF THE BOARD

Me. Zein is Secretary of the Board of Directors and the Bank's legal advisor since 1985. With a law degree from Saint Joseph University, he has been a member of the Beirut Bar Association since 1962. Me. Zein is a founding senior partner in Zein Law Firm, which is specialized in legal banking matters.

Creditbank has always been committed to the highest standards of corporate governance to achieve sound and sustainable growth and meet the demands and expectations of all stakeholders involved.

Corporate governance refers to interrelated system of rules, best industry practices, internal checks and balances on the basis of which a company is operated, directed and controlled.

First published in July 2009, the main guiding principles of Creditbank's Corporate Governance Code are:

- **Responsibility** – a clear division and delegation of authority.
- **Accountability** – between the Board of Directors (the Board) and the Bank's management, as well as between the Board and all other stakeholders.
- **Transparency and disclosure** – enabling stakeholders to assess the Bank's financial performance.
- **Fairness** – in the treatment of all stakeholders.

The pillars of the Bank's internal organization are the Board of Directors, the Chairman, the Board Committees, the Senior Management and the Management Committees.

I- The Board of Directors

1) Role and Responsibility of the Board of Directors

The Board is ultimately responsible for the Bank's operational risks and its overall financial soundness.

The main objective of the Board is to safeguard the Bank's financial wellbeing and to ensure the proper management of the bank in the best interest of its shareholders, depositors, creditors, employees and all other stakeholders, while taking all actions to ensure compliance with the applicable laws, directives and regulations issued by regulators and supervisory bodies.

One of the Board's main tasks is to determine the Bank's long and mid-term strategic objectives and ensure the realization of the set goals and agreed upon guidelines on the basis of approved business plans.

The Board also verifies that the Bank's internal control mechanisms are effective and up to date, establishes temporary and permanent management committees, draws the Bank's expansion plan and outlines the policy in terms of placements, investments, participations and expenditures.

2) Composition and Meetings of the Board of Directors

The Board is composed of eight members elected by the General Assembly of Shareholders for a period of three years. The Board members are divided into three categories: executive members, non-executive members and independent members.

The presence of at least three independent directors aims to safeguard the effectiveness of the Board, ensure objectivity and enhance impartiality in the decision-making process of the Board. Also, the increase in the number of independent board members emphasizes the importance of adding diversity to the Board of Directors.

Currently, the Board is composed of four executive members and four non-executive members, three of whom are independent.

Board meetings take place regularly with a minimum of eight meetings per year. The Board Secretary keeps a permanent written record of the Board's discussions, votes and resolutions during the meetings.

II- The Chairman

The Board elects the Bank's Chairman from among its members for a maximum period of three years. The Chairman encourages alternative views and a culture of debate in the boardroom.

The Chairman exercises the function of General Manager, as per applicable laws. He is responsible for implementing the Board's resolutions, strategies and action plans. He oversees the management functions and operations of the Bank. His main task is to ensure a smoother interaction and constructive complementarity between the Board and the Bank's management.

III- Board Committees

For more efficiency, the Board has formed five Board Committees: the Board Committee on Audit, the Board Committee on Risk Management, the Board Committee on Remuneration, the Anti-Money Laundering and Counter Financing Terrorism Board Committee, and the Board Committee on Corporate Governance.

The designation of a Board Committee member is conducted through a formal and transparent process. The role and responsibilities of each committee are set in a preapproved charter clearly outlining its scope of work and working procedures. Each committee

has full and direct access to all members of the Bank's upper management. All committees' decisions and recommendations are submitted to the Board of Directors that makes sure they comply with applicable laws and regulations and are in line with the strategic objectives set by the Board of Directors.

1) The Board Committee on Audit

This committee comprises three Board members. Its role and functions are defined by Central Bank's Basic Decision № 9956 dated July 21, 2008 as amended by the Intermediate Decision № 10405 dated March 30, 2010.

The committee reports its review of the annual financial results to the Board and assesses the accuracy of the financial statements and the efficiency of the financial benchmarks used by the external auditors. It also examines the adequacy of the Bank's internal and external control systems.

2) The Board Committee on Risk Management:

This committee is composed of three Board members. It reviews the various policies and plans of the internal risk management, before they are evaluated and approved by the Board. The role of the Committee is mainly to set and guide the Bank's risk strategy, ensure the implementation of sound risk management principles, monitor the Bank's overall risk profile, and submit policies, limits, reports and recommendations to the Board for endorsement.

3) The Board Committee on Remuneration

This committee is composed of three members. It is responsible for establishing an Employees Performance Evaluation System as well as sound remuneration policies and procedures and supervising their implementation in accordance with the BDL Basic Circular No 133 regarding remunerations and bonuses granted to bank employees.

4) The Anti-Money Laundering and Counter Financing Terrorism Board Committee (AML/CFT)

In accordance with the BDL Intermediary Decision № 12255 dated May 04, 2016, the Bank established the Anti-Money Laundering and Counter Financing Terrorism Board Committee (AML/CFT) composed of three Board members whose responsibilities include mainly supporting the Board of Directors in its function and supervisory role with respect to fighting money laundering and terrorism financing, understanding the related risks, and assisting it with making the appropriate decision in this regard.

5) The Board Committee on Corporate Governance

This committee is comprised of four members. This committee supervises the Bank's commitment to good corporate governance as set forth in the Corporate Governance Code, Corporate Governance Guidelines, Terms of Reference for the Board of Directors and Code of Ethics and Business Conduct. It regularly updates the terms of said documents, and makes sure they are well applied.

IV- Senior Management

Senior management is responsible and accountable for the day-to-day management and operations of the Bank as per the Board's directives.

The Board guarantees there is a clear separation of powers within the Bank and approves the appointment of all senior executives, including the heads of divisions and departments, as well as the heads of Internal Audit and Compliance.

V- Management committees

The Bank's management committees include:

- Executive and Investment Committee
- Asset Liability Committee (ALCO)
- Credit Committee
- Internal Control Committee
- Classification, Provisioning, and Non-Performing Loans Committee
- IT and Organization Committee
- Network Committee
- Retail Product and Services Committee
- Procurement Committee
- Human Resources Committee
- Security Committee
- Anti-Money Laundering / Counter Financing Terrorism Committee
- Committee on Operational Risk Management
- Follow up Committee for Subsidiaries Abroad

Creditbank closely monitors the evolution of corporate governance and best banking practices, as it continuously aims to update and upgrade its corporate framework and decision-making process to provide the best possible outcome for all internal and external stakeholders involved.

CORPORATE SOCIAL **RESPONSIBILITY**

Corporate Social Responsibility has been consistently a major and intrinsic component of our mission. In 2018, we continued to engage in a wide range of existing affiliations, while embracing a series of new initiatives mainly with an eye on youth, health and education.

Our goal as a good corporate citizen is to establish and maintain long term partnerships rather than engage in ad hoc projects, as this enables us to make a more substantial and lasting impact on the communities we operate in.

Therefore, for the fourth consecutive year, we have been in close cooperation with the Institut de Reeducation Audio-Phoenétique (IRAP). Founded in 1960, IRAP is a specialized center for the education of deaf children and adolescents. Its multidisciplinary team offers schooling up to the academic Brevet level to some 100 hearing impaired youths.

The Bank's commitment and support in recent years have helped IRAP to revamp and modernize its kitchen in order to increase its capacity and efficiency. As an income generator, the kitchen plays a crucial role in helping the institute fund its educational programs.

In 2017, Creditbank embraced a new initiative: the construction of a building to bring all IRAP's activities related to pastry production under one roof. This will boost output and help the institute one step further on the path towards self-sufficiency.

The building's symbolic first stone was laid during a colorful ceremony in 2018, which was attended by delegations from both IRAP and the Bank. Throughout last year, we conducted regular visits to the center in order to stay connected with the greater IRAP family and learn more about the center's projects and teaching techniques. As in previous years, our end-of-year corporate gifts were purchased from IRAP.

Since 2016, we have also worked closely together with the Lebanese Mountain Trail Association (LMTA), which for over a decade has been working on the development and protection of Lebanon's one and only long-distance hiking path. The LMTA promotes social responsible tourism in order to safeguard the country's natural and cultural heritage.

In 2018, for the third consecutive year, a Creditbank team took part in the LMTA annual Fall Trek event, which saw two teams of hikers over a period of 30 days walk the entire 470 km trail in opposite directions. More than 230 hikers from 21 countries participated under the slogan "Hike It to Protect It."

The Fall Trek aims to raise awareness of the beauty and importance of Lebanon's resource-rich mountains, while supporting rural communities and their economies.

With an eye on promoting environmental awareness, Creditbank furthermore annually supports Jouzour Loubnan, a Lebanese non–governmental organization (NGO) dedicated to reforesting Lebanon's mountains. Since its establishment in 2013, Jouzour Loubnan has planted over 300,000 trees.

For the past three years Creditbank has partnered with the American University of Beirut Medical Centre (AUBMC) to help continue its lifesaving mission. The AUBMC is dedicated to improving people's health by offering quality care, excellence in education, and leadership in research.

Creditbank supports the Sickle Cell Needy Patient Fund. Sickle cell disease is an inherited and lifelong genetic disorder that leads to a lack of red blood cells. The disease first manifests itself in childhood through such symptoms as severe pain, strokes and anemia. The complications worsen throughout adulthood, affecting almost every organ of the body.

For this reason, children and adults diagnosed with the disease require regular follow-ups and comprehensive treatment. The AUBMC treats nearly 300 patients.

Creditbank furthermore supports the AUBMC "ifight PID Fund". This is a volunteer initiative that benefits children diagnosed with Primary Immunodeficiency Diseases (PID), which are very rare, yet extremely costly immunity diseases, as the main therapeutic approach is bone marrow transplantation.

Since 2015, we have also supported Donner Sang Compter (DSC), a Lebanese NGO collecting blood donations for possible emergencies. Partnering with over 30 hospitals, DSC has conducted hundreds of blood drives throughout the country. Creditbank organized two blood drives in its headquarters, in addition to supporting DSC in hosting its annual fundraising event. Furthermore, Creditbank's team ran in Beirut Marathon to support DSC mission over two consecutive years.

For the last two years, we have also partnered with Les Restos du Coeur, an NGO created by French artist Coluche, which provides people in need with food and other necessities all over the world. Creditbank participated in several "Les Restos du Coeur" fundraising events in Lebanon.

As Lebanon's youth represents the future of the country, Creditbank strongly believes in empowerment through education. Since 2017, we have supported also the American University of Beirut Model United Nations Club (AUBMUNC), a student-run society organizing conferences with the aim to teach its members to become confident speakers, negotiators and leaders.

For the second consecutive year we also supported the College Sainte Famille – Sahel Alma in honoring their top students. Every year, the college's students with the highest grades are rewarded for their hard work and perseverance. Representatives from Creditbank attended the award ceremony and celebrated with the students and their families.

In short, 2018 saw us deepening and strengthening existing partnerships, as well as embracing new initiatives in a variety of fields. Without a doubt, we at Creditbank, will continue to make a difference and be a force for social change for years to come.

ECONOMIC OVERVIEW

The Lebanese economy in 2018 continued to struggle as a result of political uncertainty domestically and a region in turmoil, yet several positive circumstances indicate a better future ahead. Despite the slowdown, political bickering and higher taxes, the banking sector reported promising end-of-year results and persisted in its stabilizing role as the country's main monetary engine.

The Lebanese Central Bank (BDL) estimated that the country's Gross Domestic Product (GDP) in 2018 increased by up to 1.5%, while the International Monetary Fund reckoned a growth of no more than 1%. Both are a far cry from the 8% growth rate recorded in 2010. Regional growth in 2018 amounted to an estimated 2%.

The political impasse caused both private and public investments to be postponed, while having an adverse effect on the long-awaited fiscal reforms and, consequently, on the pledges made at the international Conference in support of Lebanon Development and Reform (CEDRE).

At the Paris conference on April 6, 2018, donor countries promised Lebanon $10.2 billion in loans and $860 million in grants. However, to free up these funds the Lebanese government must ensure that its financial household is in order, which includes adopting a government budget and introducing a series of administrative reforms to enhance financial transparency and accountability.

Lebanon is burdened with one of the world's highest debt-to-GDP ratios. Last year's budget deficit amounted to 11% of GDP, much of which is due to debt servicing, as well as salaries and wages, and subsidies to the ailing electricity sector. Donor countries have suggested for the government to adopt an austerity program and aim for 1% reduction in the budget deficit annually.

When addressing the country's economic slump, however, one must take into consideration the challenging regional environment Lebanon is facing. It is no coincidence that the decline in annual growth occurred with the outbreak of the war in Syria, which caused millions of people to flee for neighboring countries, including Lebanon.

Although the situation in Syria has stabilized in recent years, according to the United Nations High Commissioner for Refugees (UNHCR) there were still 948,849 Syrian refugees registered in Lebanon by the end of 2018, which represents only a 20% decline since numbers peaked in May 2015.

The war in Syria not only produced a human tragedy, but also sealed Lebanon's eastern border. As a consequence, cut off from the wider region, Lebanon's trade and tourism sectors severely suffered.

While Lebanese imports continued to increase, exports have declined since 2012. Only last year saw a modest uptick: from $2.8 billion in 2017 to $2.9 billion in 2018. Meanwhile, imports reached a value of $19.9 billion up from $19.5 billion in 2017.

In terms of tourism, the number of arrivals declined for several years following the record 2.1 million foreign visitors in 2010. Only in 2014 a gradual recovery set in. In 2018, according to Lebanon's Ministry of Tourism, the number of tourists visiting the country witnessed a 5.8% increase to amount to 1.96 million, the highest number since 2010.

Total spending increased by 6.5% according to figures issued by Global Blue. Around 53% of tourists stemmed from Europe and the United States, while 28.6% came from the Arab world.

The latter is set to increase following the Saudi government's decision in early 2019 to lift its negative travel advice. In addition, Jordan and Syria by the end of 2018 reopened the main border crossing for people and goods, which will have a positive impact on Lebanon both in terms of tourism and trade. It is estimated that Lebanese exports could increase between 15 and 20%.

Despite the economic and political uncertainties that governed 2018, Lebanon's banking sector continued to book positive results. According to the Association of Banks in Lebanon (ABL), the country had 65 active banks last year. However, the sector is dominated by the Alpha Group, comprising 16 banks with each deposits worth over $2 billion, including Creditbank.

According to Bank Data, the Alpha Group's total assets in 2018 rose by 11.1% to $258.6 billion. Domestic assets registered a 13.3% upturn to reach $222.2 billion, while foreign assets registered a slight decrease to amount to $36.36 billion.

Customer deposits in 2018 grew by 2% compared to 3% in 2017, amounting to $186.3 billion. Customer deposits in foreign currencies in particular registered an increase to reach $136.87 billion. Total loans by Alpha Banks declined by 4.8% in 2018 to amount to $63.2 billion. In terms of profitability, the Alpha Group registered a 5.9% decrease for the first time in 5 years to reach $2.24 billion.

Established in 1963, BDL has successfully safeguarded the stability of the Lebanese currency, while since 2013 its low-cost loans have greatly helped keeping the economy afloat. For a continued proper functioning of the banking sector, the role of BDL is inevitable and fundamental.

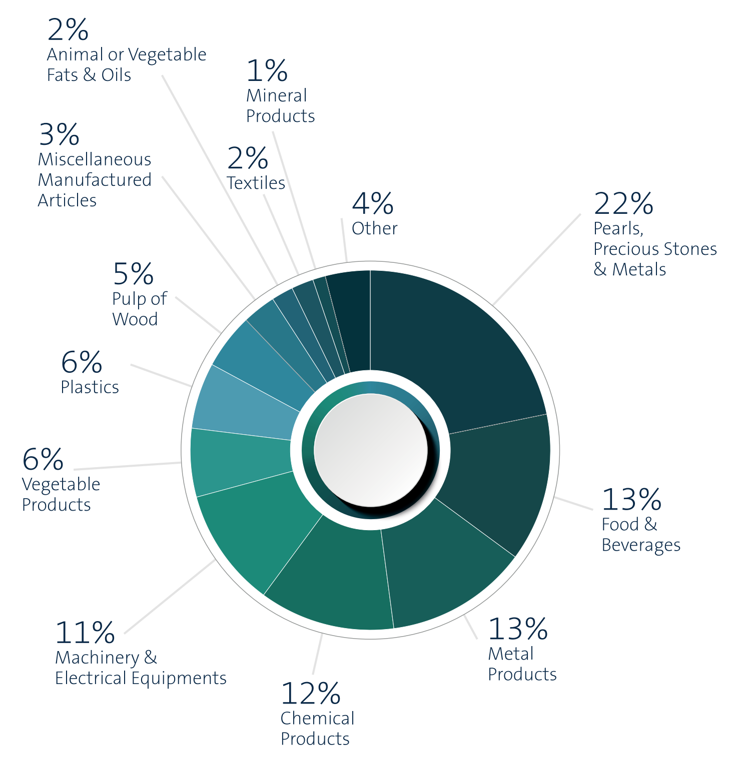
The most significant activity last year saw the Lebanon's Ministry of Finance swap $5.5 billion Lebanese pound bonds held by the BDL with dollar denominated Eurobonds to help meet its financing needs, while beefing up the BDL's foreign currency reserves. As a result of the swap, cash and balances with the central bank grew by 34.35% to $103.5 billion.

According to the BDL, Lebanese banks have reached an average capital adequacy ratio of 16%, exceeding the requirements as set by Basel III and complying with International Financial Reporting Standards (IFRS9), as well as all regulations regarding money laundering and terrorism financing.

The health of the Lebanese financial sector, the newfound political unity and willingness to tackle some of the structural issues facing the country, as well as the improvements in regional stability, offer ample reason for a positive outlook regarding the future.

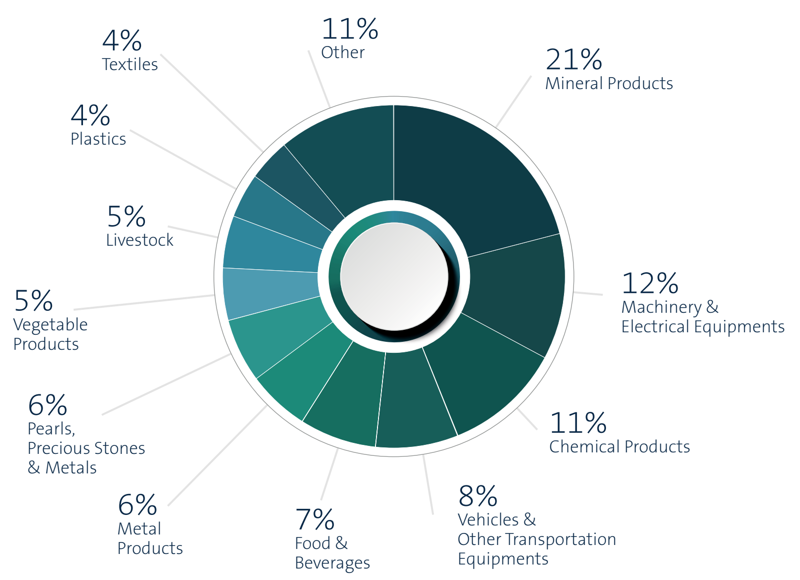
This positivism is further fueled by the fact that Lebanon in early 2018 signed two Exploration and Production Agreements with an international consortium covering two offshore blocks in the Eastern Mediterranean. It is expected that the first drilling will start by the end of 2019.

EXPORT COMPOSITION (2018)



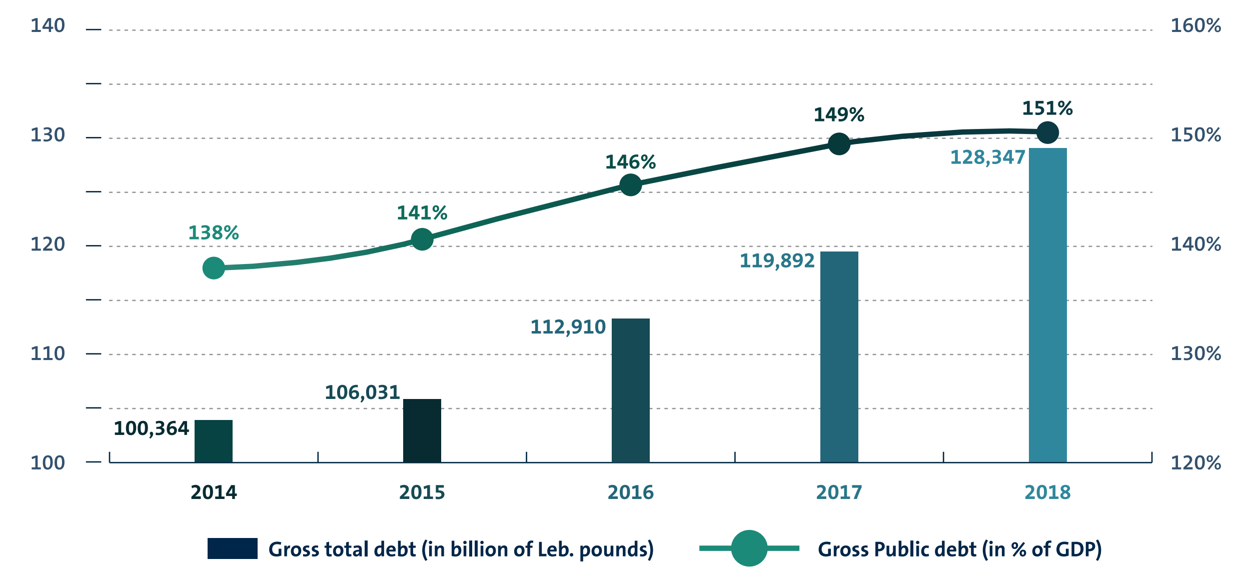
Source: Lebanese Customs

IMPORT COMPOSITION (2018)



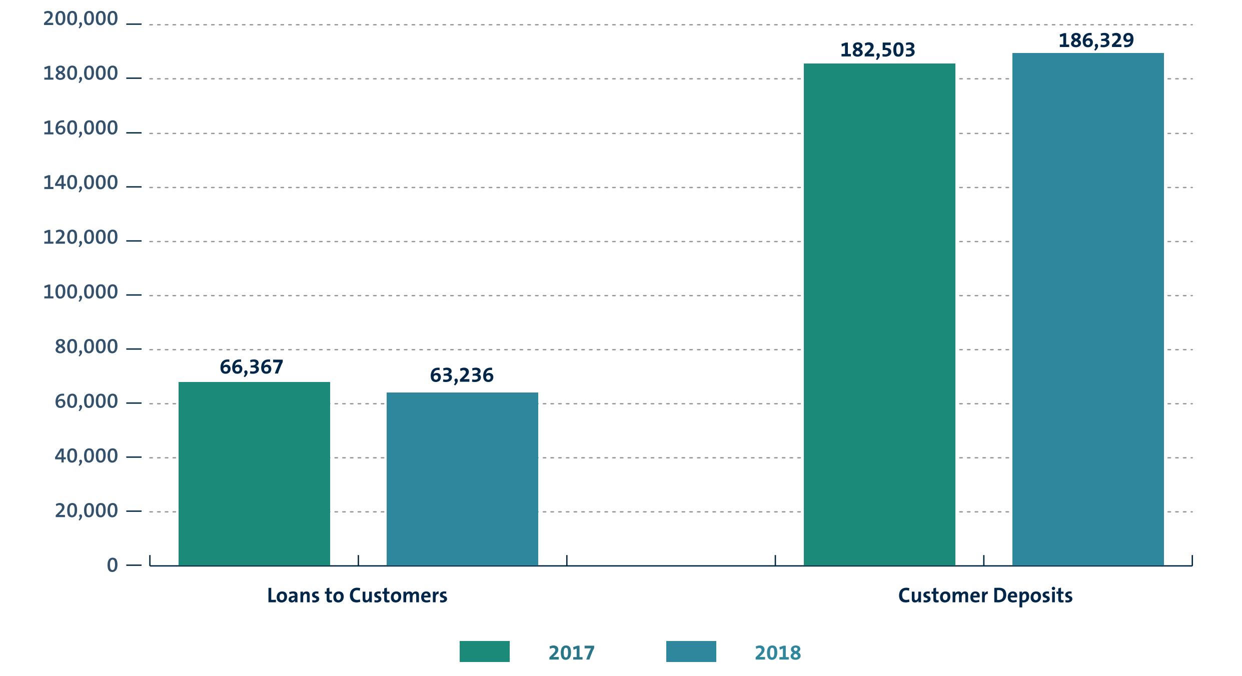
Source: Lebanese Customs

GROSS TOTAL DEBT / GROSS PUBLIC DEBT



Source: Ministry of Finance/Banque du Liban

ALPHA BANKS MAIN INDICATORS (In millions of USD)



Source: Bankdata

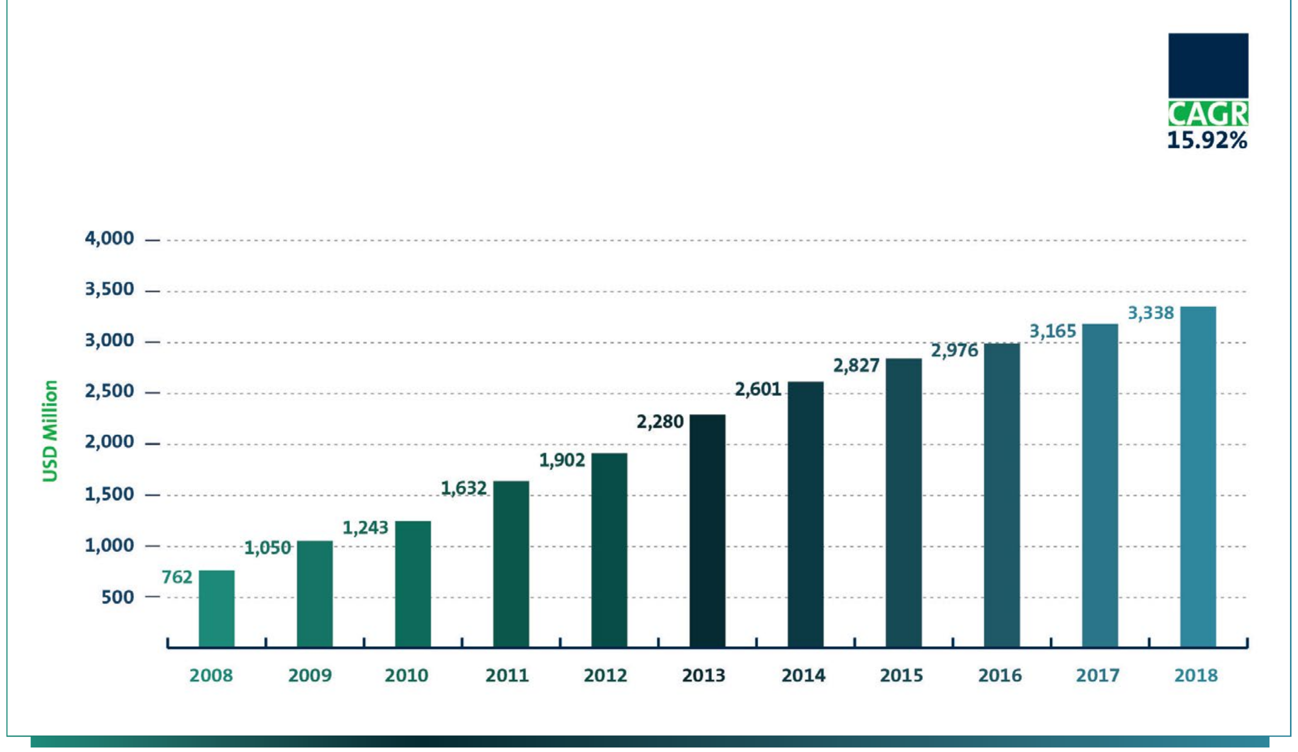
MANAGEMENT DISCUSSION **& FINANCIAL** ANALYSIS

USD Million	2018	2017	2016	2015
Main Financial Indicators				
Total Assets	4,242	3,821	3,509	3,322
Customer Deposits	3,338	3,165	2,976	2,827
Net Loans	1,958	1,802	1,817	1,684
Net Liquid Assets	1,625	1,601	1,398	1,334
Shareholders' Equity	413	398	328	279
Total Operating Income	111	101	152	115
Net Profit	23	20	39	35
EBITA	57	42	100	57
Number of Branches (Local)	25	25	25	23
Number of Branches (Abroad)	N/A	N/A	2	19
Number of ATMs (Local)	52	52	48	44
Number of ATMs (Abroad)	N/A	N/A	6	64
Number of Employees (Local)	669	628	605	545
Number of Employees (Abroad)	N/A	N/A	141	529
Profitability & Efficiency Ratios (%)				
ROAA	0.56%	0.54%	1.15%	1.12%
ROAE	5.57%	5.48%	12.98%	14.40%
Leverage Multiplier	9.95	10.10	11.25	12.92
Spread	1.77%	1.47%	1.72%	2.13%
Net Interest Margin	2.15%	1.82%	2.04%	2.38%
Cost / Income	55.58%	61.70%	36.05%	52.67%
Assets Quality Ratios (%)				
Gross Non Performing Loans / Gross Loans	13.78%	8.92%	5.93%	6.48%
NPL Provisions / Non Performing Loans	35.78%	50.34%	56.12%	46.85%

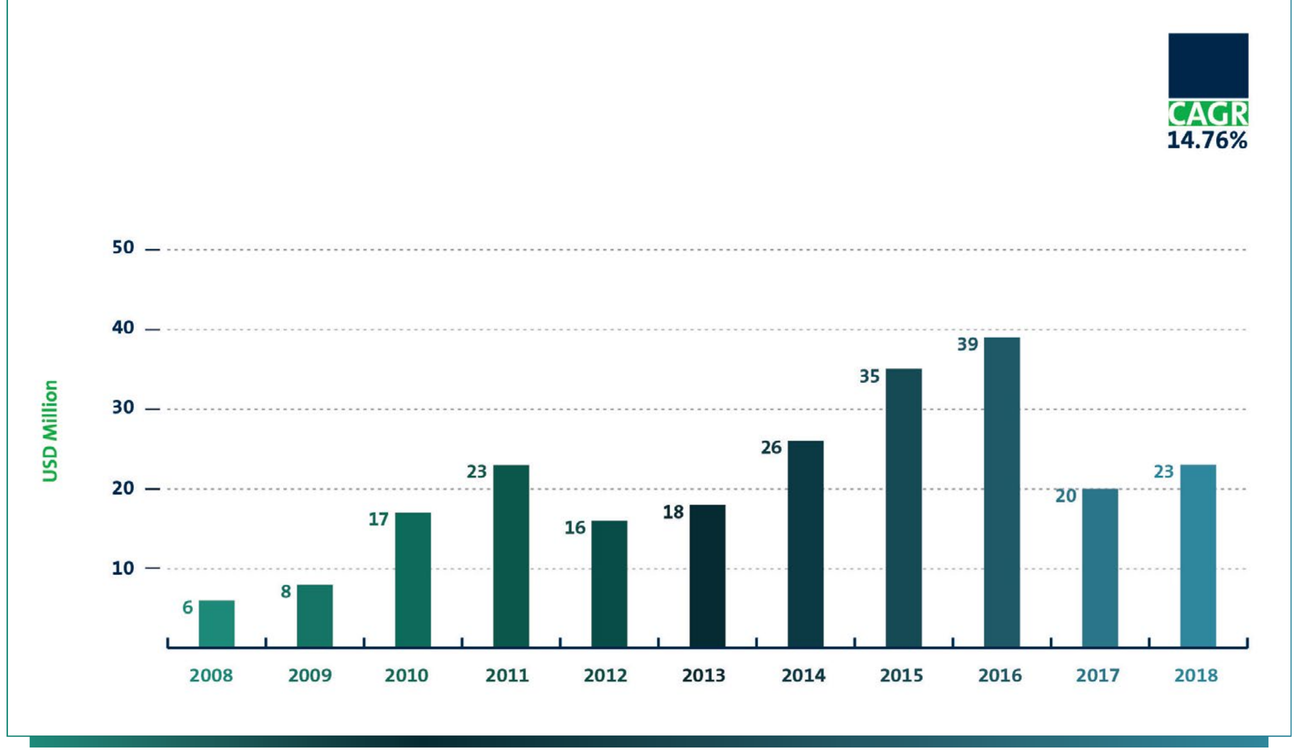
USD Million	2018	2017	2016	2015
Liquidity & Funding Ratios (%)				
Net Loans / Assets	46.16%	47.17%	51.78%	50.70%
Customer Deposits / Assets	78.68%	82.84%	84.81%	85.09%
Net Liquid Assets / Assets	38.30%	41.90%	39.83%	40.16%
Net Loans / Customer Deposits	58.67%	56.94%	61.06%	59.59%
Capital Adequacy Ratios (%)				
Total Capital Adequacy Ratio (CAR)	15.84%	16.29%	13.13%	12.79%
Equity / Total Assets	9.72%	10.42%	9.34%	8.41%
Internal Capital Growth	3.60%	3.57%	10.73%	11.87%
Growth Indicators (Creditbank)				
% Growth in Assets	11.02%	8.88%	5.62%	10.75%
% Growth in Deposits	5.45%	6.36%	5.28%	8.69%
% Growth in Net Loans	8.64%	-0.81%	7.88%	13.75%
% Growth in Shareholders' Equity	3.63%	21.47%	17.32%	32.92%
% Growth in Total Operating Income	10.12%	-33.75%	32.81%	20.23%
% Growth in Net Profit	13.51%	-49.50%	11.72%	36.60%
Growth Indicators (Alpha Group)				
% Growth in Assets	11.10%	6.10%	6.07%	4.75%
% Growth in Deposits	2.00%	3.00%	3.67%	4.57%
% Growth in Net Loans	-4.80%	0.80%	1.39%	5.86%
% Growth in Shareholders' Equity	0.10%	5.90%	10.69%	6.00%
% Growth in Total Operating Income	-4.60%	-19.60%	37.54%	6.93%
% Growth in Net Profit	-5.90%	4.80%	10.47%	8.26%

Note: 2018 Alpha Group indicators are unaudited (Source: BANKDATA)

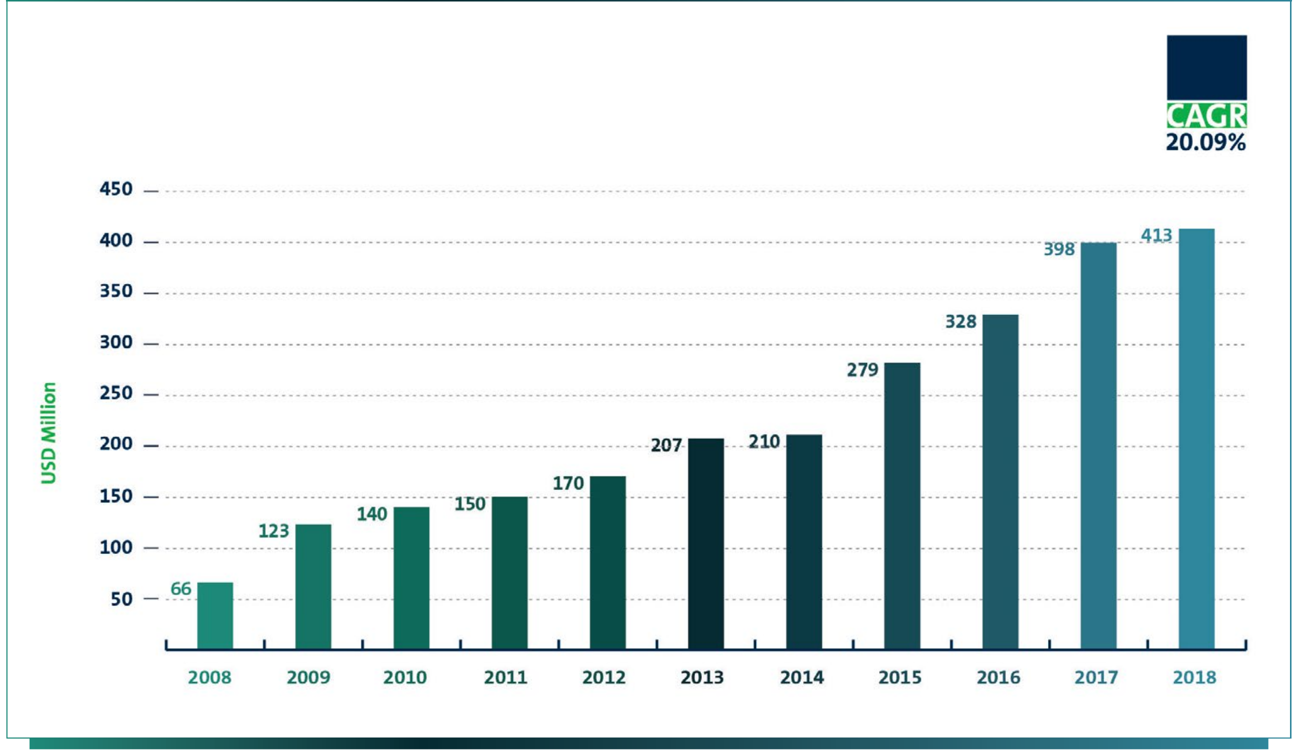
CUSTOMER DEPOSITS



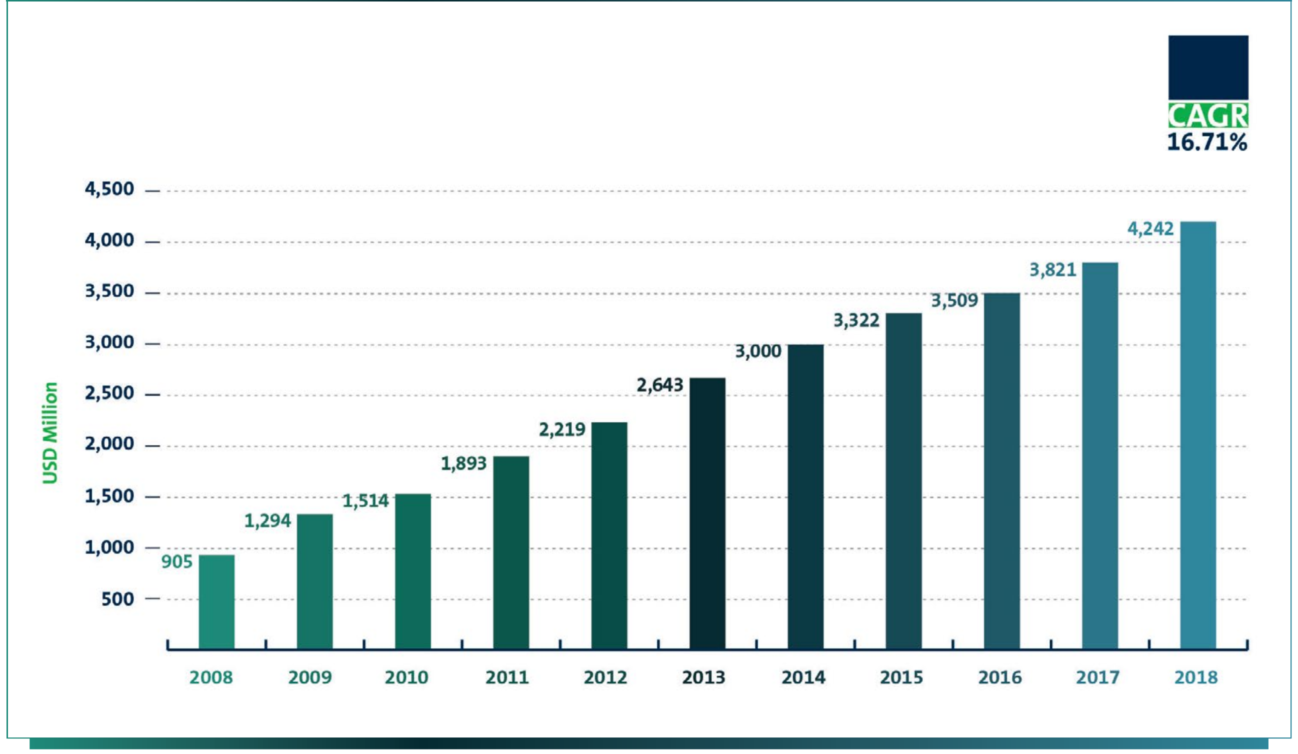
NET PROFIT

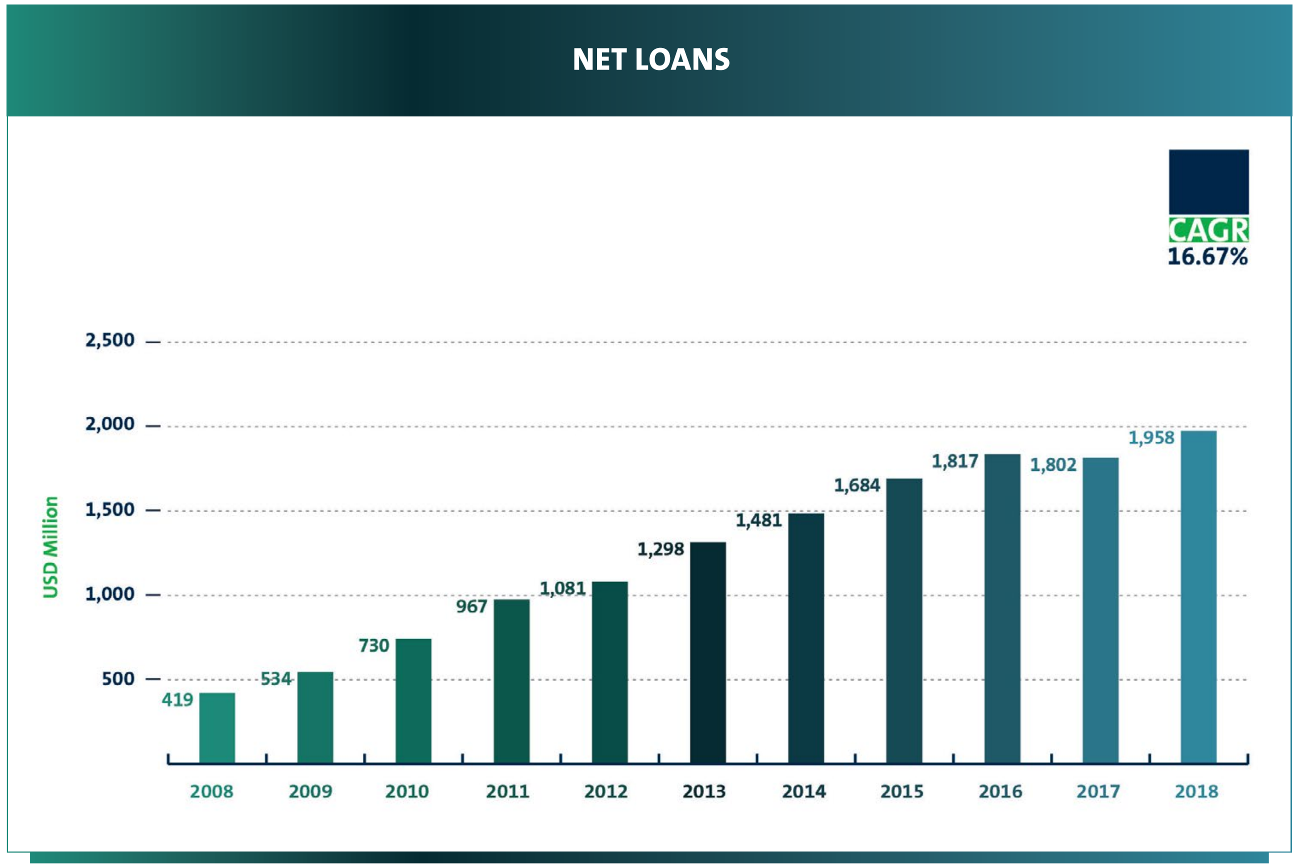


TOTAL EQUITY



TOTAL ASSETS





OVERVIEW

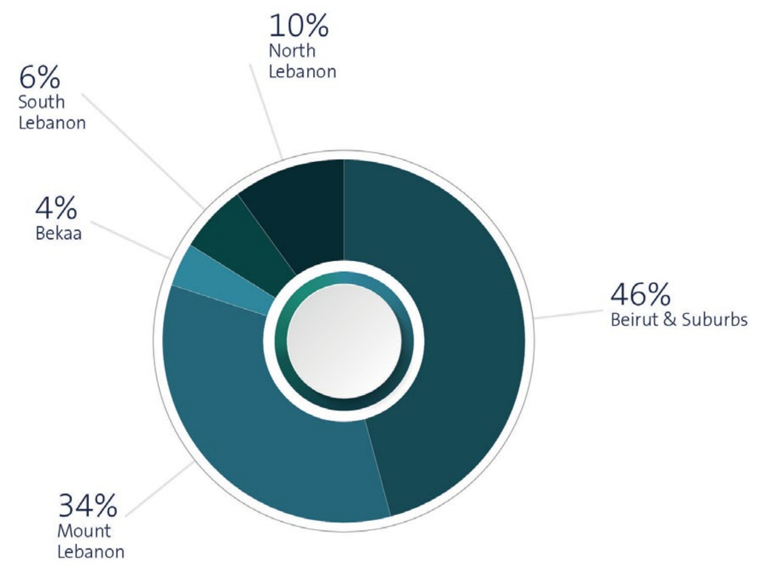
The Group Today

On December 31, 2018, the Group had 669 employees. Creditbank SAL had a network of 25 branches in Lebanon. The Group owned 99.76% of insurance brokerage firm Credex S.A.L. and 99% of the real estate companies Baabda 1587 S.A.L. and Achrafieh 784 S.A.L.

The following discussion covers the performance of the Group during the fiscal year 2018 in comparison with the previous year. The data are based on the Group's audited consolidated financial statements.

All USD amounts found in this section were converted using an LBP 1,507.5 = USD 1 rate.

GEOGRAPHICAL DISTRIBUTION OF ATMS

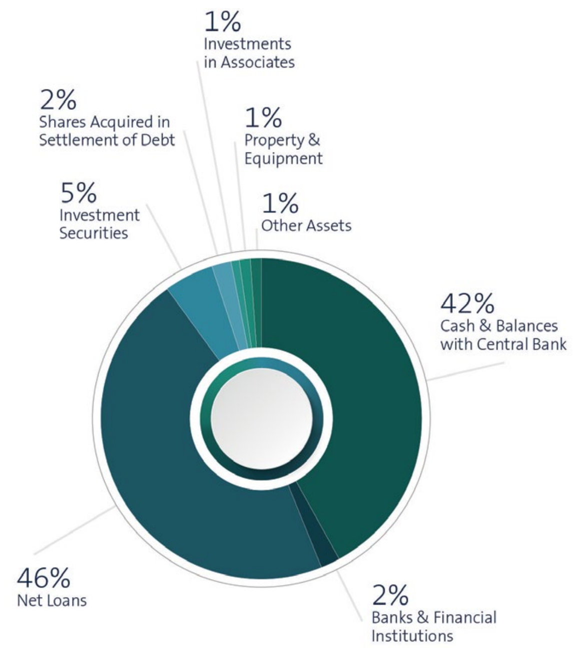


TOTAL ASSETS

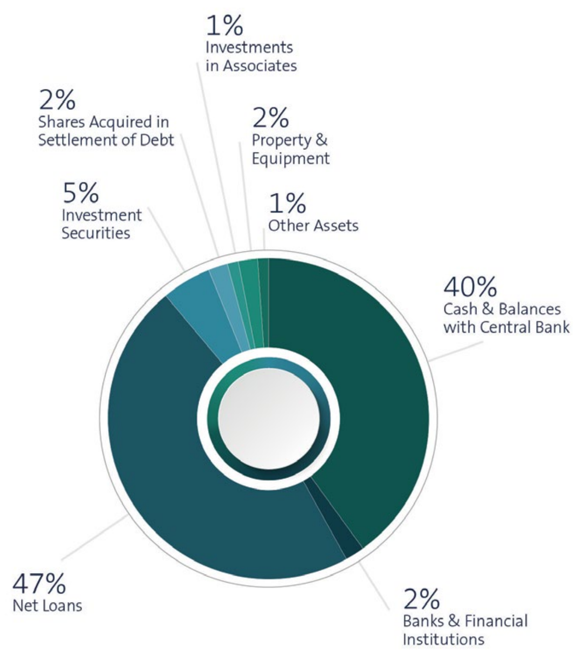
The following table shows the composition of the Group's total assets, as well as the percentage of total and percentage changes therein, on December 31, 2018, and December 31, 2017, respectively:

LBP Million	2018	% of Total	2017	% of Total	Growth	% Growth
Cash and Balances with Central Bank	2,677,745	41.9%	2,289,578	39.7%	388,167	17.0%
Banks and Financial Institutions	122,685	1.9%	145,299	2.5%	(22,614)	-15.6%
Net Loans	2,952,089	46.2%	2,717,204	47.2%	234,885	8.6%
Investment Securities	310,871	4.9%	276,428	4.8%	34,443	12.5%
Shares Acquired in Settlement of Debt	120,044	1.9%	110,626	1.9%	9,418	8.5%
Investments in Associates	71,400	1.1%	84,782	1.5%	(13,382)	-15.8%
Property and Equipment	99,547	1.6%	99,501	1.7%	46	0.0%
Other Assets	40,745	0.6%	36,764	0.6%	3,981	10.8%
Total Assets	**6,395,124**		**5,760,183**		**634,942**	**11.0%**

BREAKDOWN OF TOTAL ASSETS 2018



BREAKDOWN OF TOTAL ASSETS 2017



The growth of total assets continued in 2018 and reached 11% or LBP 634,942 million (USD 421 million). By December 31, 2018, the Group's total assets stood at LBP 6,395,124 million (USD 4,242 million), compared to LBP 5,760,183 million (USD 3,821 million) on December 31, 2017.

The Group's net loans recorded a growth of LBP 234,885 million (USD 156 million) or 8.6% to amount to LBP 2,952,089 million (USD 1,958 million) by the end of 2018, compared to LBP 2,717,204 million (USD 1,802 million) by the end of 2017.

Net loans and cash and balances with Central Bank constituted respectively 46.2% and 41.9% of the Group's total assets in 2018, compared to 47.2% and 39.7% in 2017.

The investment securities increased from LBP 276,428 million (USD 183 million) by the end of 2017 to LBP 310,871 million (USD 206 million) by the end of 2018.

DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

The following table sets out the composition of the Group's loan portfolio as defined by the borrower's business segment, as well as the percentage of total and changes therein, on December 31, 2018, and December 31, 2017, respectively:

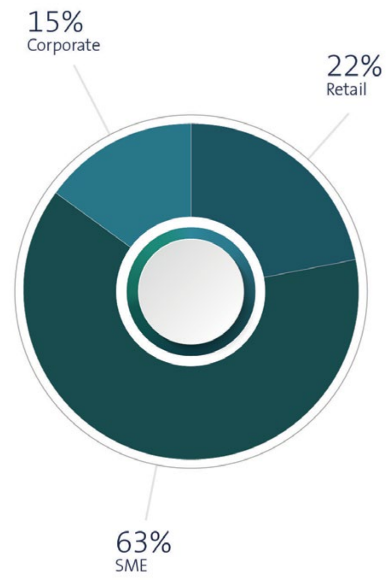
LBP Million	2018	% of Portfolio	2017	% of Portfolio	Growth	% Growth
Retail	648,622	22.0%	657,620	24.2%	(8,998)	-1.4%
SME	1,870,863	63.4%	1,622,590	59.7%	248,273	15.3%
Corporate	432,603	14.7%	436,994	16.1%	(4,391)	-1.0%
Total	**2,952,089**		**2,717,204**		**234,885**	**8.6%**

Corporate lending amounted to LBP 432,603 million (USD 287 million) on December 31, 2018, compared to LBP 436,994 million (USD 290 million) on December 31, 2017, reflecting a year on year decrease of 1%.
SME lending reached LBP 1,870,863 million (USD 1,241 million) on December 31, 2018, compared to LBP 1,622,590 million (USD 1,076 million) on December 31, 2017, reflecting a year on year increase of 15.3%.

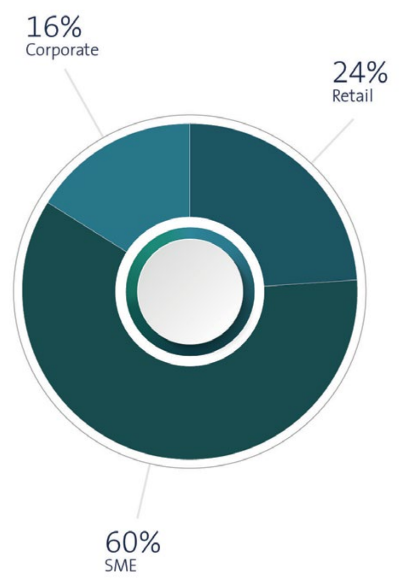
Retail lending amounted to LBP 648,622 million (USD 430 million) on December 31, 2018, compared to LBP 657,620 million (USD 436 million) on December 31, 2017, reflecting a year on year decrease of 1.4%.

Corporate, SME, and Retail loans constituted 14.7%, 63.4% and 22% of total loans respectively on December 31, 2018, compared to 16.1%, 59.7% and 24.2% on December 31, 2017.

DISTRIBUTION OF LOANS BY BUSINESS SEGMENT 2018



DISTRIBUTION OF LOANS BY BUSINESS SEGMENT 2017

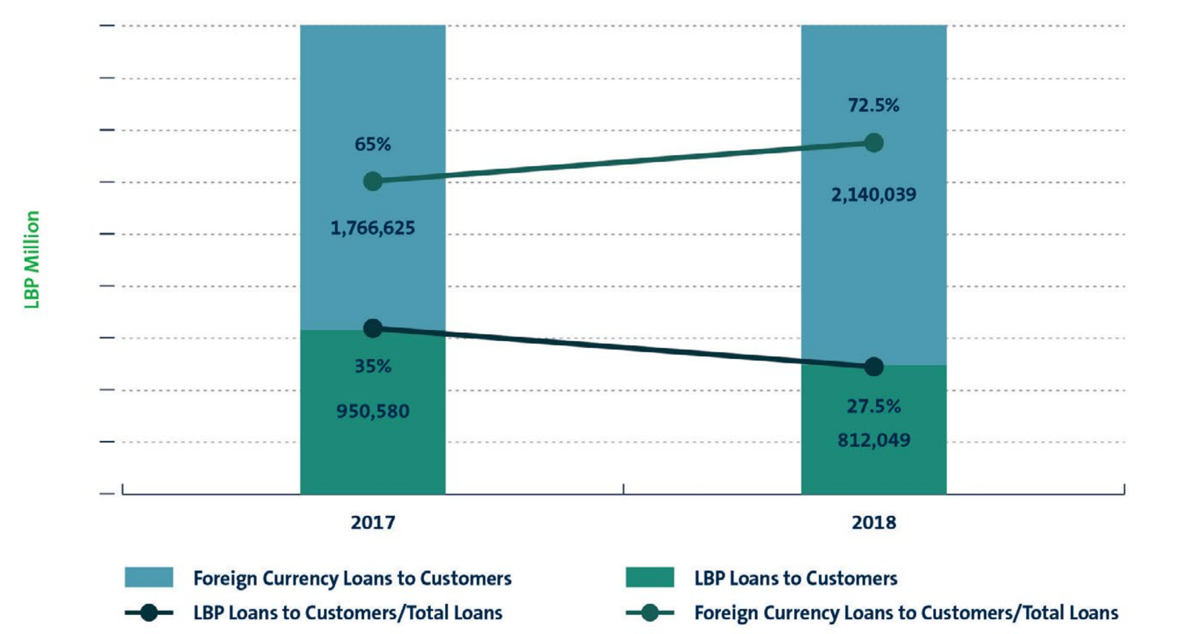


DISTRIBUTION OF LOANS BY CURRENCY

The following table sets out the composition of the Group's loan portfolio by currency, as well as the percentage changes therein on December 31, 2018, and December 31, 2017, respectively:

LBP Million	2018	2017	Growth	% Growth
LBP Loans to Customers	812,049	950,580	(138,531)	-14.6%
Foreign Currency Loans to Customers	2,140,039	1,766,625	373,415	21.1%
Total	**2,952,089**	**2,717,204**	**234,885**	**8.6%**

LOANS BY CURRENCY



Loans to customers in LBP represented 27.5% or LBP 812,049 million (USD 539 million) of total loans by December 31, 2018, whereas loans to customers in foreign currencies represented 72.5% or LBP 2,140,039 million (USD 1,420 million) of total loans.

By December 31, 2017, loans to customers in LBP represented 35% or LBP 950,580 million (USD 631 million), while loans in foreign currencies represented 65% or LBP 1,766,625 million (USD 1,172 million) of total loans.

DISTRIBUTION OF LOANS BY LOCATION

The following table shows the composition of the Group's loan portfolio by geographical location, as well as the percentage of total and percentage changes therein, on December 31, 2018, and December 31, 2017, respectively:

LBP Million	2018	% of Total	2017	% of Total	Growth	% Growth
Lebanon	2,563,130	86.8%	2,390,566	88.0%	172,564	7.2%
Americas	40,187	1.4%	30,052	1.1%	10,135	33.7%
Europe	174,676	5.9%	133,765	4.9%	40,912	30.6%
Asia Pacific	371	0.0%	269	0.0%	102	37.7%
Middle East and Africa	173,666	5.9%	162,167	6.0%	11,499	7.1%
Australia	59	0.0%	386	0.0%	(327)	-84.7%
Total Loans	**2,952,089**		**2,717,204**		**234,885**	**8.6%**

The majority of the Group's loan portfolio concerned Lebanon, amounting to 86.8% by December 31, 2018, compared to 88% by December 31, 2017.
The loan portfolio concerning the Middle East and Africa, Europe, and Americas constituted 5.9%, 5.9%, and 1.4% of the total loan portfolio by the end of 2018, compared to 6.0%, 4.9%, and 1.1% by the end of 2017.

DISTRIBUTION OF LOANS BY ECONOMIC SECTOR

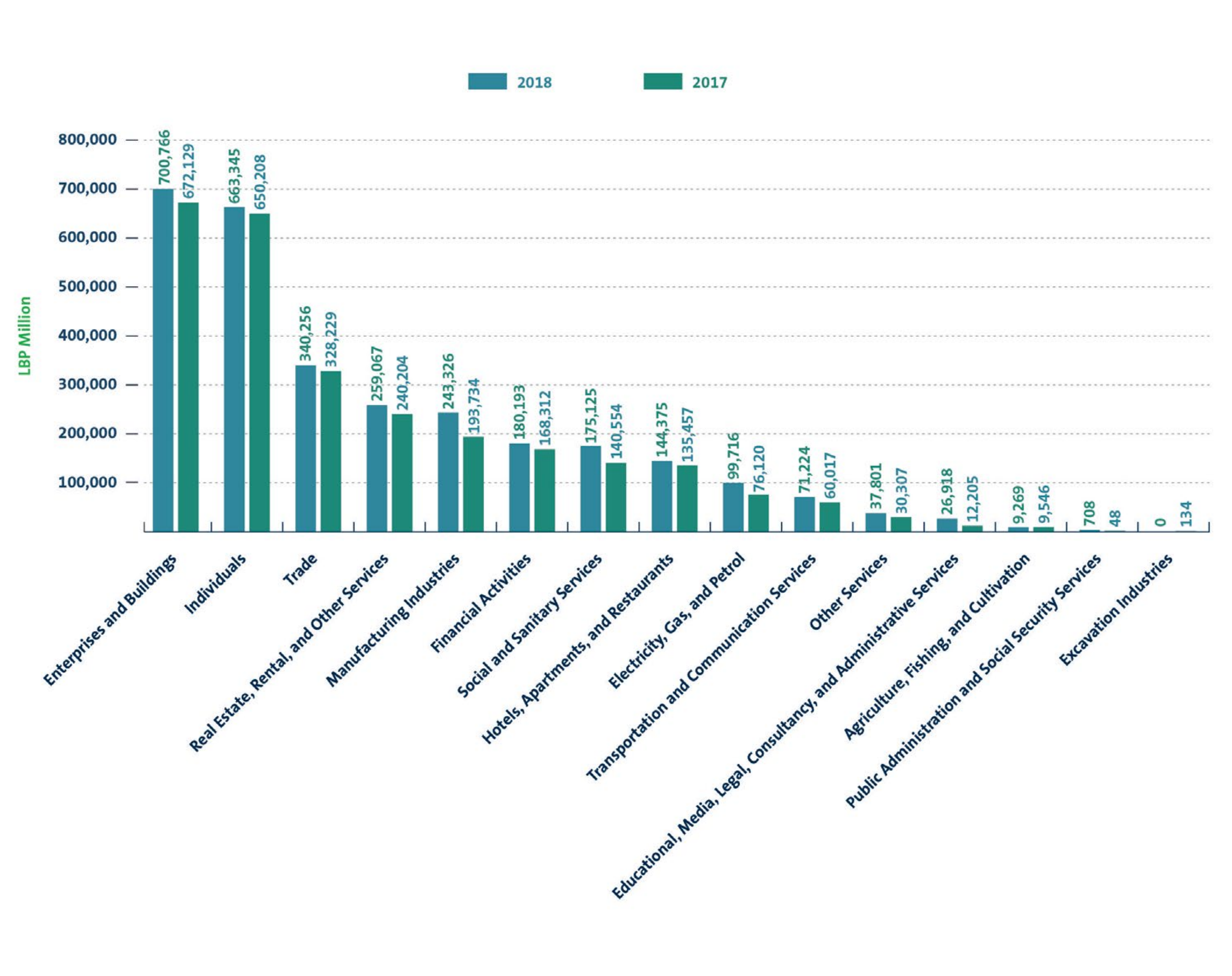
The following table shows the composition of the Group's loan portfolio by the borrower's economic activity, as well as the percentage of total and changes therein, by December 31, 2018, and December 31, 2017, respectively:

LBP Million	2018	% of Total	2017	% of Total	Growth	% Growth
Enterprises and Buildings	700,766	23.7%	672,129	24.7%	28,637	4.3%
Individuals	663,345	22.5%	650,208	23.9%	13,137	2.0%
Trade	340,256	11.5%	328,229	12.1%	12,027	3.7%
Real Estate, Rental, and Other Services	259,067	8.8%	240,204	8.8%	18,863	7.9%
Manufacturing Industries	243,326	8.2%	193,734	7.1%	49,592	25.6%
Financial Activities	180,193	6.1%	168,312	6.2%	11,881	7.1%
Social and Sanitary Services	175,125	5.9%	140,554	5.2%	34,571	24.6%
Hotels, Apartments, and Restaurants	144,375	4.9%	135,457	5.0%	8,918	6.6%
Electricity, Gas, and Petrol	99,716	3.4%	76,120	2.8%	23,596	31.0%
Transportation and Communication Services	71,224	2.4%	60,017	2.2%	11,207	18.7%
Other Services	37,801	1.3%	30,307	1.1%	7,494	24.7%
Educational, Media, Legal, Consultancy, and Administrative Services	26,918	0.9%	12,205	0.4%	14,713	120.5%
Agriculture, Fishing, and Cultivation	9,269	0.3%	9,546	0.4%	(277)	-2.9%
Public Administration and Social Security Services	708	0.0%	48	0.0%	660	1375.0%
Excavation Industries	0	0.0%	134	0.0%	(134)	-100.0%
Total	**2,952,089**		**2,717,204**		**234,885**	**8.6%**

By December 31, 2018, loans concerning enterprises and buildings represented 23.7% or LBP 700,766 million (USD 465 million), compared to 24.7% or LBP 672,129 million (USD 446 million) of the Group's total loans by December 31, 2017.
Loans concerning individuals reached LBP 663,345 million (USD 440 million) or 22.5% of the Group's total loans by December 31, 2018, compared to LBP 650,208 million (USD 431 million) or 23.9% of total loans by December 31, 2017.

Trade, real estate, rental, and other services, manufacturing industries and financial activities loans amounted to LBP 340,256 million (USD 226 million), LBP 259,067 million (USD 172 million), LBP 243,326 million (USD 161 million) and LBP 180,193 million (USD 120 million) on December 31, 2018, which represented 11.5%, 8.8%, 8.2% and 6.1% of total loans respectively.

LOANS BY ECONOMIC SECTOR



GROSS AND NET LOANS

The following tables set out the composition of the Group's gross and net loans portfolio by classification, as well as the percentage of total and percentage changes therein by December 31, 2018, and December 31, 2017, respectively:

Gross Loans

LBP Million	2018	% of Total	2017	% of Total	Growth	% Growth
Grade 1-2: Low Fair Risk	1,815,756	57.8%	1,862,825	64.2%	(47,069)	-2.5%
Grade 3: Watch	894,782	28.5%	774,983	26.8%	119,799	15.5%
Grade 4-5-6: Substandard, Doubtful & Bad	433,063	13.8%	258,183	8.9%	174,880	67.7%
Total Gross Loans	**3,143,602**		**2,895,991**		**247,611**	**8.6%**

Net Loans

LBP Million	2018	% of Total	2017	% of Total	Growth	% Growth
Grade 1-2: Low Fair Risk	1,808,383	61.3%	1,851,783	68.2%	(43,400)	-2.3%
Grade 3: Watch	865,596	29.3%	737,219	27.1%	128,377	17.4%
Grade 4-5-6: Substandard, Doubtful & Bad	278,109	9.4%	128,203	4.7%	149,907	116.9%
Total Net Loans	**2,952,089**		**2,717,204**		**234,885**	**8.6%**

LOANS CLASSIFICATION

The Group classifies its counterparties according to the six rating classes defined by the Central Bank of Lebanon (BDL) and the Banking Control Commission of Lebanon (BCCL) requirements as follows:

- Low fair risk / Normal and follow up (grades 1 and 2) – types of loans that are expected to be repaid on a timely and consistent basis; for grade 2, the client file is not complete.
- Watch / Special mention (grade 3) – type of loan that is expected to be repaid but current conditions lead to believe that the probability of repayment would be lowered;
- Substandard (grade 4) – type of loan where the client is witnessing a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful (grade 5) – type of loan where there is no movement in the clients' balance;
- Bad (grade 6) – type of loan where the probability of repayment is low and almost nil.

DISTRIBUTION OF LOANS BY COLLATERAL TYPE

The following table sets out the composition of the Group's loan portfolio by type of collateral as well as the percentage of total and percentage changes therein on December 31, 2018, and 2017, respectively:

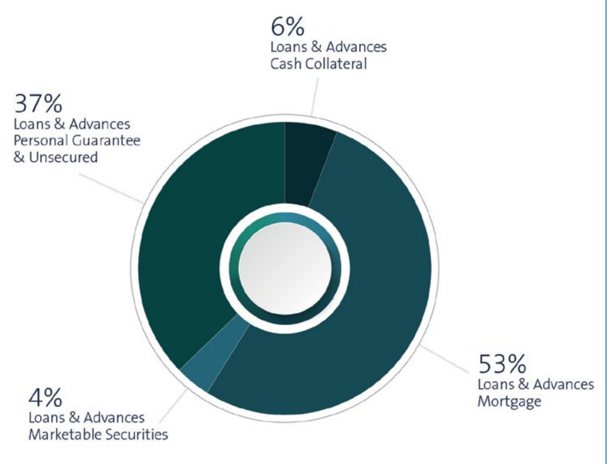
LBP Million	2018	% of Total	2017	% of Total	Growth	% Growth
Loans & Advances - Cash Collateral	174,012	5.5%	159,915	5.5%	14,097	8.8%
Loans & Advances - Mortgage	1,665,861	53.0%	1,611,348	55.6%	54,513	3.4%
Loans & Advances - Marketable Securities	128,344	4.1%	92,173	3.2%	36,171	39.2%
Loans & Advances - Personal Guarantee & Unsecured	1,175,385	37.4%	1,032,555	35.7%	142,830	13.8%
Total Gross Loans	**3,143,602**		**2,895,991**		**247,611**	**8.6%**
ECL Allowance	-191,513		-178,787		(12,726)	7.1%
Total Net Loans	**2,952,089**		**2,717,204**		**234,885**	**8.6%**
Secured Gross Loans as % of Total Gross Loans	62.6%		64.3%			

A significant proportion of the Group's loans is secured or guaranteed.

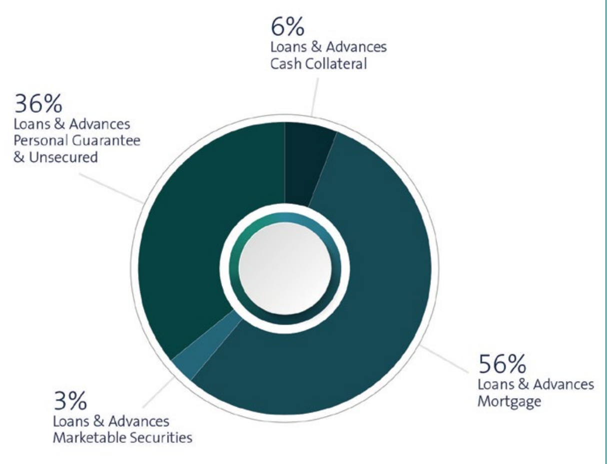
Types of guarantee include cash collateral, mortgages over land and other property and securities (e.g. debt and equity securities).

The Group's high percentage of secured loans on December 31, 2018, and 2017 respectively, reflects the Group's conservative policies in regards to collateral requirements.

LOANS AND ADVANCES BY COLLATERAL TYPE 2018



LOANS AND ADVANCES BY COLLATERAL TYPE 2017



INVESTMENT SECURITIES

The following tables set out the composition of the Group's investment securities by December 31, 2018, and 2017 respectively:

As at 31 December 2018

LBP Million	Equity Instrument at Fair Value through P or L	Debt Instrument at Fair Value through P or L	Debt Instrument at Amortized Cost	Equity Instrument at Fair Value through OCI	Total
Lebanese Government Treasury Bills and Eurobonds	-	8,275	166,740	-	175,015
Certificates of Deposit	-	1,743	116,078	-	117,820
Corporate Bonds	-	-	-	-	-
Equity Securities	955	-	-	4,909	5,864
Funds	-	843	8,291	-	9,134
Interest Receivable	-	150	4,222	-	4,372
Expected Credit Loss	-	-	(1,335)	-	(1,335)
Total By Category	**955**	**11,011**	**293,996**	**4,909**	**310,871**

As at 31 December 2017

LBP Million	Equity Instrument at Fair Value through P or L	Debt Instrument at Fair Value through P or L	Debt Instrument at Amortized Cost	Equity Instrument at Fair Value through OCI	Total
Lebanese Government Treasury Bills and Eurobonds	-	8,205	129,564	-	137,769
Certificates of Deposit	-	2,145	116,078	-	118,223
Corporate Bonds	-	-	754	-	754
Equity Securities	1,039	-	-	5,055	6,094
Funds	-	1,598	8,291	-	9,889
Interest Receivable	-	160	3,539	-	3,700
Total By Category	**1,039**	**12,108**	**258,226**	**5,055**	**276,428**

TOTAL LIABILITIES AND EQUITY

The following table sets out the composition of the Group's total liabilities and equity, as well as the percentage of total and percentage changes therein by December 31, 2018, and 2017 respectively:

LBP Million	2018	% of Total	2017	% of Total	Growth	% Growth
Due to Banks and Financial Institutions	661,731	%10.3	297,631	5.2%	364,100	122.3%
Deposits from Customers and Related Parties	5,031,579	%78.7	4,771,702	82.8%	259,877	5.4%
Other Liabilities	69,070	%1.1	80,947	1.4%	(11,877)	-14.7%
Provisions	10,854	0.2%	9,770	0.2%	1,084	11.1%
Total Liabilities	**5,773,235**	**90.3%**	**5,160,050**	**89.6%**	**613,185**	**11.9%**
Equity	621,890	9.7%	600,132	10.4%	21,758	3.6%
Total Liabilities & Equity	**6,395,124**		**5,760,183**		**634,942**	**11.0%**

The Group's total liabilities reached LBP 5,773,235 million (USD 3,830 million) by December 31, 2018, compared to LBP 5,160,050 million (USD 3,423 million) by December 31, 2017.

By December 31, 2018, total equity reached LBP 621,890 million (USD 413 million), compared to LBP 600,132 million (USD 398 million) by December 31, 2017. Its share of total liabilities and equity reached 9.7% in 2018 compared to 10.4% in 2017.

Total liabilities and equity amounted to LBP 6,395,124 million (USD 4,242 million) by December 31, 2018, compared to LBP 5,760,183 million (USD 3,821 million) by December 31, 2017.

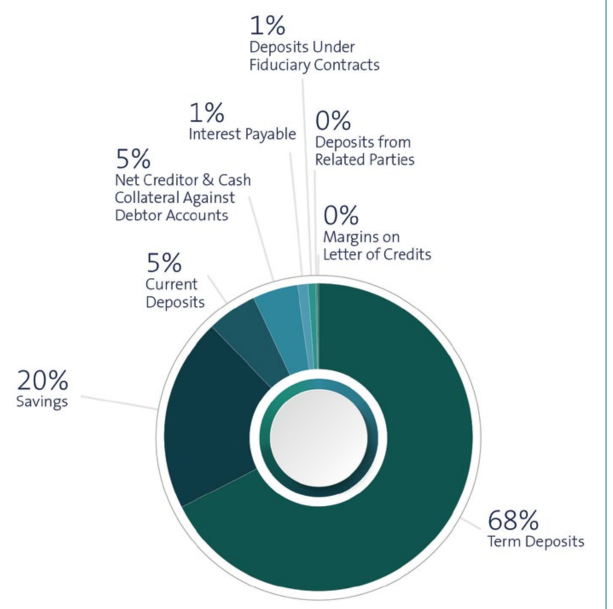
Deposits from customers and related parties constituted 78.7%, the largest share of total liabilities and equity by the end of December 2018 compared to 82.8% by the end of December 2017.

DEPOSITS FROM CUSTOMERS & RELATED PARTIES

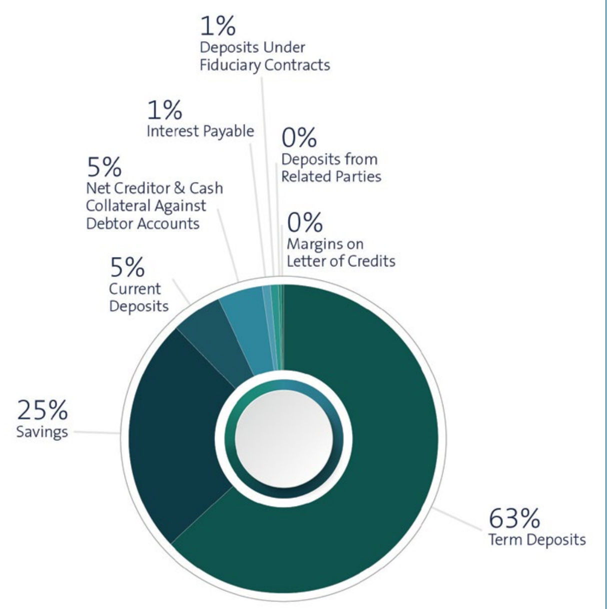
The following table shows the composition of the Group's deposits by type of account, as well as the percentage of total and percentage changes therein on December 31, 2018, and 2017 respectively:

LBP Million	2018	% of Total	2017	% of Total	Growth	% Growth
Term Deposits	3,392,320	67.4%	3,014,203	63.2%	378,117	12.5%
Savings	1,027,169	20.4%	1,180,999	24.8%	(153,829)	-13.0%
Current Deposits	262,659	5.2%	248,267	5.2%	14,391	5.8%
Net Creditor and Cash Collateral Against Debtor Accounts	242,460	4.8%	229,739	4.8%	12,722	5.5%
Interest Payable	51,077	1.0%	31,989	0.7%	19,088	59.7%
Deposits Under Fiduciary Contracts	42,578	0.8%	39,032	0.8%	3,546	9.1%
Deposits from Related Parties	7,513	0.1%	20,695	0.4%	(13,182)	-63.7%
Margins on Letter of Credits	5,803	0.1%	6,778	0.1%	(976)	-14.4%
Total Deposits	**5,031,579**		**4,771,702**		**259,877**	**5.4%**

BREAKDOWN OF DEPOSITS FROM CUSTOMERS AND RELATED PARTIES 2018



BREAKDOWN OF DEPOSITS FROM CUSTOMERS AND RELATED PARTIES 2017



Deposits from customers and related parties continued to be the Group's main source of funding. Constituting 78.7% and 82.8% of the Group's total liabilities and equity, they amounted to LBP 5,031,579 million (USD 3,338 million) and LBP 4,771,702 million (USD 3,165 million) on December 31, 2018 and December 31, 2017 respectively.

Term deposits increased by 12.5% or LBP 378,117 million (USD 251 million) to reach LBP 3,392,320 million (USD 2,250 million) or 67.4% of total customers and related parties deposits by the end of 2018, compared to LBP 3,014,203 million (USD 1,999 million) or 63.2% of total deposits from customers and related parties by the end of 2017.

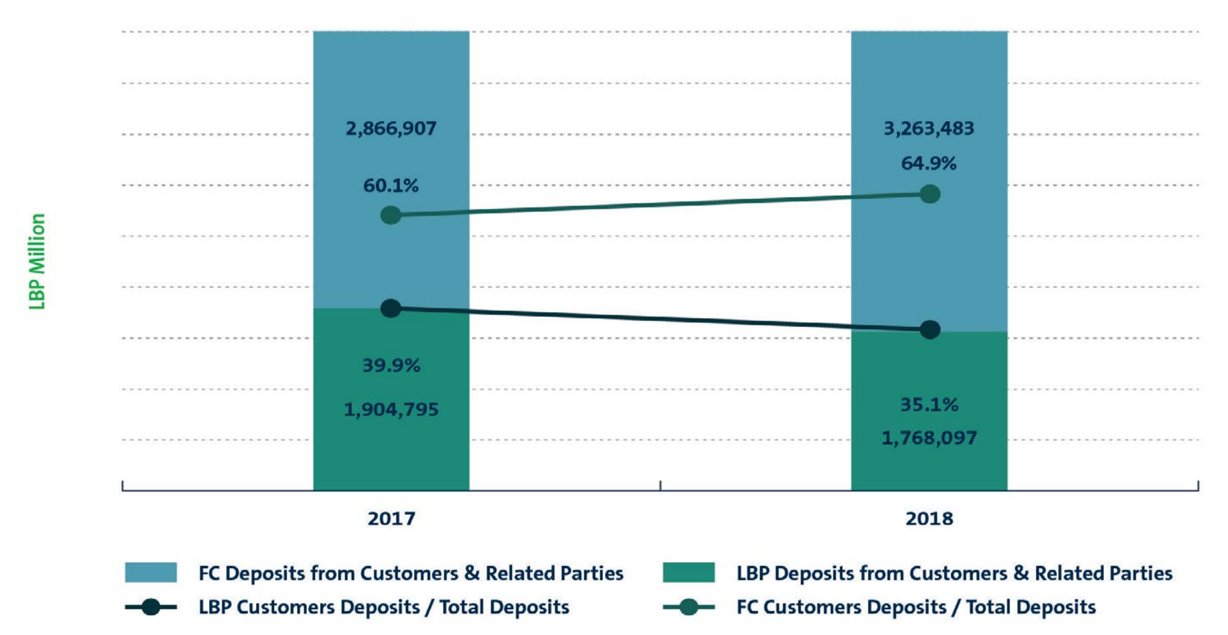
Savings, current deposits and net creditor and cash collateral against debtor accounts constituted 20.4%, 5.2% and 4.8% of total deposits from customers and related parties on December 31, 2018, compared to 24.8%, 5.2%, and 4.8% on December 31, 2017.

DISTRIBUTION OF DEPOSITS BY CURRENCY

The following table sets out the composition of the Group's deposit portfolio by currency, as well as percentage changes therein on December 31, 2018, and 2017 respectively:

LBP Million	2018	2017	Growth	% Growth
LBP Deposits from Customers & Related Parties	1,768,097	1,904,795	(136,698)	-7.2%
FC Deposits from Customers & Related Parties	3,263,483	2,866,907	396,576	13.8%
Total Deposits	**5,031,579**	**4,771,702**	**259,877**	**5.4%**

DEPOSITS BY CURRENCIES



Total deposits from customers and related parties in 2018 grew by 5.4% or LBP 259,877 million (USD 172 million).
Deposits from customers and related parties by December 31, 2018 reached LBP 5,031,579 million (USD 3,338 million) of which 35.1% or LBP 1,768,097 million (USD 1,173 million) in Lebanese Pounds and 64.9 % or LBP 3,263,483 million (USD 2,165 million) in foreign currencies.

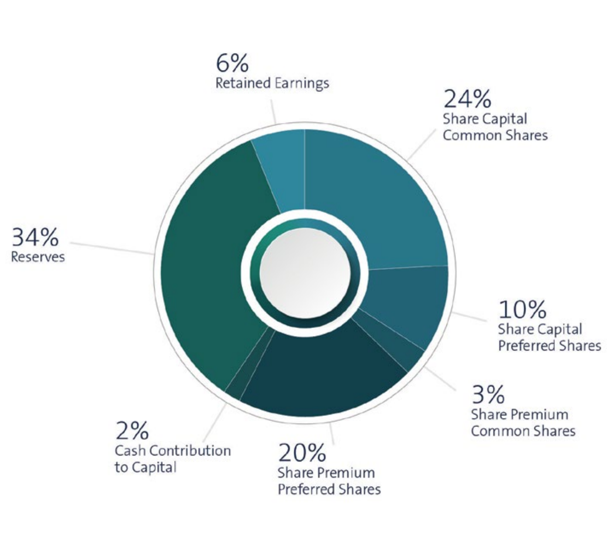
On December 31, 2017, deposits from customers and related parties reached LBP 4,771,702 million (USD 3,165 million), of which 39.9% or LBP 1,904,795 million (USD 1,264 million) in Lebanese Pounds and 60.1% or LBP 2,866,907 million (USD 1,902 million) in foreign currencies.

EQUITY

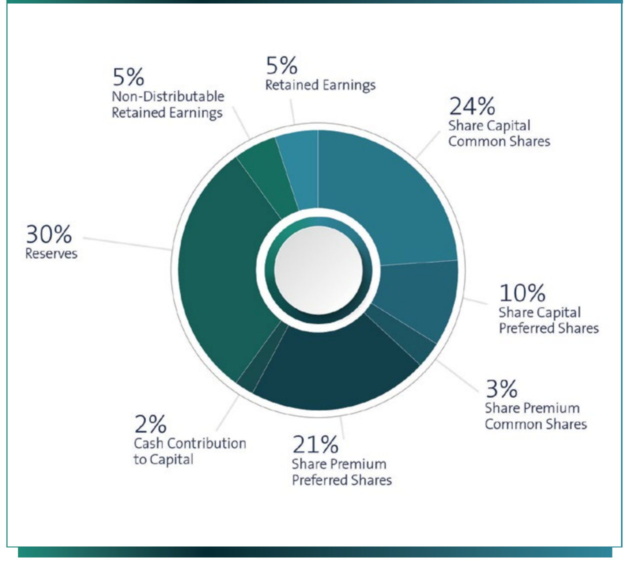
The following table sets out the composition of the Group's total equity, as well as the percentage of total and changes therein on December 31, 2018, and 2017 respectively:

LBP Million	2018	% of Total	2017	% of Total	Growth	% Growth
Share Capital - Common Shares	152,300	24.5%	142,300	23.6%	10,000	7.0%
Share Capital - Preferred Shares	62,500	10.1%	62,500	10.4%	-	0.0%
Share Premium - Common Shares	17,274	2.8%	17,274	2.9%	-	0.0%
Share Premium - Preferred Shares	125,937	20.3%	125,937	21.0%	-	0.0%
Cash Contribution to Capital	10,854	1.7%	10,854	1.8%	-	0.0%
Reserves	213,029	34.3%	178,788	29.8%	34,241	19.2%
Non-Distributable Retained Earnings	-	0.0%	30,689	5.1%	(30,689)	-100.0%
Retained Earnings	39,936	6.4%	31,739	5.3%	8,197	25.8%
Equity Attributable to Equity Holders of the Bank	**621,830**	**100.0%**	**600,081**	**100.0%**	**21,749**	**3.6%**
Non-Controlling Interests	60	0.0%	51	0.0%	9	16.8%
Total Equity	**621,890**	**100.0%**	**600,132**	**100.0%**	**21,758**	**3.6%**

TOTAL EQUITY 2018



TOTAL EQUITY 2017



The Group's total equity recorded a growth of LBP 21,758 million (USD 14 million) or 3.6% to amount to LBP 621,890 million (USD 413 million) by December 31, 2018, compared to LBP 600,132 million (USD 398 million) at December 31, 2017.

The extraordinary General Assemblies of the shareholders of the Group held on October 9, 2017, and August 17, 2017, resolved to increase the capital of the Group from LBP 159,619,150 thousand to LBP 204,800,000 thousand by issuing 603,617 ordinary shares with a par value of LBP 50 thousand paid in cash. The increase of common shares amounted to LBP 30,180,850 thousand.

Additionally the extraordinary General Assembly of the shareholders held on August 17, 2017, resolved the issuance of 300,000 new preferred shares (Series 6) with a par value of LBP 50 thousand and a total premium of LBP 30,225,000 thousand.

The extraordinary General Assembly of the shareholders of the Group held on October 11, 2018, approved the issuance of 200,000 new Series 7 preferred shares for a par value of LBP 50 thousand and a total premium of LBP 20,150,000 thousand, as well as the redemption of all the 200,000 Series 2 preferred shares.

The extraordinary General Assembly also resolved to increase the share capital by issuing 200,000 new common shares for a total value of LBP 10 billion (LBP 50,000 per share) transferred from the reserves.

PROFITABILITY

The following table sets out the composition of the Group's profitability, as well as the percentage changes therein for the year 2018 and 2017, respectively:

LBP Million	2018	2017	Growth	% Growth
Net Interest Income	123,186	95,124	28,062	29.5%
Net Fees and Commissions Income	25,531	25,331	200	0.8%
Net Profits on Financial Operations	16,417	20,871	(4,454)	-21.3%
Other Revenue	(652)	8,210	(8,862)	-107.9%
Gain from Investment in Associate	2,787	2,360	428	18.1%
Total Operating Income (Before Impairment)	**167,269**	**151,895**	**15,374**	**10.1%**
Net Impairment Loss on Loans and Advances to Customers	(30,292)	(15,813)	(14,479)	91.6%
Impairment Charges on Other Financial Assets	(14,486)	(7,236)	(7,250)	100.2%
Total Operating Income (After Impairment)	**122,492**	**128,847**	**(6,355)**	**-4.9%**
Operating Expenses	(88,069)	(89,040)	971	-1.1%
Depreciation & Amortization	(4,906)	(4,677)	(229)	4.9%
Net Gain / (Loss) on Sale of Property and Equipment	6,600	(70)	6,670	-9507.5%
Tax Expense	(2,077)	(5,073)	2,995	-59.0%
Net Income	**34,039**	**29,986**	**4,052**	**13.5%**
Bank's Share	**34,030**	**29,977**		
Dividend on Preferred Shares Series 2	-	2,186		
Dividend on Preferred Shares Series 3	3,279	3,279		
Dividend on Preferred Shares Series 4	2,186	2,186		
Dividend on Preferred Shares Series 5	2,638	2,638		
Dividend on Preferred Shares Series 6	3,392	167		
Dividend on Preferred Shares Series 7	559	-		
Net Income Related to Common Shares	21,977	19,521		
Number of Common Shares During the Period	3,046,000	2,846,000		
Earnings per Common Share **(In LBP)**	7,215	6,859		

The Group in 2018 recorded an after tax net income of LBP 34,039 million (USD 23 million) compared to LBP 29,986 million (USD 20 million) in 2017, reflecting year on year growth of 13.5% or LBP 4,052 million (USD 3 million).

The Group's net interest income amounted to LBP 123,186 million (USD 82 million) for the period ended December 31, 2018, compared to LBP 95,124 million (USD 63 million) for the period ended December 31, 2017.

OPERATING INCOME

The following table shows the composition of the Group's operating income, as well as the percentage changes therein for the year 2018, and 2017, respectively:

LBP Million	2018	2017	Growth	% Growth
Balances with Central Bank	166,981	114,376	52,605	46.0%
Banks and Financial Institutions	2,280	2,478	(198)	-8.0%
Loans and Advances to Customers and Related Parties	256,212	211,768	44,444	21.0%
Investment Securities	18,703	18,137	566	3.1%
Total Interest Income	**444,176**	**346,759**	**97,417**	**28.1%**
Due to Banks and Financial Institutions	10,964	5,365	5,599	104.4%
Deposits from Customers and Related Parties	310,026	246,270	63,756	25.9%
Total Interest Expense	**320,990**	**251,634**	**69,355**	**27.6%**
Net Interest Income	**123,186**	**95,124**	**28,062**	**29.5%**
Fees and Commissions Income	32,679	31,608	1,071	3.4%
Fees and Commissions Expense	(7,148)	(6,278)	(870)	13.9%
Net Fees and Commissions Income	**25,531**	**25,331**	**200**	**0.8%**
Net Trading Income	2,887	2,718	169	6.2%
Net Income from Investment Securities at Fair Value	16,417	20,871	(4,454)	-21.3%
Net Income from Investment Securities at Amortized Cost	(5,125)	109	(5,234)	-4816.5%
Dividend Income	368	2,997	(2,629)	-87.7%
Other Operating Income	1,218	2,386	(1,168)	-49.0%
Gain from investment in Associate	2,787	2,360	428	18.1%
Net Income from Other Operating Activities	**18,552**	**31,440**	**(12,888)**	**-41.0%**
Total Non-Interest Income	**44,083**	**56,771**	**(12,688)**	**-22.3%**
Total Operating Income	**167,269**	**151,895**	**15,374**	**10.1%**

The Group in 2018 recorded an interest income of LBP 444,176 million (USD 295 million) compared to LBP 346,759 million (USD 230 million) in 2017.

The Group's interest expense amounted to LBP 320,990 million (USD 213 million) on December 31, 2018, as compared to LBP 251,634 million (USD 167 million) on December 31, 2017. The increase of LBP 69,355 million (USD 46 million) was mainly due to the growth of customer deposits and increase of interest rates in 2018. Noting that Lebanon witnessed a rise in rates during 2018.

The Group's net interest income reached LBP 123,186 million (USD 82 million) by December 31, 2018, compared to LBP 95,124 million (USD 63 million) by December 31, 2017.

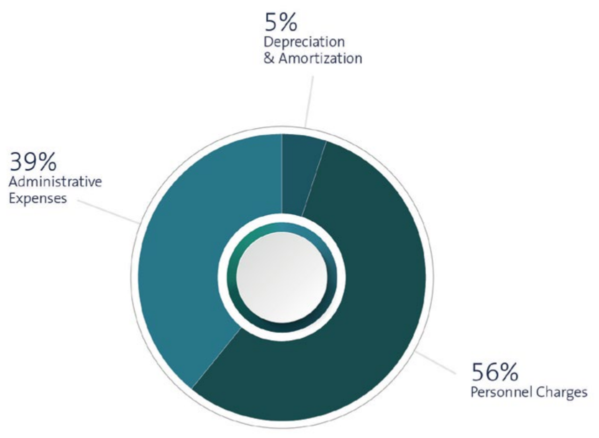
Total operating income of the Group recorded a growth of LBP 15,374 million (USD 10 million) or 10.1% to amount to LBP 167,269 million (USD 111 million) by December 31, 2018, compared to LBP 151,895 million (USD 101 million) at December 31, 2017.

OPERATING EXPENSES

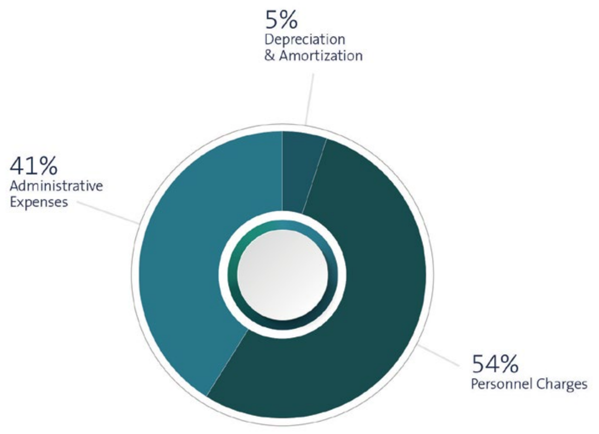
The following table shows the composition of the Group's operating expenses, as well as the percentage of total and changes therein by December 31, 2018, and December 31, 2017, respectively:

LBP Million	2018	%of Total	2017	% of Total	Growth	% Growth
Personnel Charges	51,691	55.6%	50,956	54.4%	735	1.4%
Administrative Expenses	36,378	39.1%	38,084	40.6%	(1,706)	-4.5%
Depreciation and Amortization	4,906	5.3%	4,677	5.0%	229	4.9%
Total Operating Expenses	**92,975**		**93,717**		**(742)**	**-0.8%**

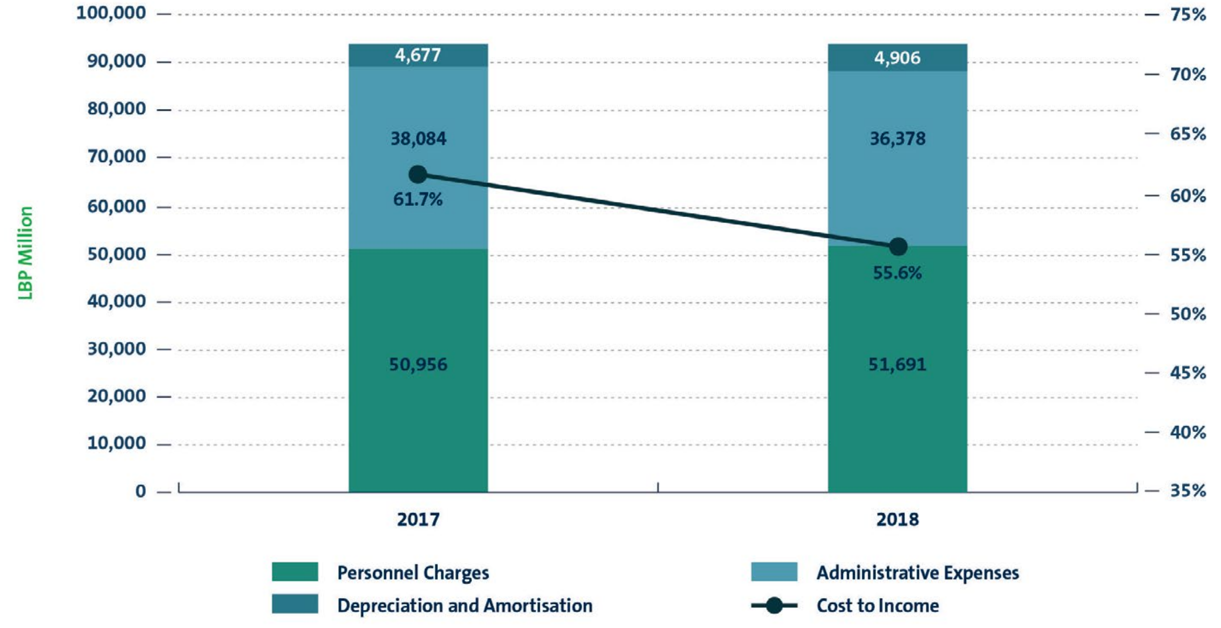
BREAKDOWN OF OPERATING EXPENSES 2018



BREAKDOWN OF OPERATING EXPENSES 2017



OPERATING EXPENSES



The Group's total operating expenses decreased by 0.8% from LBP 93,717 million (USD 62 million) on December 31, 2017 to LBP 92,975 million (USD 62 million) on December 31, 2018.

Personnel charges constituted 55.6% of the Group's total operating expenses by December 31, 2018, compared to 54.4% by December 31, 2017, while administrative expenses stood at 39.1% and 40.6% respectively.

RISK MANAGEMENT

Introduction
"Together everyone achieves more" (TEAM) has never been a truer statement when it comes to risk management in challenging times. With the banking sector exposed to numerous pressures and risks, Creditbank continued enhancing its risk management framework. The procedures regarding good governance and internal control have been instrumental in supporting the Bank to weigh and judge emerging risks and maximize long-term results.

Creditbank aims to ensure that its risk profile remains within the overall risk appetite framework, as approved by the Board of Directors.

With the help of regular departmental reports, Creditbank Board Committee on Risk Management provides a solid governance framework supervising risk management. All risk-related policies are approved by the Board Committee on Risk Management and endorsed by the Board of Directors.

Risk Management Function
The Risk Management Function follows the rules and regulations of the Central Bank of Lebanon and the Basel guidelines to measure and manage credit risk, operational risk, liquidity risk, market risk, interest rate risk in the banking book, as well as other risks inherent in the Bank's activities.

IFRS 9
Starting January 1, 2018, Creditbank has applied the IFRS9 standard. The adoption of IFRS 9 has fundamentally changed loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach.

Creditbank estimates ECL and allocates provisions for its various assets classes including sovereign exposures, banks & financial institutions, fixed-income securities and loans portfolios.

This has necessitated the development of an ECL engine, as well as the estimation of the Probability of Default (PD) and Loss Given Default (LGD) for each portfolio, thereby relying on the Bank's own historical information to estimate PDs and LGDs where available. When such information is not available internally, the Bank uses, for selective portfolios, external information such as the PDs and LGDs reported by external rating agencies, the Basel guidelines and the International Monetary Fund. In order to ensure adequate implementation of the IFRS9 standard, Creditbank has mandated an external expert consultant to conduct an independent review of its framework including the methodology, ECL engine and results.

Recovery Plan
In line with the Central Bank of Lebanon basic circular number 141, requiring banks to establish a Recovery Plan in order to restore financial strength and viability when the bank comes under severe stress, Creditbank has established a Recovery Plan based on the directives and the Business Plan approved by the Board of Directors.

The purpose of the recovery plan is to prepare recovery options to be implemented when the Recovery Plan Activation Level is triggered in order to ease and fasten the response of the Bank to crisis. Creditbank has set for this purpose Early Warning Indicators to be monitored by responsible parties based on quantitative indicators related to capital adequacy, liquidity, profitability and asset quality. The plan also includes identification of core business lines and critical functions around which the recovery options are set.

ICAAP
Capital management is addressed in Creditbank's annual Internal Capital Adequacy Assessment Process (ICAAP) covering all risks to which the Bank is or may be exposed to, along with an assessment of capital levels.

ICAAP which is performed on a yearly basis, complements Pillar I regulatory capital calculations and serves as an internal assessment procedure regarding risks and capital quality, which aims to steer the Bank through adverse economic scenarios and cover all risks to which it is exposed.

Stress Testing
Stress Testing is considered as a major Risk Management Tool as it enables the Bank to have a forward looking vision regarding its resilience to severe events and their impact on solvency, profitability and liquidity.

Stress testing scenarios are agreed upon between Risk Management, Finance and business lines.

Risk Management Framework
The Bank is mainly exposed to credit risk, liquidity risk, interest rate risk and operational risks, with a lower exposure to market risk.

1. Credit Risk
In order to determine and monitor credit risk, the Bank studies the borrower's profile, repayment sources, cash flow statements, underlying collateral in addition to other factors such as the management, environment and industry in which he operates. The Bank controls its credit exposure by setting limits in line with rules and regulations regarding the exposure to a single borrower, a group of borrowers and/or industry segments. Such limits are continuously monitored. Creditbank's Internal Credit Risk System grants the ability to analyze and rate the many conditions related to each commercial obligor and determine the probability of default. An analysis of eligible collaterals and/or guarantees is furthermore used to determine the expected credit loss in case of the obligor's potential default, upon which provisioning, and risk pricing are based.

Reference pages 47-48 (Classification of Loans)

Analysis of Credit Concentration Risk for commercial portfolios: The concentration of credit risk exposure is analyzed by Client/Group, by Industry Segment, by Collateral Type and by Geographical Location. The following tables show the total exposure to credit risk (Loans & Advances) by collateral type.

Reference pages 48-49 (Distribution of Loans by Collateral Type)

2. Liquidity Risk & ALM

A Liquidity Risk Management Policy is established to manage, monitor and ensure sufficient liquidity position in normal periods. The liquidity position is assessed using various scenarios and stress tests that may impact the Immediate Liquidity Ratio.

The Bank's Contingency Funding Plan is intended to ensure sufficient liquidity and diversity in funding sources to meet actual and contingent liabilities in stressed periods.

The Asset-Liability Committee oversee the execution of the Bank's ALM Policy.

Reference pages 52-53 (Deposits from Customers & Related Parties), pages 54-55 (Distribution of Deposits by Currency) and pages 128-129 (Maturity analysis for assets and liabilities)

3. Interest Rate Risk in the Banking book

The Bank manages interest rates to ensure that rate fluctuations do not adversely affect the core net interest income and the economic value of equity.

Interest Rate Risk in the Banking book arises out of the Bank's mismatch between re-pricing dates of interest-sensitive assets and liabilities. The interest rate risk profile of the Bank is within acceptable levels.

Reference to IRR Tables pages 130-131-132

4. Market Risk

Market risk at the Bank arises from open positions in interest rates (related to debt instruments that are being traded), currency and equity instruments classified at Fair Value through Profit or Loss (FVTPL), all of which are exposed to general and specific market movements. The Market Risk Governance has been defined in the Investment Policy. It is the responsibility of the Asset and Liability Committee (ALCO) to oversee the Bank's investment portfolio under the terms of the Investment Policy. Creditbank maintains a very low appetite to Market Risk.

Reference pages 146-147 (Investment Securities: Equity and Debt instruments)

5. Operational Risk

Operational Risk is defined as the risk inherent in the Bank's activities which arises from either gaps in the internal control system or failure in the IT systems; and may result in direct or indirect losses caused by inadequate or failed internal processes, people, systems or from external events.

Operational Risk definition includes Legal Risk which is the "Risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations" and Regulatory Risk which is the "Risk of loss resulting from failure to abide by the Regulatory requirements" but it excludes Strategic and Reputational Risks.

However, due to the importance given by the Bank's Board of Directors to Reputational Risk, as the latter could impact the relation with the Bank's customers and could have a severe impact on the Bank's accomplishments, Reputational Risk has been included in the Operational Risk Management Framework.

Operational Risk Management (ORM) is a continual process that consists of six stages:

1.Risk identification
2.Risk assessment
3.Control analysis
4.Mitigation decision
5.Mitigation implementation
6.Supervision and review

This cycle enhances the control environment for all of the Bank's activities, processes, products and systems. The framework for collecting, managing and controlling operational financial and non-financial (reputational) risks encompasses various tools including:

- Risk and Control Self-Assessment (RCSA)
- Operational risk data collection through an advanced ORM solution
- Assessment and analysis of reported Operational risk events
- Key Risk Indicators (also called Early Warning Indicators) – KRIs
- Profit And Loss Accounts monitoring
- Internal Audit Reports review
- Reputational risk events through the monthly customers' complaints

6. Enterprise-wide Stress Testing

Periodic enterprise-wide stress tests are conducted to enable a better understanding and reveal the potential impact of the Bank's risk profile in terms of earnings, capital and liquidity. Such tests also help tackle unanticipated market conditions. "It would be a mistake to conclude that the only way to succeed in banking is through ever-greater size and diversity. Indeed, better risk management may be the truly necessary element of success in banking"
- Alan Greenspan, Former Chairman of Federal Reserve.

CONSOLIDATED FINANCIAL STATEMENTS

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To the shareholders of Creditbank S.A.L.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment for credit losses of loans and advances to customers and related parties.	As at 31 December 2018, the Group's gross loans and advances to customers and related parties amounted to LBP 3,143,602 million (2017: LBP 2,895,991 million), against which a net impairment charge of LBP 28,547 million (2017: LBP 14,347 million) was recognised during the year and the total allowance for credit losses maintained as at the reporting date amounts to LBP 191,513 million (2017: LBP 178,787 million). Due to the subjectivity inherent in the process of identifying and computing impairment charge for credit losses, it requires significant management judgment. Moreover, during the year ended 31 December 2018, the Group has implemented International Financial Reporting Standard 9 ('IFRS 9 2014') which requires management to determine and recognise expected credit losses ('ECL'). Significant judgments, estimates and assumptions have been made by the management in the application of IFRS 9, especially in the areas of classifying loans and advances into stages as stipulated in IFRS 9, determination of significant increase in credit risk, establishing curing periods and computing probability of defaults (PD) and loss given default (LGD) percentages for counterparties.	Our audit procedures in response to the significant risk associated with the impairment of Group's loans and advances to customers covered assessing the appropriateness and adequacy of the corresponding impairment allowances. Based on our understanding of the process and key controls, we focused on the determination of expected credit loss and the governance controls over the impairment process and determination of staging criteria established by the Group, including continuous re-assessment by management. We have performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year. Also, we tested the entity and business unit level controls over the impairment model process in relation to model build (with specific focus on quantitative and qualitative attributes), and model monitoring. We obtained an understanding of the Group's credit monitoring process comprising identifying, measuring and recording ECL and tested the operating effectiveness of key controls implemented over this process. We obtained the Group's impairment allowance policy and compared it with the requirements of IFRS 9. We obtained an understanding of the Group's internal rating model for the loans and advances to customers and for a selected sample of customers verified the internal rating determined by the management. We checked the appropriateness of the policy for identifying significant increase in credit risk and the resultant classification of exposures into the stages stipulated in IFRS 9.

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment for credit losses of loans and advances to customers and related parties.	In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the tenure of the loans and advances to customers ('Lifetime ECL'). Since, loans and advances to customers form a significant component of the Group's assets, and on account of the significance of judgments, estimates and assumptions applied by management, we have considered impairment charge for credit losses on loans and advances to customers to be a key audit matter. Refer to notes 2 (d) to the consolidated financial statements for significant judgments applied in the determination of expected credit losses, note 4 for ECL impact due to implementation of IFRS 9, note 3 (m), 5 (b) and 9 for significant accounting policies pertaining to ECL, for movement in ECL during the year ended 31 December 2018, for credit risk management strategy and for credit quality analysis in respect of loans and advances to customers.	For a selected sample of exposures, we checked the appropriateness of the staging in line with the Group's policy. For forward looking assumptions used by the Group in ECL calculations, we had discussions with management and corroborated the assumptions using publicly available information. For data from external sources, we understood the process of selecting such data, its relevance to the Group and the controls and governance over input of such data. For a sample of exposures: - We checked the appropriateness of determining Exposure at Default (EAD) including the consideration of repayment in the cash flows and the resultant arithmetical calculations. - We checked the appropriateness of Probability of Default (PD) and Loss Given Default (LGD) used by the Group's management in the ECL calculations. For selected sample of loans and advances to customers, we checked the: i. computation of PD and LGD ii. appropriateness of cash flows iii. appropriateness of discount rate We checked the completeness of loans and advances to customers and credit related contingent items included in the ECL calculation as of 31 December 2018. Where relevant, we used specialists including IT specialists and financial risk modelling experts to gain comfort on model built, resultant ECL calculations and data integrity. We also assessed the financial statements' disclosures to ensure compliance with IFRS 9 and IFRS 7 requirements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report other than the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Mr. Antoine Gholam for BDO, Semaan, Gholam & Co. and Mr. Wissam Safwan for KPMG.

BDO, Semaan, Gholam & Co

KPMG

15 May 2019
Beirut, Lebanon

In thousands of Lebanese Pound	Note	31 December 2018	31 December 2017
Assets			
Cash and balances with the Central Bank of Lebanon	7	2,677,744,599	2,289,577,866
Banks and financial institutions	8	122,685,250	145,298,645
Loans and advances to customers and related parties	9	2,952,088,753	2,717,204,252
Investment securities	10	310,870,622	276,428,328
Shares acquired in settlement of debt at fair value through profit or loss	11	120,043,527	110,626,099
Investment in an associate	36 (d)	71,399,817	84,781,563
Property and equipment	12	99,547,050	99,501,429
Intangible assets	13	635,734	690,109
Other assets	14	16,928,236	9,880,372
Debtors by acceptances	15	15,910,560	21,787,897
Non-current assets held for sale	16	7,270,246	4,405,996
Total assets		**6,395,124,394**	**5,760,182,556**
Liabilities			
Due to the Central Bank of Lebanon	17	453,766,310	236,147,311
Due to banks and financial institutions	18	207,965,095	61,483,547
Deposits from customers and related parties	19	5,031,579,183	4,771,702,446
Current tax liabilities		2,077,441	5,072,522
Other liabilities	20	51,021,767	54,086,545
Engagement by acceptances	15	15,970,833	21,787,897
Other provisions	21	10,854,263	9,770,109
Total liabilities		**5,773,234,892**	**5,160,050,377**
Equity			
Share capital - common shares	22	152,300,000	142,300,000
Share capital - preferred shares	22	62,500,000	62,500,000
Share premium - common shares	23	17,273,587	17,273,587
Share premium - preferred shares	23	125,937,499	125,937,499
Cash contribution to capital	24	10,854,000	10,854,000
Reserves	25	213,029,215	178,787,865
Non-distributable retained earnings	25	–	30,689,023
Retained earnings		39,935,616	31,739,490
Equity attributable to equity holders of the Bank		**621,829,917**	**600,081,464**
Non-controlling interest		**59,585**	**50,715**
Total equity		**621,889,502**	**600,132,179**
Total liabilities and equity		**6,395,124,394**	**5,760,182,556**

The notes on pages 11 to 81 are an integral part of these consolidated financial statements.
The consolidated financial statements were authorised for issue by the Chairman of the Board of Directors on 15 April 2019

Tarek Khalifeh
Chairman

In thousands of Lebanese Pound	Note	2018	2017
Interest income, net of tax		444,176,039	346,758,924
Interest expense		(320,989,622)	(251,634,496)
Net interest income	**26**	**123,186,417**	**95,124,428**
Fees and commission income		32,678,998	31,608,491
Fees and commission expense		(7,148,111)	(6,277,881)
Net fees and commission income	**27**	**25,530,887**	**25,330,610**
Net foreign exchange income		2,886,651	2,717,880
Net gain on investment securities at fair value through profit or loss	28	16,417,464	20,870,984
Net (loss) / gain on financial assets at amortised cost	29	(5,124,859)	108,658
Dividend income		367,841	2,996,886
Other revenue		1,217,988	2,386,081
Gain from investment in associate	36	2,787,009	2,359,506
Net operating income		**167,269,398**	**151,895,033**
Personnel charges	30	(51,690,994)	(50,956,136)
Net impairment loss on financial assets	33	(30,291,640)	(15,812,517)
Impairment charges on investments in subsidiary / associate	34	(14,486,073)	(7,236,000)
Depreciation and amortisation	12, 13	(4,906,134)	(4,677,256)
Administrative expenses	31	(36,378,074)	(38,084,066)
Net gain / (loss) on sale of property and equipment	12	6,599,831	(70,155)
Profit before tax		**36,116,314**	**35,058,903**
Income tax expense	32	(2,077,441)	(5,072,522)
Profit for the year		**34,038,873**	**29,986,381**
Other comprehensive income			
Net unrealized (loss) / gain on equity instruments designated at fair value through other comprehensive income:		(1,825,592)	1,800,194
Total other comprehensive (loss) / income for the year		(1,825,592)	1,800,194
Total comprehensive income for the year		**32,213,281**	**31,786,575**
Profit attributable to:			
Equity holders of the Bank		34,030,003	29,976,688
Non-controlling interests		8,870	9,693
Profit for the year		**34,038,873**	**29,986,381**
Total comprehensive income attributable to:			
Equity holders of the Bank		32,204,411	31,776,882
Non-controlling interests		8,870	9,693
Total comprehensive income for the year		**32,213,281**	**31,786,575**

The notes on pages 11 to 81 are an integral part of these consolidated financial statements.

In thousands of Lebanese Pound	Attributale to equity holders of the Bank				Attributale to equity holders of the Bank						
	Share capital-common shares	Share capital-preferred shares	Share premium common shares	Share premium preferred shares	Cash contribution to capital	Reserves	Non-distributable retained earnings	Retained earnings	Total	Non-controlling interest	Total Equity
Balance at 1 January 2018	**142,300,000**	**62,500,000**	**17,273,587**	**125,937,499**	**10,854,000**	**178,787,865**	**30,689,023**	**31,739,490**	**600,081,464**	**50,715**	**600,132,179**
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	34,030,003	34,030,003	8,870	34,038,873
Other comprehensive income, net of tax											
Net change in fair value on equity instruments designated at fair value through other comprehensive income (note 25)	–	–	–	–	–	(1,825,592)	–	–	(1,825,592)	–	(1,825,592)
Total other comprehensive income	–	–	–	–	–	(1,825,592)	–	–	(1,825,592)	–	(1,825,592)
Total comprehensive income for the year	–	–	–	–	–	(1,825,592)	–	34,030,003	32,204,411	8,870	32,213,281
Transactions with owners of the bank											
Contributions and distributions											
Redemption of preferred shares (series 2) (note 22)	–	(10,000,000)	–	(20,150,000)	–	–	–	–	(30,150,000)	–	(30,150,000)
Issue of preferred shares (series 7) (note 22)	–	10,000,000	–	20,150,000	–	–	–	–	30,150,000	–	30,150,000
Dividends paid to holders of preferred shares (series 2, 3, 4, 5 and 6)	–	–	–	–	–	–	–	(10,455,958)	(10,455,958)	–	(10,455,958)
Total contributions and distributions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,455,958)**	**(10,455,958)**	**–**	**(10,455,958)**
Other transactions											
Transfer from retained earnings (note 25)	–	–	–	–	–	39,690,442	(30,689,023)	(9,001,419)	–	–	–
Transfer of revaluation reserve upon disposal of property (note 12)						(3,623,500)	–	3,623,500	–	–	–
Transfer from retained earnings to other reserves (note 25)	–	–	–	–	–	10,000,000	–	(10,000,000)	–	–	–
Increase in capital (note 22)	10,000,000	–	–	–	–	(10,000,000)	–	–	–	–	–
Total other transactions	10,000,000	–	–	–	–	36,066,942	(30,689,023)	(15,377,919)	–	–	–
Balance at 31 December 2018	**152,300,000**	**62,500,000**	**17,273,587**	**125,937,499**	**10,854,000**	**213,029,215**	**–**	**39,935,616**	**621,829,917**	**59,585**	**621,889,502**

The notes on pages 11 to 81 are an integral part of these consolidated financial statements.

In thousands of Lebanese Pound	Attributale to equity holders of the Bank				Attributale to equity holders of the Bank						
	Share capital-common shares	Share capital-preferred shares	Share premium common shares	Share premium preferred shares	Cash contribution to capital	Reserves	Non-distributable retained earnings	Retained earnings	Total	Non-controlling interest	Total Equity
Balance at 1 January 2017	**112,119,150**	**47,500,000**	**17,273,587**	**95,712,499**	**10,854,000**	**144,102,103**	**18,049,769**	**54,022,333**	**493,998,267**	**48,222**	**494,046,489**
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	–	29,976,688	29,976,688	9,693	29,986,381
Other comprehensive income, net of tax											
Net change in fair value on equity instruments designated at fair value through other comprehensive income (note 25)	–	–	–	–	–	1,800,194	–	–	1,800,194	–	1,800,194
Total other comprehensive income	–	–	–	–	–	1,800,194	–	–	1,800,194	–	1,800,194
Total comprehensive income for the year	–	–	–	–	–	1,800,194	–	29,976,688	31,776,882	9,693	31,786,575
Transactions with owners of the bank											
Contributions and distributions											
Issue of common shares (note 22)	30,180,850	–	–	–	–	–	–	–	30,180,850	–	30,180,850
Issue of preferred shares (series 6) (note 22)	–	15,000,000	–	30,225,000	–	–	–	–	45,225,000	–	45,225,000
Dividends paid to holders of preferred shares (series 2, 3, 4 and 5)	–	–	–	–	–	–	–	(10,288,688)	(10,288,688)	–	(10,288,688)
Dividends paid to holders of common shares	–	–	–	–	–	(3,000,000)	–	7,200	(2,992,800)	(7,200)	(3,000,000)
Total contributions and distributions	**30,180,850**	**15,000,000**	**–**	**30,225,000**	**–**	**(3,000,000)**	**–**	**(10,281,488)**	**62,124,362**	**(7,200)**	**62,117,162**
Other transactions											
Transfer from retained earnings (note 25)	–	–	–	–	–	35,885,568	12,639,254	(48,524,822)	–	–	–
Differences due to de-consolidation of Anelik Russia	–					–	–	6,546,779	12,181,953	–	12,181,953
Total other transactions	–	–	–	–	–	35,885,568	12,639,254	(41,978,043)	12,181,953	–	12,181,953
Balance at 31 December 2017	**142,300,000**	**62,500,000**	**17,273,587**	**125,937,499**	**10,854,000**	**178,787,865**	**30,689,023**	**31,739,490**	**600,081,464**	**50,715**	**600,132,179**

The notes on pages 11 to 81 are an integral part of these consolidated financial statements.

In thousands of Lebanese Pound	Note	2018	2017
Cash flows from operating activities			
Profit for the year		34,038,873	29,986,381
Adjustments for:			
- Depreciation and amortisation	12, 13	4,906,134	4,677,256
- Net impairment losses on financial assets	33	30,291,640	14,347,230
- Net gain on investment securities at fair value through profit or loss	28	(16,417,464)	(20,870,984)
- Net loss / (gain) on financial assets at amortized cost	29	5,124,859	(108,658)
- Impairment charges on investments in subsidiary / associate		14,486,073	7,236,000
- Dividend income		(367,841)	(2,996,886)
- Net (gain) / loss on sale of property and equipment	12	(6,599,831)	70,155
- Net interest income	26	(123,186,417)	(95,124,428)
- Tax expense	32	2,077,441	5,072,522
		(55,646,533)	**(57,711,412)**
Changes in:			
- Balances held with the Central Bank of Lebanon		(454,941,750)	(824,097,524)
- Banks and financial institutions		187,642	13,100,954
- Loans and advances to customers and related parties		(268,040,391)	(1,917,781)
- Other assets		(6,987,591)	(404,217)
- Due to the Central Bank of Lebanon		216,302,384	129,452,474
- Due to banks and financial institutions		89,558,100	(39,858,146)
- Deposits from customers and related parties		240,788,461	281,454,804
- Provisions		1,084,154	(54,974,634)
- Other liabilities		(3,064,778)	15,697,678
		(240,760,302)	**(539,257,804)**
Interest received		423,425,183	331,017,598
Interest paid		(300,070,823)	(247,239,750)
Income tax paid		(5,072,522)	(16,477,461)
Net cash used in operating activities		**(122,478,464)**	**(471,957,417)**

The notes on pages 11 to 81 are an integral part of these consolidated financial statements.

In thousands of Lebanese Pound	Note	2018	2017
Cash flows from investing activities			
Change in investment securities		(28,228,025)	137,047,148
Change in investments in associate		(1,104,327)	(22,987,398)
Acquisition of property and equipment	12	(6,227,148)	(34,366,786)
Acquisition of intangible assets	13	(134,654)	(611,118)
Proceeds from sale of property and equipment	12	8,064,253	680,602
Net cash (used in) / from investing activities		**(27,629,901)**	**79,762,448**
Cash flows from financing activities			
Proceeds from issue of preferred shares	22	10,000,000	15,000,000
Proceeds from issue of common shares		–	30,180,850
Proceeds from issue premium - preferred shares	22	20,150,000	30,225,000
Redemption of preferred shares	22	(30,150,000)	–
Dividends paid to preferred shares		(10,455,958)	(13,288,688)
Net cash (used in) / from financing activities		**(10,455,958)**	**62,117,162**
Net decrease in cash and cash equivalents		**(160,564,323)**	**(330,077,807)**
Cash and cash equivalents at 1 January		261,378,419	580,211,417
Effect of deconsolidation of CB Anelik RU LLC		–	11,244,809
Cash and cash equivalents at 31 December	35	**100,814,096**	**261,378,419**

The notes on pages 11 to 81 are an integral part of these consolidated financial statements.

(1) REPORTING ENTITY

Creditbank S.A.L. (the "Bank") is a joint stock company domiciled in Lebanon. The Bank is registered under No.103 on the list of banks published by the Central Bank of Lebanon. The Head Office of the Bank is located in Dekwaneh (Freeway Center). The Group is primarily involved in investment, retail and corporate banking, through its Head Office in Beirut and its network of 25 branches across Lebanon.

The consolidated financial statements of the Bank comprise the financial statements of the Bank and those of its below subsidiaries:

	Country of incorporation	Number of shares	2018 Ownership interest	2017 Ownership interest	Business activity
Credex SAL	Lebanon	74,820	99.76%	99.76%	Insurance brokerage
Baabda 1587 SAL	Lebanon	2,970	99.00%	99.00%	Real estate
Achrafieh 784 SAL	Lebanon	990	99.00%	99.00%	Real estate

(2) BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS.
This is the first set of the Group's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 4.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:
- Investment securities at fair value through other comprehensive income are measured at fair value;
- Investment securities designated at fair value through profit or loss are measured at fair value; and
- Shares acquired in settlement of debt are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Lebanese Pounds (LBP), which is the Group's functional currency. All financial information presented in LBP have been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about judgements made in applying accounting policies, assumptions and estimation uncertainties that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes.

Applicable to 2018 only

Note 5 (b) - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Applicable to 2018 and 2017:

Note 3 (m) *(ii)*: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principle and interest (SPPI) on the principal amount outstanding.

Note 6: determination of the fair value of financial instruments with significant unobservable inputs.

Note 37: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Note 3 (m) *(vii)* - impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

(3) SIGNIFICANT ACCOUNTING POLICIES

Except for the change explained in note (4), the accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

(a) Presentation of consolidated financial statements
The Group has elected to present consolidated financial statements that comply with IFRS.

(b) Basis of consolidation
(i) Non-controlling interests
Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.
Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries
Subsidiaries are entities controlled by the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.
The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(c) Interests in associates
Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity-method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Company's share of the profit or loss and other comprehensive income of the associates, until the date on which significant influence ceases.

(d) Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when the control is lost.

(e) Foreign currency
Foreign currency transactions
Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

(f) Interest
Policy applicable from 1 January 2018
Effective interest rate
Interest income and expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense
The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

For information on when financial assets are credit-impaired, see Note 3 (m) (vii).

Presentation
Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:
- interest on financial assets and financial liabilities measured at amortised cost;

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018
Effective interest rate
Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included all transaction costs and fees paid or received that were an integral part of the effective interest rate. Transaction costs include incremental costs that were directly attributable to the acquisition or issue of a financial asset or liability.

(g) Fees and commission
Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see note 3 (f)).

Other fees and commission income - including account servicing fees, investment management fees, sales commission and placement fees- are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(h) Net foreign exchange income
Net foreign exchange income comprises gains less losses related to foreign exchange differences.

(i) Net gain from investments securities at fair value through profit or loss
Net gain from investments securities at fair value through profit or loss includes all realised and unrealised fair value changes.

(j) Dividend income
Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities, preferred and common shares.

(k) Leases
The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

(l) Income tax
Income tax expense comprises current tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income (OCI).

(i) Current tax
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

The Group's taxable profit is subject to income tax at the rate of 15% for the period ending 26 October 2017 inclusive and 17% applicable starting 27 October 2017.

(ii) Tax exposures
In determining the amount of current and income tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(m) Financial assets and financial liabilities
(i) Recognition and initial measurement
The Group initially recognises loans and advances and deposits on the date at which they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument

A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification
Financial assets
Policy applicable from 1 January 2018
On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI. A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI - see note 3 (q). This election is made on an investment-by-investment basis.
All other financial assets are classified as measured at FVTPL.
In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment
The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Assessment of whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.
In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities
The Group classifies its financial liabilities at amortised cost. See Note 3 (v) and (x).

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that has been recognized in other comprehensive income is recognized in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities as explained in (q). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such case, the transferred assets are not derecognized.

Examples of such transactions are securities lending and sale and repurchase transactions. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions, because the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Modifications of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

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

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

Financial liabilities
The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable before 1 January 2018
Financial assets
If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see (iii)) and a new financial asset was recognised at fair value.
If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre modification interest rate (see (vii)).

Financial liabilities
The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(vi) Fair value measurement
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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price—i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Impairment

Policy applicable from 1 January 2018

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- balances with the Central bank of Lebanon;
- banks and financial institutions;
- loans and advances to customers and related parties;
- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument- Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument- Financial instruments for which a lifetime ECL is recognised and which are credit-impaired are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of estimated future cash flows multiplied by an ECL percentage. For financial assets other than the loan portfolio, ECLs are calculated based on total portfolio outstanding or authorized balances (whichever is higher).
- financial assets that are credit-impaired at the reporting date: as the present value of estimated future cash flows multiplied by an ECL percentage;
- undrawn loan commitments: as the present value of estimated future cash flows multiplied by an ECL percentage; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see (iv)) and ECL are measured as follows:
- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 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.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt was impaired, the Group considered the following factors.
- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Objective evidence of impairment

At each reporting date, the Group assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that the loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

In addition, for an investment in a debt security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Group considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

The Group considered evidence of impairment for loans and advances and investment securities measured at both a specific asset and a collective level. All individually significant loans and advances and investment securities at amortised cost were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR). Loans and advances and investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and investment securities with similar credit risk characteristics.

In making an assessment of whether an investment in sovereign debt was impaired, the Group considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there was the capacity to fulfil the required criteria.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the concerned committees.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and investment securities at amortised cost with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, and assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

Measurement of impairment
Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Reversal of impairment
If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

Presentation
Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Write-off
The Group wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Group's committees determined that there was no realistic prospect of recovery.

(viii) Designation at fair value through profit or loss
Financial assets
At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Before 1 January 2018, the Group also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.
Note 4 sets out the amount of each class of financial asset that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

(n) Cash and cash equivalents
Cash and cash equivalents include cash on hand, unrestricted balances held with the Central Bank of Lebanon, and banks and financial institutions and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.
Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(o) Trading assets and liabilities
Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.
Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of "Net gain on investments securities at fair value through profit or loss".

(p) Loans and advances
Policy applicable from 1 January 2018
Loans and advances captions in the statement of financial position include:
- loans and advances measured at amortised cost (see Note 3 m (i) (ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

Policy applicable before 1 January 2018
'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Group did not intend to sell immediately or in the near term.
Loans and advances to banks were classified as amortised cost. Loans and advances to customers included:
- those classified as amortised cost; and
- those designated as at FVTPL.

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Group chose to designate the loans and advances as measured at FVTPL as described in note 3 m (i) (viii), they were measured at fair value with face value changes recognised immediately in profit or loss.

When the Group purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement was accounted for as a loan or advance, and the underlying asset was not recognised in the Group's financial statements.

(q) Investment securities

Policy applicable from 1 January 2018

The investment securities caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see m (ii)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL (see m (ii)); these are at fair value with changes recognised immediately in profit or loss; and
- equity investment securities designated as at FVOCI.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see m (ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either amortised cost, FVTOCI or FVTPL.

(r) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

- Buildings - 50 years
- Furniture and equipment - 5 - 12.5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(s) Intangible assets

Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods is three to ten years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(t) Non-current assets held for sale

Properties acquired through the enforcement of security over loans and advances to customers are accounted for in accordance with the Directives issued by the Central Bank of Lebanon and the Banking Control Commission.

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and the sale is considered highly probable. They are stated at lower of fair value of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

A reserve is constituted for assets not disposed of within two years of the date of enforcement at an annual rate of 5% or 20%.

The accumulated reserve is classified under “Reserves” (note 25).

(u) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, based on the management’s best estimate.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(v) Deposits

Deposits are the Group’s source of debt funding.

Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(w) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provision is determined using management’s best estimates to the risk specific to the liability.

(x) Financial guarantees and loan commitments
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:
- from 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- before 1 January 2018: at the higher of the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVTPL.
For other loan commitments:
- from 1 January 2018: the Group recognises a loss allowance;
- before 1 January 2018: the Group recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(y) Share capital and reserves
(i) Preferred shares
The Group classifies instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's preferred shares are not redeemable by holders and bear an entitlement to distributions that is non-cumulative and at the discretion of the board of directors. Accordingly, they are presented as a component of issued capital within equity. Distributions thereon are recognised in equity.

(ii) Share issue costs
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Preferred shares are redeemable at the sole discretion of the issuer and are classified as equity instruments.

(iii) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's shareholders.

(iv) Cash on contributions to capital
Cash contributions to capital are classified as equity and do not generate interest.

(z) Standards issued but not yet adopted
A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The new standard listed below is the standard that could potentially have an impact on the Group's performance, financial position, or disclosures.

IFRS 16 Leases
IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance and operating leases.
IFRS 16 replaces existing leases guidance 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 Involving the Legal Form of a Lease.*

The standard is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

(4) CHANGES IN ACCOUNTING POLICIES

The Group has initially adopted IFRS 9 Financial Instruments (see i) except for the classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010) which were early adopted, and IFRS 15 *Revenue from Contracts with Customers* (see ii) from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements. The adoption of IFRS 15 did not result in significant impact on the financial statements of the Group.

The effect of initially applying these standards is mainly attributed to the following:
- an increase in impairment losses recognised on financial assets; and
- additional disclosures related to IFRS 9 (see Note 5).

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all years presented in these consolidated financial statements.

(i)* IFRS 9 *Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require separate presentation in the consolidated statement of profit or loss and OCI of interest revenue calculated using the effective interest method. Previously, the Group disclosed this amount in the notes to the consolidated financial statements.

Additionally, the Group has adopted effective 1 January 2018 consequential amendments to IFRS 7 *Financial Instruments Disclosures* which was adopted to reflect the differences between IFRS 9 and IAS 39. Changes include transition disclosures, detailed qualitative and quantitative information about the ECL calculations such as assumptions and input used.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

The Group has adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortised cost information, as well as fair value information is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets.

As the date of application of IFRS 9 (2014), the Group reassessed the classification and measurement for all financial assets debt instruments that satisfy the contractual cash flow characteristic (SPPI test) and classified them within the category that it is consistent with the business model for managing these financial assets in the bases of facts and circumstances that existed at that date.

The classification and measurement requirements for financial assets that are equity instruments or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9.

The classification of financial assets / liabilities under IFRS 9 remained the same.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3 (m) (vii).

The following table summarises the impact of transition to IFRS 9. There is no impact on the opening balance of equity.

In thousands of Lebanese Pound	Impairment Allowance under IAS 39/IAS 37 at 31 December 2017	Re-measurement	ECLs under IFRS 9 at 1 January 2018
Impairment allowance for			
Cash and balances with the Central Bank of Lebanon	–	6,830,213	6,830,213
Banks and financial institutions	9,264,921	132,208	9,397,129
Loans and customers and related parties	178,786,795	(9,107,415)	169,679,380
Investment securities	–	1,444,823	1,444,823
Other debtors	1,900,572	164,124	2,064,696
Off balance sheet	–	536,047	536,047
	189,952,288	**–**	**189,952,288**

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as follows:

- Comparative periods generally have not been restated.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and Related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. There were no significant impacts from the adoption of IFRS 15 on the consolidated financial statements of the Group.

(5) FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

The Group has exposure to the following risks from financial instruments:

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework - Corporate Governance

(i) Board Committees

- Board of Directors

The Board is ultimately responsible for the conduct of the Group's affairs. However, for added efficiency, Board Committees may be set up with declared role and responsibilities. The Board Committees should regularly report to the full Board. In addition to the Audit Committee, a Corporate Governance Committee, Compliance Committee, Remuneration Committee and a Risk Management Committee have been formed.

There is a formal and transparent process for appointments to the Board Committees and their membership is made public on the Bank's website. The function, roles, and responsibilities of each Board Committee are set out in terms of reference and shall be published on the Bank's website.

Each Board Committee has direct access to appropriate members of the Bank's management, in accordance with the provisions of its respective function. A permanent written record of Board Committee discussions, motions, and Directors' votes is kept by the committee secretary.

The Group expects to set up more Board Committees over time. It may also decide to combine the functions of several committees if appropriate or if administratively more convenient.

- Audit Committee

In accordance with the requirements and recommendations of the Lebanese Central Bank and Banking Control Commission, in particular the principal circular N°118, the Bank has a Board Committee on Audit comprising 3 members. Membership of the Audit Committee shall be disclosed in the annual report.

The Group's policy is that at least one member of the Audit Committee should have accounting or other financial management qualifications and expertise.

The Audit Committee reviews, and reports to the full Board

- the Group's annual financial results prior to publication or distribution;
- the accounting judgments that are intrinsic to the financial statements;
- the accuracy of the financial statements and of the efficiency of the criteria adopted for reporting;
- the Group's internal controls and, in consultation with management and the external auditors, the integrity of the Group's financial reporting processes and controls;
- any significant findings of the external auditors together with management's responses;
- compliance with the Lebanese Central Banks circulars as well as the reports and circulars of the Banking Control Commission;
- the scope, results, and adequacy of the Group's internal and external audits;
- any significant changes to the Group's accounting principles, and any items required to be communicated by the external auditors;
- the objectivity and independency of both external and internal auditors;
- other non-audit work performed by the external auditors so as not to compromise the auditors' objectivity. Such non-audit work is to be disclosed in the annual report.
- the scope of the Audit Committee's work also covers the Group's subsidiaries in Lebanon and abroad. The Committee shall assist the Board of Directors in fulfilling its duties with regard to overview of the subsidiaries financial statements' soundness and the capital adequacy and financial ratios in such a way as to assess the risks related to the investment, thus allowing the Board of Directors to mitigate such risks.

The Audit Committee has the ability to obtain any information from management and to meet with any manager of the Group.

The Audit Committee has the ability to meet each of the Group's external auditors and its internal auditors, without (other) management being present, at least once a year. The Group considers that a strong and open relationship between the Audit Committee and these two audit functions is critical to the successful functioning of this important governance mechanism.

The Audit Committee ensures a follow-up of the corrective suggestions mentioned in the external and internal audit reports. The Audit Committee ensures the efficiency and sufficiency of the regulations of procedures of the Internal Audit. The Group recognizes that the Audit Committee does not substitute for the responsibilities of the Board of Directors or the Company's management for the supervision and adequacy of the Company's internal control systems.

- Corporate Governance Committee

The Board has formed a Corporate Governance Committee to oversee the preparation and amendments of its Code.

The Committee comprises four Directors as well as the Board's Secretary. Membership of the Committee is disclosed in the annual report and may be published on the Bank's website. The Corporate Governance Committee may also supervise compliance with, and enforcement of the Code.

- Risk Management Committee

The review of risk management is in the first instance handled by a coherent and comprehensive Risk Management Department. The Board, on a regular basis, reviews and approves the risk management strategies and policies of the Group. Senior management is responsible for implementing the strategies that have been approved by the Board, and for developing the policies and procedures for managing the various types of risk.The creation of a Risk Management Board Committee has been proposed by management, and approved by the Board.

The Group considers that the rapid development and increasing sophistication and complexity of risk management requires that the Risk Management Department and Latter Committee keep fully informed of the developments in the Group's risk management functions. Accordingly, the Committee shall make regular reports to the full Board.

- AML / CFT Board Committee

According to BDL Intermediate Decision No 12255 (Basic Circular No 83), the Board established an AML/CFT Board Committee composed of three members. The role and responsibilities of this AML/CFT Board Committee are as follows:

- To support the Board of Directors in its functions and supervisory role with respect to fighting money laundering and terrorist financing and understanding the related risks, and to assist it with making the appropriate decisions in this regard.
- To review, from a risk-based approach, the reports submitted by the Compliance Unit and the Internal Audit Unit on adopted procedures, unusual operations and high-risk accounts, regarding cash deposits and withdrawals, transfers, exemptions from filling Cash Transaction Slips (CTS) and the link between these operations and economic activities, and to also take the relevant decisions.

(ii) Group's Management Committees

The Group operates through a number of committees, set up with clear missions, authorities and responsibilities, as follows:

- Executive and Investment Committee

The Executive and Investment Committee is composed of five voting members and one non-voting member; it meets on a bi-monthly basis and at request. The Executive and Investment Committee roles and responsibilities are set as follows:

- To define the strategic orientations of the Group and to submit them to the Board of Directors.
- To periodically set and review Group policies and submit them to the Board of Directors.
- To set targets and define the relevant budget and carry on the follow-up thereof.
- To discuss any new investments including mergers and acquisition, partnership agreements, investments in companies or financial institutions.
- To define Network expansion.
- To validate recommendations and supervise the activity of various Committees.

- Asset Liability Committee (ALCO)

The ALCO Committee is composed of five voting members and one non-voting member; it meets on a bimonthly basis and at request. The main roles and responsibilities of the ALCO Committee are set as follows:

- To define interest rate policies and enforce the application of the assets liability management standards analyze the Group's financial ratios, GAP Review and Analysis.
- To decide on the trading operations and financial instruments, manage placements, deposits and credit lines.
- To review Credit risk, Market Risk, Liquidity Risk, Interest Rate Risk Limits and Reports. All related reports / recommendations will be sent to the Board of Directors.
- To propose to the Executive and Investment Committee market risk limits.
- To ensure the reporting to the Board of Directors through the Executive and Investment Committee.

- The Credit Committee

The Credit Committee is composed of four voting members and two non-voting member, it meets weekly and at request. The main roles and responsibilities of the Credit Committee are set as follows:

- To evaluate customer risk and decide on the facilities to grant, as well as the terms and conditions thereof.
- To decide on the transfer of a file to the non-performing loan Committee.
- To propose to the Executive and Investment Committee a credit policy.

- Classification, provisioning and Non-Performing Loans Committee

The Non-Performing Loans Committee is composed of six voting members, it meets on a quarterly basis and at request. The Non-Performing Loans Committee main roles and responsibilities are set as follows:

- To review and take decisions on non-performing loans and recommend actions on a going forward basis with respect to the relevant files.
- To follow up on cases handed over to the Legal Department and approve settlements.
- To propose adequate provisions.

- The Anti-Money Laundering/Counter Financing Terrorism Committee

The Anti-Money Laundering/Counter Financing Terrorism Committee is composed of eight voting members and one non-voting member; it meets on a quarterly basis and at request. Responsibilities of this Committee are as defined in the Central Bank Intermediary Decisions N° 8488 dated 17 September 2003 and N° 10725 dated 21 May 2011.

- The Operational Risk Management Committee

The Operational Risk Management Committee is composed of five members, it meets upon request. Its main roles and responsibilities are set as follows:

- To review and approve the operational risk management procedures developed by the Risk Manager and enhance the overall handling of operational risk,
- To ensure the abidance by the Group's operational risk policies and procedure, examine and recommend on the operational risks inherent to the Group's activities, and
- Discuss the risk management operational risk and control assessment process (RCSA) outcome.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, banks and financial institutions, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently.

(i) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction-specific or counterparty-specific approval from the Group's ALCO Committee.

(ii) Management of credit risk

The Board of Directors has delegated responsibility for the management of individual credit risk to the Group's Credit Committee. A Risk Management Department reporting to the General Manager, is responsible for the monitoring of the Group's Corporate (portfolio) credit risk. Individual credit risk assessment and management is the responsibility of credit assessment and the credit committee including:

- *Formulating credit risk policies:* covering risk grading and reporting, and compliance with regulatory requirements.
- *Reviewing and assessing credit risk:* The Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities). The Group's approach to controlling this concentration of exposure is by the diversification of its commitments and by setting limits at level of aggregate of products, economic sectors, region and segments.
- *Developing and maintaining the Group's risk grading,* to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current Internal Rating framework consists of 10 grades (mapped to the Central Bank of Lebanon's 6 grades) reflecting degrees of risk of default and the availability other credit risk mitigation. The responsibility for setting the final risk grades lies with the Credit Committee and is subject to regular reviews.
- *Reviewing compliance* with agreed exposure limits, including those for selected industries. Regular reports on the credit quality of local portfolios are discussed in ALCO and appropriate corrective action is taken in coordination with Credit Committee.
- *Providing advice, guidance* to promote best practice throughout the Group in the management of credit risk.

(iii) Grading of credit risk

Each credit officer is required to implement the Group credit policies and procedures, with credit approval authorities delegated from the Board of Directors. Each Credit officer reports on all credit related matters to management and the Group Credit Committee. Each Credit officer is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in his/her portfolios, including those subject to central approval.
Regular audits of Group Credit processes are undertaken by Internal Audit.

To measure the credit risk of loans and advances to customers and to banks at a counterparty level, the Group rates its counterparties according to the six rating classes defined by the Central Bank of Lebanon ("BDL") and the Banking Control Commission of Lebanon ("BCC") requirements as follows:

- Low fair risk / Normal and follow up (grades 1 and 2) – types of loans that are expected to be repaid on a timely and consistent basis; for grade 2, the client file is not complete.
- Watch / Special mention (grade 3) – type of loan that is expected to be repaid but current conditions lead to believe that the probability of repayment would be lowered;
- Substandard (grade 4) – type of loan where the client is witnessing a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful (grade 5) – type of loan where there is no movement in the clients' balance;
- Bad (grade 6) – type of loan where the probability of repayment is low and almost nil.

The Group has two risk rating systems: a grading system for retail obligors and a credit risk rating system for the commercial portfolio (corporate and SME) – Rating Obligors – ORR and Rating facilities FRR.

Grades are from 1 to 10; 1 being the best and 10 being the worst. To be noted that each risk rating is mapped to the supervisory classification grades.

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost.

Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

For lending commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: "Stage 1", "Stage 2" and "Stage 3" is included in Note 3 m (vii).

In thousands of Lebanese Pound	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to banks and financial institutions at amortised cost					
Grade 1-2: Low fair risk	122,880,741	–	–	122,880,741	145,298,645
Grade 3: Watch	–	–	–	–	–
Grade 4: Substandard	–	–	–	–	–
Grade 5: Doubtful	–	–	–	–	–
Grade 6: Bad	–	–	9,257,072	9,257,072	9,264,921
	122,880,741	–	9,257,072	132,137,813	154,563,566
Less ECL allowance	(195,491)	–	(9,257,072)	(9,452,563)	(9,264,921)
Net carrying amount	122,685,250	–	–	122,685,250	145,298,645
Loans and advances to customers and related parties at amortised cost					
Grade 1-2: Low fair risk	1,815,756,146	–	–	1,815,756,146	1,862,824,942
Grade 3: Watch	–	894,782,109	–	894,782,109	774,982,706
Grade 4: Substandard	–	–	184,821,066	184,821,066	57,993,277
Grade 5: Doubtful	–	–	230,638,879	230,638,879	184,841,511
Grade 6: Bad	–	–	17,603,451	17,603,451	15,348,611
	1,815,756,146	894,782,109	433,063,396	3,143,601,651	2,895,991,047
Less ECL allowance	(7,372,827)	(29,185,877)	(154,954,194)	(191,512,898)	(178,786,795)
Net carrying amount	1,808,383,319	865,596,232	278,109,202	2,952,088,753	2,717,204,252

In thousands of Lebanese Pound	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Debt investment securities at amortised cost					
Grade 1-2: Low fair risk	295,331,086	–	–	295,331,086	258,226,274
Grade 3: Watch	–	–	–	–	–
Grade 4: Substandard	–	–	–	–	–
Grade 5: Doubtful	–	–	–	–	–
Grade 6: Bad	–	–	–	–	–
	295,331,086	–	–	295,331,086	258,226,274
Less ECL allowance	(1,335,305)	–	–	(1,335,305)	–
Net carrying amount	293,995,781	–	–	293,995,781	258,226,274
Lending commitments and financial guarantees					
Grade 1-2-3: Performing loans	428,627,283	–	5,244,376	433,871,659	356,894,984
Less ECL allowance	(1,161,681)	–	(5,500)	(1,167,181)	–
Net carrying amount	427,465,602	–	5,238,876	432,704,478	356,894,984
Balances with the Central bank of Lebanon					
Grade 1-2-3: Performing loans	2,640,870,118	–	–	2,640,870,118	2,241,619,014
Less ECL allowance	(7,901,772)	–	–	(7,901,772)	–
Net carrying amount	2,632,968,346	–	–	2,632,968,346	2,241,619,014
Other assets					
Grade 1-2-3: Performing loans	19,088,625	–	–	19,088,625	11,780,944
Less ECL allowance	(2,160,389)	–	–	(2,160,389)	(1,900,572)
Net carrying amount	16,928,236	–	–	16,928,236	9,880,372

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3 m (vii).

Significant increase in credit risk
Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider other reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group historical experience, expert credit assessment and forward-looking information.

For Commercial Loans, the Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by considering conditioned days of delays within 1 year period.

For Retail Loans, the Group identifies significant increase in credit risk on reporting date based on the ageing of the facility.

For financial instruments (other than loans portfolio), the 3 stage assessment is based on relative credit risk compared to that at the time of initial recognition.

Credit risk grades
The Group will allocate each loan exposure to a credit risk grade based on a variety of data that determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Corporate Exposure
One of the pillars for a sound Credit Risk Management is the Internal Risk Rating Process, as it evaluates obligors not only at the time of a relationship initiation but also throughout the lifespan of the facilities granted. The Internal Risk Rating System is used to measure the degree of riskiness of a give obligor, based on its risk of default, reflected through its ORR which is divided into risk rating grades evolving from 1 to 10, 1 being the best possible rating and 10 the worst and is the weighted average of four risk rating pillars. Each of the four risk rating pillars is rated on a scale of 1 to 10 with 1 being the least risky.

The ORR-Obligor Risk Rating- is a weighted average of 4 risk rating pillar: Financial (50%), Management (30%), Industry (10%) and Environment (10%). The ORR being a combination of Historical , Future and sensitivity analysis takes into consideration not only the credit history of the borrower but also macroeconomic factors that would affect an obligor's ability to fulfil its obligations (SG&A- as a minimum being the inflation Rate).

Retail Exposure
Two scorecards models, provided by FICO, are applied to Retail products. The first termed "Personal" applies to Car and Personal Loans, while the second is applicable on the Cards portfolio. The stability assessment test replaces the scoring for all Mortgages types.

Each scorecard model consists of: Characteristics, Attributes, Neutral points and No Response.

Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For Financial Assets (Other than Loans Portfolio) information purchased from external credit reference agencies may also be used (the Group has used Moody's 1 year PDs).

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

For Commercial Loans, this analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors. For most exposures, key macro-economic indicators are likely to include GDP growth, and inflation rates.

The Group's approach to incorporating forward-looking information into this assessment is discussed below.

Determining whether credit risk has increased significantly
What is considered significant differs for different types of lending. Such factors are based on its expert judgement (based on reasonable and supportable forward looking information available without undue cost or effort) and relevant historical experiences (increase in days of delays – Conditioned days of delays for Commercial Loans and ageing for Retail Loans).

Definition of default
The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Incorporation of forward-looking information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. (macroeconomic PDs).

Macroeconomic and forward looking info were considered in estimating the PDs and adjusting it to be PIT. The new adjusted macroeconomic PDS have been calculated by considering Lebanese GDP and inflation rates as the variables for the regression analysis.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Modified financial assets
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
- the remaining lifetime PD at the reporting date based on the modified terms: with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Group renegotiates loans to customers financial difficulties (referred to as 'forbearance activities' to maximise collection opportunities and minimise the risk of default).

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Groups' forbearance policy, the estimate of PD will reflect whether the modification has improved or restored the Group's ability to collect interest and principle and the Group's previous experience of similar forbearance action.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period at time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Measurement of ECLs
The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:
Retail:
IBNR / loss rate.

Corporate:
- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures and are revised annually.

LGD the magnitude of the likely loss if there is a default. EAD represents the expected exposure in the event of default. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:
- instrument type;
- credit risk gradings;
- industry;
- geographic location of the borrower.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent impairment allowance for credit losses and unrealised interest and reflect measurement basis under IAS 39.

	2018				2017		
In thousands of Lebanese Pound	Stage 1	Stage 2	Stage 3	Total	Individual	Collective	Total
Loans and advances to customers at amortised cost							
Balance at 1 January	6,290,027	3,551,744	159,837,609	169,679,380	88,005,335	5,309,907	93,315,242
Net remeasurement and reallocations	1,180,179	743,038	27,747,072	29,670,289	29,093,502	1,371,528	30,465,030
Recoveries		–	(1,122,951)	(1,122,951)	(715,825)	–	(715,825)
Write-offs	–	–	(6,709,789)	(6,709,789)	(609,817)	–	(609,817)
Transfer from general provision	–	–	–	–	56,317,844	–	56,317,844
Foreign exchange difference	(342)	–	(3,689)	(4,031)	14,121	200	14,321
Balance at 31 December	7,469,864	4,294,782	179,748,252	191,512,898	172,105,160	6,681,635	178,786,795

	2018				2017
In thousands of Lebanese Pound	Stage 1	Stage 2	Stage 3	Total	Total
Balances with other banks and financial institutions					
Balance at 1 January	132,208	–	9,264,921	9,397,129	9,264,921
Net remeasurement and reallocations	195,491	–	(140,057)	55,434	–
Balance at 31 December	327,699	–	9,124,864	9,452,563	9,264,921

	2018
In thousands of Lebanese Pound	Stage 1
Investment securities	
Balance at 1 January	1,444,823
Net remeasurement and reallocations	(109,518)
Balance at 31 December	1,335,305
Balances with the Central bank of Lebanon	
Balance at 1 January	6,830,213
Net remeasurement and reallocations	1,071,559
Balance at 31 December	7,901,772
Lending commitments and financial guarantees	
Balance at 1 January	536,047
Net remeasurement and reallocations	631,134
Balance at 31 December	1,167,181
Other debtors	
Balance at 1 January	2,064,696
Net remeasurement and reallocations	95,693
Balance at 31 December	2,160,389

Credit-impaired financial assets (2017: impaired financial assets)

Credit-impaired loans and advances are graded 4, 5 and 6 in the Group's internal credit risk grading system.

Impaired financial assets – Comparative information under IAS 39

In thousands of Lebanese Pound	Note	Loans and advances to customers and related parties 2017
Neither past due nor impaired		
Grade 1-2: Low-fair risk		1,842,120,447
		1,842,120,447
Past due but not impaired		
Grade 3: Watch		675,102,072
Individually impaired		
Grade 1-2: Low-fair risk		20,704,495
Grade 3: Watch		99,880,634
Grade 4: Substandard		57,993,277
Grade 5: Doubtful		184,841,511
Grade 6: Bad		15,348,611
		378,768,528
Total	**9**	**2,895,991,047**
Allowance for impairment		
Individual		(172,105,160)
Collective		(6,681,635)
Total allowance for impairment	9	(178,786,795)

Loans with renegotiated terms

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Loans that were past due but not impaired

Loans that were past due but not impaired are those for which contractual interest or principal payments were past due but the Group believed that impairment was not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

Collateral held

Type of credit exposure

The Group holds collateral against certain of its credit exposures. The table below sets out the principal types of collateral held against loans and advances to customers and related parties.

In thousands of Lebanese Pound	Fair value of collateral at year end 2018	2017
Against doubtful and bad debts		
Mortgaged property	78,814,520	88,950,154
Equities	–	190,547
Cash	4,879,681	6,354,281
Against substandard		
Mortgaged property	164,837,180	31,770,125
Cash	1,438,970	1,438,970
Against regular loans and advances		
Mortgaged property	2,349,529,669	2,480,079,387
Debt securities	247,364	214,550
Equities	65,190,741	67,386,871
Cash	261,986,511	242,103,781
Total	**2,926,924,636**	**2,918,488,666**

The Group typically does not hold collateral against balances with other banks and financial institutions and against investment securities, and no such collateral was held at 31 December 2018 or 2017.

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations.

Concentration of credit risk

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from due from Central Bank, banks and financial institutions, loans and advances to customers and related parties, investment securities (debt securities), and lending commitments and financial guarantees is shown below:

In thousands of Lebanese Pound	Note	Due from Central Bank, banks and financial institutions 2018	Due from Central Bank, banks and financial institutions 2017	Loans and advances to customers and related parties 2018	Loans and advances to customers and related parties 2017	Investment securities (debt securities) 2018	Investment securities (debt securities) 2017	Lending commitments and financial guarantees 2018	Lending commitments and financial guarantees 2017
Carrying amount	7, 8, 9,10	2,755,653,596	2,386,917,659	2,952,088,753	2,717,204,252	304,163,120	268,736,722	432,715,477	413,166,413
Concentration by sector									
Corporate		–	–	2,303,466,417	2,059,583,901	8,443,188	9,295,517	388,706,066	351,458,685
Sovereign		2,632,968,346	2,241,619,014	–	–	295,719,932	259,441,205	–	–
Bank		122,685,250	145,298,645	–	–	–	–	–	6,763,657
Retail		–	–	648,622,336	657,620,351	–	–	44,009,411	54,944,071
		2,755,653,596	2,386,917,659	2,952,088,753	2,717,204,252	304,163,120	268,736,722	432,715,477	413,166,413
Concentration by location									
Lebanon		2,661,773,801	2,269,576,090	2,563,129,767	2,390,565,563	304,163,120	267,983,027	369,751,127	403,375,743
Americas		45,899,916	79,307,348	40,187,311	30,052,000	–	–	317,534	264,368
Europe		39,057,274	36,178,619	174,676,172	133,764,659	–	753,695	35,822,292	1,044,240
Asia Pacific		31,726	31,370	370,523	269,000	–	–	13,184	19,927
Middle East and Africa		6,346,231	1,170,894	173,665,962	162,167,030	–	–	26,768,867	8,450,769
Australia		2,544,648	653,338	59,018	386,000	–	–	42,473	11,366
Carrying amount	7, 8, 9,10	2,755,653,596	2,386,917,659	2,952,088,753	2,717,204,252	304,163,120	268,736,722	432,715,477	413,166,413

Concentration by location for loans and advances to customers, related parties and banks and financial institutions are based on the country of utilization. Concentration by location for investment securities is based on the country of domicile of the issuer of the security.

Trading assets

An analysis of the credit quality of the maximum credit exposure, based on the second best rating of the three eligible rating agencies as per Basel II (Moody's, Standard & Poor's and Fitch) where applicable.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's Board of Directors sets the Group's strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation of this policy to the ALCO. ALCO approves the Group's liquidity policies and procedures. The Treasury and Capital Markets division manages the Group's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Group.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The key elements of the Group's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and maintaining contingency facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Group's financial assets and liabilities, and the extent to which the Group's assets are encumbered and so not available as potential collateral for obtaining funding.

In addition, the Group maintains statutory deposits with the Central Bank of Lebanon. As per Lebanese banking regulations, the Group must retain non-interest bearing balances with the Central Bank of Lebanon equivalent to 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds. As for foreign currencies, the Group must retain with the Central Bank of Lebanon interest bearing statutory investments equivalent to 15% of all deposits regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. The highly liquid net assets consist of cash and balances with Central Banks, balances with other banks and financial institutions less deposits from banks and financial institutions and deposits that mature within one year. Deposits and commitments are composed of total deposits from customers in addition to acceptances and loans that mature within one year.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment debt securities for which there is an active and liquid market less any deposits from banks and financial institutions, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Central Bank of Lebanon and the Banking Control Commission.

Maturity analysis for assets and liabilities

The tables below set out the remaining contractual maturities of the Group's financial assets and liabilities.

In thousands of Lebanese Pound	Note	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
31 December 2018								
Non-derivative liabilities								
Due to Central bank, banks and financial institutions	17, 18	661,731,405	(823,196,276)	(95,106,346)	(20,228,877)	(56,793,552)	(115,393,206)	(535,674,295)
Deposits from customers and related parties	19	5,031,579,183	(5,238,399,857)	(2,242,043,062)	(1,125,774,428)	(1,342,667,202)	(497,968,899)	(29,946,266)
		5,693,310,588	(6,061,596,133)	(2,337,149,408)	(1,146,003,305)	(1,399,460,754)	(613,362,105)	(565,620,561)
Non-derivative assets								
Cash and balances with the Central Bank of Lebanon	7	2,677,744,599	4,489,528,165	230,434,752	41,488,727	161,267,184	762,485,766	3,293,851,736
Banks and financial institutions	8	122,685,250	122,813,614	122,804,491	116	523	1,414	7,070
Loans and advances to customers and related parties	9	2,952,088,753	4,580,423,684	1,117,854,101	105,674,267	297,013,634	1,025,692,018	2,034,189,664
Investment securities	10	310,870,622	623,962,143	2,590,178	3,366,574	14,672,109	85,138,034	518,195,248
Shares acquired in settlement of debt at fair value through profit or loss	11	120,043,527	120,043,527	-	-	-	120,043,527	-
		6,183,432,751	9,936,771,133	1,473,683,522	150,529,684	472,953,450	1,993,360,759	5,846,243,718
31 December 2017								
Non-derivative liabilities								
Due to Central bank, banks and financial institutions	17, 18	297,630,858	(367,100,713)	(38,422,981)	(17,794,718)	(20,694,849)	(81,602,691)	(208,585,474)
Deposits from customers and related parties	19	4,771,702,446	(4,912,987,847)	(2,878,191,551)	(556,678,940)	(1,047,505,902)	(408,467,686)	(22,143,768)
		5,069,333,304	(5,280,088,560)	(2,916,614,532)	(574,473,658)	(1,068,200,751)	(490,070,377)	(230,729,242)
Non-derivative assets								
Cash and balances with the Central Bank of Lebanon	7	2,289,577,866	3,387,207,532	301,006,494	24,352,441	146,547,816	851,770,577	2,063,530,204
Banks and financial institutions	8	145,298,645	145,459,555	145,459,555	–	–	–	–
Loans and advances to customers and related parties	9	2,717,204,252	4,027,745,366	662,116,963	104,606,576	486,027,844	1,101,512,616	1,673,481,367
Investment securities	10	276,428,328	514,705,493	2,292,363	2,495,670	12,841,514	71,260,232	425,815,714
Shares acquired in settlement of debt at fair value through profit or loss	11	110,626,099	110,626,099	–	–	–	110,626,099	–
		5,539,135,190	8,185,744,045	1,110,875,375	131,454,687	645,417,174	2,135,169,524	4,162,827,285

The above tables show the undiscounted cash flows on the Group's assets and liabilities on the basis of their earliest possible contractual maturity.

The Group's expected cash flows on some assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

As part of the management of its liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents, compulsory reserves with Central Bank and investment securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with banks.

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates that will affect the Group's income or the value of its holdings of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the Group's solvency while optimising the return on risk.

Management of market risks

Overall authority for market risk management is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

The Group employs a range of tools to monitor and limit market risk exposures.

Exposure to interest rate risk – Non-trading portfolios

The principal risk to which portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and the Risk Management is monitoring these limits monthly.

A summary of the Group's interest rate gap position is as follows:

In thousands of Lebanese Pound	Note	Carrying amount	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non bearing interest
31 December 2018								
Cash and balances with the Central Bank of Lebanon	7	2,685,646,371	25,627,500	13,944,375	25,627,500	439,095,553	1,927,355,050	253,996,393
Banks and financial institutions	8	132,137,813	25,413,347	–	–	–	–	106,724,466
Loans and advances to customers and related parties	9	3,143,601,651	2,064,837,045	9,515,000	20,395,000	310,961,000	303,584,000	434,309,606
Investment securities (debt securities)	10	295,331,086	–	–	–	37,326,102	253,782,787	4,222,197
		6,256,716,921	2,115,877,892	23,459,375	46,022,500	787,382,655	2,484,721,837	799,252,662
Due to Central bank, banks and financial institutions	17, 18	(661,731,405)	(166,904,405)	(3,174,000)	(15,571,000)	(45,787,000)	(419,809,000)	(10,486,000)
Deposits from customers and related parties	19	(5,031,579,183)	(3,057,369,183)	(619,134,000)	(652,445,000)	(440,554,000)	(14,524,000)	(247,553,000)
		(5,693,310,588)	(3,224,273,588)	(622,308,000)	(668,016,000)	(486,341,000)	(434,333,000)	(258,039,000)
		563,406,333	(1,108,395,696)	(598,848,625)	(621,993,500)	301,041,655	2,050,388,837	541,213,662
31 December 2017								
Cash and balances with the Central Bank of Lebanon	7	2,289,577,866	452,654,713	12,359,090	–	254,500,000	1,286,783,985	283,280,078
Banks and financial institutions	8	145,298,645	10,199,500	–	–	–	–	135,099,145
Loans and advances to customers and related parties	9	2,717,204,252	1,930,627,744	11,501,000	28,254,000	339,539,000	297,981,000	109,301,508
Investment securities (debt securities)	10	258,226,274	–	–	753,695	33,822,474	220,110,674	3,539,431
		5,410,307,037	2,393,481,957	23,860,090	29,007,695	627,861,474	1,804,875,659	531,220,162
Due to Central bank, banks and financial institutions	17, 18	(297,630,858)	(49,157,000)	(4,148,000)	(8,420,000)	(32,153,000)	(199,908,000)	(3,844,858)
Deposits from customers and related parties	19	(4,771,702,446)	(3,170,654,529)	(462,279,000)	(532,777,000)	(364,685,000)	(13,091,000)	(228,215,917)
		(5,069,333,304)	(3,219,811,529)	(466,427,000)	(541,197,000)	(396,838,000)	(212,999,000)	(232,060,775)
		340,973,733	(826,329,572)	(442,566,910)	(512,189,305)	231,023,474	1,591,876,659	299,159,387

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

	Change in bp	Sensitivity of net interest income	Sensitivity of Tier 1 and Tier 2
31 December 2018			
LBP	200	-19.162%	-40.479%
USD	200	-10.510%	-13.844%
EUR	200	-0.014%	-0.155%
31 December 2017			
LBP	200	-17.527%	-34.482%
USD	200	-10.524%	-14.765%
EUR	200	0.712%	-0.268%

Overall interest rate risk positions are monitored by the Risk Management and highlighted to ALCO.

Exposure to currency risks – *Non-trading portfolios*

The Group is subject to currency risk on financial assets and liabilities denominated in currencies other than the Group's functional currency, which is the Lebanese Pound (LBP). Most of these financial assets and liabilities are denominated in US Dollars or Euros. The following is an analysis of the Group's sensitivity to a change in currency rates, assuming all other variables remain constant:

	Increase in currency rate	Effect on profit before tax	Effect on Tier 1 and Tier 2
31 December 2018			
USD	1.00%	0.01245%	0.00074%
EUR	1.00%	0.00468%	0.00028%
GBP	1.00%	0.00083%	0.00005%
CAD	1.00%	-0.00004%	0.00000%
CHF	1.00%	0.00010%	0.00001%
31 December 2017			
USD	1.00%	-0.29539%	-0.01791%
EUR	1.00%	0.00491%	0.00030%
GBP	1.00%	-0.00068%	-0.00004%
CAD	1.00%	-0.00011%	-0.00001%
CHF	1.00%	0.00122%	0.00007%

Exposure to currency risk

The Group monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of the Group, and with regard to the translation of foreign operations into the presentation currency of the Group. The following table presents the breakdown of assets and liabilities by currency:

	31 December 2018			31 December 2017		
In thousands of Lebanese Pound	LBP	FC C/V LBP	Total	LBP	FC C/V LBP	Total
Assets						
Cash and balances with the Central Bank of Lebanon	1,691,645,722	986,098,877	2,677,744,599	1,448,417,685	841,160,181	2,289,577,866
Banks and financial institutions	5,539,609	117,145,641	122,685,250	4,555,752	140,742,893	145,298,645
Loans and advances to customers and related parties	812,049,484	2,140,039,269	2,952,088,753	950,579,645	1,766,624,607	2,717,204,252
Investment securities	132,491,336	178,379,286	310,870,622	94,863,147	181,565,181	276,428,328
Shares acquired in settlement of debt at fair value through profit or loss	–	120,043,527	120,043,527	–	110,626,099	110,626,099
Investment in an associate	–	71,399,817	71,399,817	–	84,781,563	84,781,563
Property and equipment	87,580,610	11,966,440	99,547,050	88,780,965	10,720,464	99,501,429
Intangible assets	635,734	–	635,734	690,109	–	690,109
Other assets	2,991,587	13,936,649	16,928,236	2,554,478	7,325,894	9,880,372
Debtors by acceptances	–	15,910,560	15,910,560	–	21,787,897	21,787,897
Non-current assets held for sale	–	7,270,246	7,270,246	–	4,405,996	4,405,996
Total assets	**2,732,934,082**	**3,662,190,312**	**6,395,124,394**	**2,590,441,781**	**3,169,740,775**	**5,760,182,556**
Liabilities and equity						
Due to Central Bank of Lebanon	432,550,846	21,215,464	453,766,310	236,147,311	–	236,147,311
Due to banks and financial institutions	85,009,265	122,955,830	207,965,095	13,058,780	48,424,767	61,483,547
Deposits from customers and related parties	1,768,096,526	3,263,482,657	5,031,579,183	1,904,795,160	2,866,907,286	4,771,702,446
Current tax liabilities	2,077,441	–	2,077,441	5,072,522	–	5,072,522
Other liabilities	18,162,163	32,859,604	51,021,767	15,319,408	38,767,137	54,086,545
Engagement by acceptances	–	15,970,833	15,970,833	–	21,787,897	21,787,897
Provisions	9,712,761	1,141,502	10,854,263	9,724,452	45,657	9,770,109
Equity	453,255,138	168,634,364	621,889,502	429,672,228	170,459,951	600,132,179
Total liabilities and equity	**2,768,864,140**	**3,626,260,254**	**6,395,124,394**	**2,613,789,861**	**3,146,392,695**	**5,760,182,556**

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

Operational risks arise from all of the Group's operations. Operational Risk Management (ORM) at the Group is a continuous process comprising six stages of identical importance: Risk Identification, Risk Assessment, Control Analysis, Mitigation Decision, Mitigation Implementation, and Supervision and Review. Historical loss data is being collected and analysed and Key Risk Indicators (KRIs) are being identified. Risk and Control Self-Assessment (RCSA) is being conducted for all organisation units' processes.

(f) Capital management

Regulatory capital

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- To apply mitigation techniques that may help lower the capital charge;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are continuously monitored by the Group's management, employing techniques based on the guidelines issued by the Central Bank of Lebanon (in line with the guidelines issued by the Basel Committee). The required information is filed with the authority on a quarterly basis.

The Group did maintain a ratio of total regulatory capital above the 'Basel Ratio', and did maintain a ratio of Common Equity Tier 1 and Tier 1 Capital above the minimum level set by the Central Bank of Lebanon; All ratios were met and exceeded for the year ended 31 December 2017 and 2018.

In thousands of Lebanese Pound	2018	2017
Credit risk	3,568,535,263	3,254,293,359
Market risk	8,665,870	19,781,421
Operational risk	254,974,612	262,087,456
Total risk weighted assets	3,832,175,745	3,536,162,236

	2018	2017
Common Equity Tier 1 Ratio	10.39%	10.90%
Tier 1 Capital Ratio	15.30%	16.23%
Total Capital Adequacy Ratio	15.84%	16.29%

The Group's total risk weighted assets and regulatory capital adequacy ratio at 31 December were as follows:

To monitor the adequacy of its capital, the Group uses ratios established by the Bank for International Settlements (BIS). In line with the Central Bank of Lebanon Basic Circular no.44 amended by the Central Bank of Lebanon Intermediary Circular no. 436.

The Group must achieve a total regulatory capital to risk-weighted assets at or above 14% in 2016, 14.5% in 2017, and 15% in 2018. Common Equity Tier 1 Ratio should increase to 8.5% in 2016, 9% in 2017, and 10% in 2018.Tier 1 Ratio should increase to 11% in 2016, 12% in 2017, and 13% in 2018.

These ratios measure capital by comparing the Group's eligible capital with its statement of financial position, off-statement of financial position commitments and market and operational risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the level of risk necessary to support them.

Off-statement of financial position credit instruments are taken into account by applying different categories of conversion factors, designed to convert these items into statement of financial position equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for assets in the statement of financial position.

In accordance with the Central Bank of Lebanon basic circular no. 43, the Group's capital is constituted of the following:

- Net Common Equity Tier 1 capital, which includes ordinary share capital, cash contribution to capital, common shares premium, retained earnings after deduction of dividends to be distributed and non-current assets held for sale reserve, capital reserves after deductions of intangible assets and unrealized losses on equity instruments measured at fair value through other comprehensive income. As per the BCC memo 06/2017, the Group is required to deduct from its Net Common Equity Tier 1 an amount due from its investment in Anelik CJSC (referred to as ID bank) by more than 10% of its Net Common Equity Tier 1 after regulatory adjustments (investments in associates out of consolidation scope). In 2017, the Group obtained an extension till end of 2019.
- Net Tier 1 capital is obtained by the addition of Net Common Equity Tier 1 capital and preferred shares.
- Total Capital Ratio, which includes 50% of the fair value reserve relating to unrealised gains on equity instruments measured at fair value through other comprehensive income.

In thousands of Lebanese Pound	2018	2017
Share capital - common shares	152,300,000	142,300,000
Share premium - common shares	17,273,587	17,273,587
Cash contribution to capital	10,854,000	10,854,000
Capital reserves	203,532,591	164,479,921
Non-distributable retained earnings	–	51,335,511
Retained earnings *	27,702,611	–
Deductions:		
- Intangible assets	(635,734)	(690,109)
- Fair value reserve of financial assets at FVTOCI - loss	(303,158)	(148,489)
- Regulatory adjustment due to ECL minimum requirements	(12,698,570)	–
Net Common Equity - Tier 1	**398,025,327**	**385,404,421**
Share capital - preferred shares	62,500,000	62,500,000
Share premium - preferred shares	125,937,499	125,937,499
Net Tier 1 Capital	**586,462,826**	**573,841,920**
Tier 2 capital		
50% Fair value reserve of financial assets through OCI - gain	2,146,013	2,140,133
ECL Stage 1	18,301,115	–
	20,447,128	2,140,133
	606,909,954	**575,982,053**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence.

* Retained earnings less dividends to be distributed and reserve of assets held for sale.

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(a) Valuation models
The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(b) Financial instruments measured at fair value – fair value hierarchy and not measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	Carrying amount				Fair Value			
In thousands of Lebanese Pound	Designated at fair value	Amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2018								
Financial assets measured at fair value								
Financial assets at fair value through profit or loss	*10,155,236*			*10,155,236*	*1,876,655*	*8,278,581*	–	*10,155,236*
Lebanese government treasury bills and eurobonds	8,391,498			8,391,498	112,917	8,278,581	–	8,391,498
Certificates of deposits issued by Central bank of Lebanon	1,763,738			1,763,738	1,763,738	–	–	1,763,738
Financial assets at fair value through other comprehensive income	*4,909,253*			*4,909,253*	*411,095*	*4,498,158*	–	*4,909,253*
Shares acquired in settlement of debt at fair value through profit or loss	*120,043,527*			*120,043,527*	–	*120,043,527*	–	*120,043,527*
Other financial assets at fair value	*1,810,352*			*1,810,352*	*1,810,352*	–	–	*1,810,352*
	136,918,368			**136,918,368**	**4,098,102**	**132,820,266**	**–**	**136,918,368**
Financial assets not measured at fair value								
Cash and balances with the Central Bank of Lebanon		2,677,744,599		2,677,744,599	44,776,253	2,632,968,346	–	2,677,744,599
Banks and financial institutions		122,685,250		122,685,250	–	122,685,250	–	122,685,250
Loans and advances to customers and related parties		2,952,088,753		2,952,088,753	–	2,866,261,115	–	2,866,261,115
Financial assets at amortised cost		293,995,781		293,995,781	126,476,095	133,655,781	–	260,131,876
		6,046,514,383		**6,046,514,383**	**171,252,348**	**5,755,570,492**	**–**	**5,926,822,840**
Financial liabilities not measured at fair value								
Due to Central bank, banks and financial institutions			661,731,405	661,731,405	–	661,731,405	–	661,731,405
Deposits from customers and related parties			5,031,579,183	5,031,579,183	–	5,031,579,183	–	5,031,579,183
			5,693,310,588	**5,693,310,588**	**–**	**5,693,310,588**	**–**	**5,693,310,588**

In thousands of Lebanese Pound	Carrying amount				Fair Value			
	Designated at fair value	Amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2017								
Financial assets measured at fair value								
Financial assets at fair value through profit or loss	*10,486,641*			*10,486,641*	*2,278,915*	*8,207,726*	–	*10,486,641*
Lebanese government treasury bills and eurobonds	8,320,318			8,320,318	112,592	8,207,726	–	8,320,318
Certificates of deposits issued by Central bank of Lebanon	2,166,323			2,166,323	2,166,323	–	–	2,166,323
Financial assets at fair value through other comprehensive income	*5,054,522*			*5,054,522*	*459,486*	*4,595,036*	–	*5,054,522*
Shares acquired in settlement of debt at fair value through profit or loss	*110,626,099*			*110,626,099*	–	*110,626,099*	–	*110,626,099*
Other financial assets at fair value	*2,660,891*			*2,660,891*	*1,039,411*	*1,621,480*	–	*2,660,891*
	128,828,153			**128,828,153**	**3,777,812**	**125,050,341**	**–**	**128,828,153**
Financial assets not measured at fair value								
Cash and balances with the Central Bank of Lebanon		2,289,577,866		2,289,577,866	47,950,228	2,241,619,014	–	2,289,569,242
Banks and financial institutions		145,298,645		145,298,645	–	145,189,405	–	145,189,405
Loans and advances to customers and related parties		2,717,204,252		2,717,204,252	–	2,645,331,504	–	2,645,331,504
Financial assets at amortised cost		258,226,274		258,226,274	154,531,786	87,483,286	–	242,015,072
		5,410,307,037		**5,410,307,037**	**202,482,014**	**5,119,623,209**	**–**	**5,322,105,223**
Financial liabilities not measured at fair value								
Due to Central bank, banks and financial institutions			297,630,858	297,630,858	–	297,630,858	–	297,630,858
Deposits from customers and related parties			4,771,702,446	4,771,702,446	–	4,785,294,361	–	4,785,294,361
			5,069,333,304	**5,069,333,304**	**–**	**5,082,925,219**	**–**	**5,082,925,219**

(7) CASH AND BALANCES WITH THE CENTRAL BANK OF LEBANON

In thousands of Lebanese Pound	Note	2018	2017
Cash		44,776,253	47,958,852
Unrestricted balances		36,634,200	115,167,116
Included in cash and cash equivalents	35	81,410,453	163,125,968
Term balances with the Central Bank of Lebanon		1,928,563,053	1,547,603,537
Interest receivable		49,113,228	29,047,872
Expected credit loss		(7,901,772)	–
		2,051,184,962	1,739,777,377
Compulsory reserves held with the Central Bank of Lebanon		626,559,637	549,800,489
Cash and balances with the Central Bank of Lebanon		2,677,744,599	2,289,577,866

In accordance with the Central Bank's basic circular number 84, the Group is required to constitute compulsory reserves in Lebanese Pounds calculated on the basis of 15% of the weekly average of term deposits and 25% of the weekly average of current accounts. The Group is also required to constitute a compulsory reserve in foreign currency calculated on the basis of 15% of foreign currency deposits.

Compulsory reserve requirements are not available for use in the Group's day-to-day operations.

These reserves comprise compulsory reserves in Lebanese Pounds amounting to LBP 123,472,709 thousand (2017: LBP 121,282,760 thousand) and foreign currencies with a counter value of LBP 503,086,928 (2017: LBP 428,517,729 thousand).

Term deposits generate fixed interest. Current accounts with the Central Bank of Lebanon do not generate interest.

Term deposits include placements of LBP 31,983,250 thousand blocked to the favor of the Central Bank against loans granted by the latter as at 31 December 2018 (2017: Nil) (Note 17)

(8) BANKS AND FINANCIAL INSTITUTIONS

In thousands of Lebanese Pound	Note	2018	2017
Current accounts		106,692,457	135,080,652
Money market placements		4,210,689	9,264,921
Cash collateral		21,202,658	10,199,500
Included in cash and cash equivalents	35	132,105,804	154,545,073
Interest receivable		32,009	18,493
Expected credit loss		(9,452,563)	(9,264,921)
		122,685,250	**145,298,645**

(9) LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES

In thousands of Lebanese Pound	Gross amount	ECL allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	2018			2017		
Retail customers:						
Mortgage lending	299,963,586	(1,154,604)	298,808,982	299,310,426	(1,142,168)	298,168,258
Personal loans	346,333,480	(17,721,578)	328,611,902	352,892,644	(13,082,939)	339,809,705
Credit cards	23,803,211	(2,601,759)	21,201,452	22,148,732	(2,506,344)	19,642,388
	670,100,277	**(21,477,941)**	**648,622,336**	**674,351,802**	**(16,731,451)**	**657,620,351**
Corporate customers:	2,473,501,374	(170,034,957)	2,303,466,417	2,221,639,245	(162,055,344)	2,059,583,901
	3,143,601,651	**(191,512,898)**	**2,952,088,753**	**2,895,991,047**	**(178,786,795)**	**2,717,204,252**

The table for the movement in allowances for expected credit losses of Loans and advances to customers and related parties at amortised costs under IFRS 9 is presented under the Credit Risk section, note 5 b.

(10) INVESTMENT SECURITIES

In thousands of Lebanese Pound	2018	2017
Financial instruments at fair value through profit or loss (a)	11,965,588	13,147,532
Financial instruments at fair value through other comprehensive income (b)	4,909,253	5,054,522
Financial instruments at amortised cost (c)	293,995,781	258,226,274
	310,870,622	**276,428,328**

(a) Financial instruments at fair value through profit or loss

In thousands of Lebanese Pound	2018	2017
Lebanese government treasury bills and eurobonds	8,275,302	8,205,046
Certificates of deposit	1,742,512	2,145,097
Funds	843,174	1,597,673
Interest receivable	149,525	160,305
Debt securities	**11,010,513**	**12,108,121**
Equity securities	**955,075**	**1,039,411**
	11,965,588	**13,147,532**

(b) Financial instruments at fair value through other comprehensive income

In thousands of Lebanese Pound	2018	2017
Equity securities	4,909,253	5,054,522

(c) Financial instruments at amortised cost

In thousands of Lebanese Pound	2018	2017
Lebanese government treasury bills and eurobonds*	166,740,139	129,564,396
Certificates of deposit**	116,077,500	116,077,500
Funds	8,291,250	8,291,250
Corporate bonds	–	753,695
Interest receivable	4,222,197	3,539,433
	295,331,086	258,226,274
Expected credit loss	(1,335,305)	–
Debt securities	**293,995,781**	**258,226,274**

(*) Lebanese government bonds include Lebanese treasury bills for a nominal amount of LBP 108,970,600 thousand (2017: LBP 71,165,900 thousand) pledged as collateral against loans obtained from the Central Bank of Lebanon (Note 17).

(**) Certificates of deposit for a nominal amount of LBP 190,198 thousand (2017: LBP Nil) are pledged as collateral against loans obtained from the Central Bank of Lebanon (Note 17).

(11) SHARES ACQUIRED IN SETTLEMENT OF DEBT AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption represents 2,167,378 shares in IBL Bank SAL (representing 10.83% of its share capital) acquired in settlement of debt. The Group re-values those shares at each reporting date using the equity method.

As per BDL circular number 78 and article 154 of the Code of Money and Credit, the Group should dispose of those shares within a period of two years from the date of acquisition.

(12) PROPERTY AND EQUIPMENT

In thousands of Lebanese Pound	Land and Buildings	Furniture and equipment	Work in progress	Total
Cost				
Balance at 1 January 2017	44,249,021	49,565,615	9,730,920	103,545,556
Additions	26,749,489	2,272,638	5,344,659	34,366,786
Disposals	–	(1,042,559)	–	(1,042,559)
Transfers	–	4,423,599	(4,423,599)	–
De-Consolidation Anelik RU	–	(1,674,388)	–	(1,674,388)
Balance at 31 December 2017	**70,998,510**	**53,544,905**	**10,651,980**	**135,195,395**
Balance at 1 January 2018	70,998,510	53,544,905	10,651,980	135,195,395
Additions	80,213	1,762,429	4,384,506	6,227,148
Disposals	(3,630,789)	(473,241)	–	(4,104,030)
Transfers	–	1,958,718	(1,962,051)	(3,333)
Balance at 31 December 2018	**67,447,934**	**56,792,811**	**13,074,435**	**137,315,180**
Accumulated depreciation				
Balance at 1 January 2017	7,933,867	25,493,597	–	33,427,464
Depreciation for the year	865,633	3,628,982	–	4,494,615
Disposals	–	(910,772)	–	(910,772)
De-Consolidation Anelik RU	–	(1,317,341)	–	(1,317,341)
Balance at 31 December 2017	**8,799,500**	**26,894,466**	**–**	**35,693,966**
Balance at 1 January 2018	8,799,500	26,894,466	–	35,693,966
Depreciation for the year	860,999	3,852,773	–	4,713,772
Disposals	(2,356,463)	(283,145)	–	(2,639,608)
Balance at 31 December 2018	**7,304,036**	**30,464,094**	**–**	**37,768,130**
Carrying amounts				
At 1 January 2017	36,315,154	24,072,018	9,730,920	70,118,092
At 31 December 2017	62,199,010	26,650,439	10,651,980	99,501,429
At 31 December 2018	**60,143,898**	**26,328,717**	**13,074,435**	**99,547,050**

During 2018, the Group disposed of property and equipment with a carrying value of LBP 1,464,422 for a consideration of LBP 8,064,253 thousand which resulted in a net gain of LBP 6,599,831 thousand booked in the statement of profit or loss and the release of LBP 3,623,500 thousand (note 25 (h)) from Real estate revaluation reserve to retained earnings.

(13) INTANGIBLE ASSETS

In thousands of Lebanese Pound	2018	2017
Cost		
At 1 January	4,016,328	3,405,210
Additions	134,654	611,118
Transfers	3,333	–
At 31 December	**4,154,315**	**4,016,328**
Amortization		
At 1 January	3,326,219	3,143,578
Amortization expense	192,362	182,641
At 31 December	**3,518,581**	**3,326,219**
Carrying amount		
At 1 January	690,109	261,632
At 31 December	**635,734**	**690,109**

(14) OTHER ASSETS

In thousands of Lebanese Pound	2018	2017
Accounts receivable and prepayments	13,935,596	8,605,596
Other receivables	4,938,079	2,930,580
Expected credit loss	(2,160,389)	(1,900,572)
Other assets	214,950	244,768
	16,928,236	**9,880,372**

(15) DEBTORS AND ENGAGEMENTS BY ACCEPTANCES

Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its customers against commitments provided by them, which are stated as a liability in the balance sheet under other liabilities under caption "Engagement by acceptances". Debtors and engagements by acceptances are considered as current assets and liabilities.

In thousands of Lebanese Pound	2018	2017
Debtors by acceptances	15,970,833	21,787,897
Expected credit loss	(60,273)	–
	15,910,560	**21,787,897**

(16) NON-CURRENT ASSETS HELD FOR SALE

In thousands of Lebanese Pound	2018	2017
Balance at 1 January	4,405,996	4,405,996
Additions	2,864,250	–
Balance at 31 December	**7,270,246**	**4,405,996**

These assets represent properties acquired in settlement of debt against settlement of facilities of defaulting clients. As per BDL basic circular no.78 and article no.154 of the Code of Money and Credit Act, banks have two years (from the date of acquisition) to liquidate those assets, else they are required to constitute reserves (through appropriation of retained earnings) against these assets, prior to distribution of dividends.

(17) DUE TO THE CENTRAL BANK OF LEBANON

In thousands of Lebanese Pound	2018	2017
Subsidised loans	164,922,077	140,953,274
Term borrowings	285,983,581	93,650,000
Accrued interest	2,860,652	1,544,037
	453,766,310	**236,147,311**

Subsidised loans
As at 31 December 2018, subsidised loans consist of utilised amounts on facilities granted by the Central Bank of Lebanon for the purpose of lending to customers at subsidised rates in accordance with decision No. 6116 dated 7 March 1996. Principals are repayable on monthly basis and based on the amounts withdrawn by the customers.

Term borrowings
Term borrowings from The Central Bank of Lebanon bare an interest rate of 2% and maturing between 2022 and 2028.

Financial assets blocked / pledged against term borrowings were as follows:

In thousands of Lebanese Pound	2018
Lebanese treasury bills at amortised cost	108,970,600
Term deposits	31,983,250
Certificates of deposit with Central Bank of Lebanon at amortised cost	190,198
	141,144,048

(18) DUE TO BANKS AND FINANCIAL INSTITUTIONS

In thousands of Lebanese Pound	2018	2017
Current accounts	6,343,578	1,532,626
Term loans	200,339,557	59,182,869
Accrued interest	1,281,960	768,052
	207,965,095	**61,483,547**

The commitments arising from Group facilities received are disclosed on Note 37.

(19) DEPOSITS FROM CUSTOMERS AND RELATED PARTIES

In thousands of Lebanese Pound	Note	2018	2017
Savings		1,027,169,282	1,180,998,657
Term deposits		3,392,319,773	3,014,203,057
Current deposits		262,658,706	248,267,280
Deposits under fiduciary contracts		42,577,904	39,032,307
Net creditor and cash collateral against debtor accounts		242,460,416	229,738,818
Margins on letters of credit		5,802,936	6,778,465
Interest payable		51,076,029	31,987,668
Deposits from related parties	36	7,513,305	20,695,277
Interest payable to related parties		832	917
		5,031,579,183	**4,771,702,446**

(20) OTHER LIABILITIES

In thousands of Lebanese Pound	2018	2017
Other creditors and accruals	17,817,616	24,132,390
Cheques for collection	15,177,521	15,178,192
Operational taxes and social security payables	10,153,188	5,889,412
Accrued expenses	4,008,589	3,735,786
Commissions received in advance	3,690,999	4,627,204
Other liabilities	173,854	523,561
	51,021,767	**54,086,545**

(21) OTHER PROVISIONS

In thousands of Lebanese Pound	2018	2017
Provision for employee benefits obligations (a)	9,564,106	9,271,344
Provision for various matters	20,313	37,805
Provision for loss on structural exchange position	12,925	12,925
Provision for fluctuations in foreign exchange rates (b)	89,738	448,035
Expected credit loss - Off balance sheet	1,167,181	–
	10,854,263	**9,770,109**

(a) Provision for employee benefits obligations

In thousands of Lebanese Pound	Note	2018	2017
Balance at 1 January		9,271,344	7,838,082
Net provision raised during the year	30	2,237,339	1,832,331
Indemnity paid during the year		(1,944,577)	(399,069)
Balance at 31 December		**9,564,106**	**9,271,344**

(b) Provisions for fluctuations in foreign exchange rates
As per local regulatory requirements the Group provides for an amount equivalent to 5 percent of its year-end foreign exchange position.

(22) SHARE CAPITAL

The share capital of the Group as at 31 December is as follows:

	2018		2017	
	of shares	value in 000 LBP	of shares	value in 000 LBP
Common shares	3,046,000	152,300,000	2,846,000	142,300,000
Preferred shares	1,250,000	62,500,000	1,250,000	62,500,000
	4,296,000	**214,800,000**	**4,096,000**	**204,800,000**

The extraordinary General Assemblies of the shareholders of the Group held on 9 October 2017 and 17 August 2017 resolved to increase the capital of the Group from LBP 159,619,150 thousand to LBP 204,800,000 thousand by issuing 603,617 ordinary shares with a par value of LBP 50,000 thousands paid in cash. The increase of common shares amounted to LBP 30,180,850 thousands.

Additionally the extraordinary General Assembly of the shareholders held on 17 August 2017 resolved the issuance of 300,000 new preferred shares (Series 6) with a par value of 50,000 thousand and a total premium of LBP 30,225,000 thousands.

The extraordinary General Assembly of the shareholders of the Group held on 11 October 2018 approved the issue 200,000 new Series 7 preferred shares for a par value of LBP 50 thousand and a total premium of LBP 20,150,000 thousand. And the redemption of all the 200,000 Series 2 preferred shares.

The extraordinary General Assembly also resolved to increase the share capital by issuing 200,000 new common shares for a total value of LBP 10 billion (LBP 50,000 per share) transferred from the reserves.

Below is a summary of the prospectus issued relating to preferred shares series 3, 4, 5 ,6, and 7; in addition to its related amendments:

	Series 2 (redeemed)	Series 3	Series 4	Series 5	Series 6	Series 7	Total
Date of Extraordinary General							
Assembly Resolution Date	5-Oct-12	20-Sep-13	11-Jul-14	20-Feb-15	17-Aug-17	11-Jun-18	
Number of Shares issued	200,000	300,000	200,000	250,000	300,000	200,000	1,250,000
Share Nominal Value in '000 LBP	Was increased from 26 to 50 during 2015	Was increased from 26 to 50 during 2015	Was increased from 26 to 50 during 2015	Was increased from 26 to 50 during 2015	50	50	
Total Nominal Value in '000 LBP	10,000,000	15,000,000	10,000,000	12,500,000	15,000,000	10,000,000	62,500,000
Share Issue Price USD	100	100	100	100	100	100	
Issue Premium	Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates.	Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates.	Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates.	Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates.	Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates.	Calculated in USD as the difference between USD100 and the counter value of the nominal value per share based on the exchange rate at the subscription dates.	
Issue Premium Amount in '000 LBP	20,149,999	30,225,000	20,150,000	25,187,500	30,225,000	20,150,000	125,937,500
Benefits	Annual dividends of USD 7.25 per share	Annual dividends of USD 7.25 per share	Annual dividends of USD 7.25 per share	Annual dividends of USD 7 per share	Annual dividends of USD 7.5 per share	Annual dividends of USD 8.25 per share	
Call Option	(i) at any time after the Issue Date, if a Regulatory Event shall occur at a redemption price equal to the issue price (i.e. U.S. $ 100.00 per share) ; or (ii) within 60 days following the lapse of a 5-year period as of the date of the Confirmation EGM and for each subsequent year thereafter within 60 days following the date of the Ordinary General Assembly of Shareholders held to approve the accounts of the Bank for the immediately preceding fiscal year.	(i) at any time after the Issue Date, if a Regulatory Event shall occur at a redemption price equal to the issue price (i.e. U.S. $ 100.00 per share) ; or (ii) within 60 days following the date of the Ordinary General Assembly of Shareholders held to approve the annual accounts of the Bank for the year 2018 subject to the lapse of 5-years from the date of the Extraordinary General Assembly held to confirm the due issuance of the Series 3 Preferred Shares, and annually thereafter within 60 days following each such subsequent Ordinary General Meeting at which the annual audited financial accounts for the Bank are approved for the immediately preceding fiscal year.	(i) at any time after the Issue Date if a Regulatory Event (as defined below) shall occur, at a redemption price equal to the issue price (i.e. USD 100 per share); or (ii) for the first time, within 60 days following the lapse of a 5-year period as of the date of the Extraordinary General Assembly held to ascertain the due issuance of the Series 4 Preferred Shares, and, for each subsequent year thereafter, within 60 days following the date of each Ordinary General Assembly of Shareholders held to approve the annual accounts of the Bank for the immediately preceding fiscal year.	(i) at any time after the Issue Date if a Regulatory Event (as defined below) shall occur, at a redemption price equal to the issue price (i.e. USD 100 per share); or (ii) for the first time, within 60 days following the lapse of a 5-year period as of the date of the Extraordinary General Assembly held to ascertain the due issuance of the Series 5 Preferred Shares, and, for each subsequent year thereafter, within 60 days following the date of each Ordinary General Assembly of Shareholders held to approve the annual accounts of the Bank for the immediately preceding fiscal year	(i) at any time after the Issue Date if a Regulatory Event (as defined below) shall occur, at a redemption price equal to the issue price (i.e. USD 100 per share); or (ii) for the first time, within 60 days following the lapse of a 5-year period as of the date of the Extraordinary General Assembly held to ascertain the due issuance of the Series 6 Preferred Shares, and, for each subsequent year thereafter, within 60 days following the date of each Ordinary General Assembly of Shareholders held to approve the annual accounts of the Bank for the immediately preceding fiscal year	(i) at any time after the Issue Date if a Regulatory Event (as defined below) shall occur, at a redemption price equal to the issue price (i.e. USD 100 per share); or (ii) for the first time, within 60 days following the lapse of a 5-year period as of the date of the Extraordinary General Assembly held to ascertain the due issuance of the Series 7 Preferred Shares, and, for each subsequent year thereafter, within 60 days following the date of each Ordinary General Assembly of Shareholders held to approve the annual accounts of the Bank for the immediately preceding fiscal year	
Redemption Value USD	101, if in 2018, increased by 1 USD for each subsequent year	100	100	100	100	100	

(23) SHARE PREMIUM

The premium resulted from the increase of the capital of the Group by issuing common and preferred shares which represents the difference between the amount paid by the shareholders and the nominal value of the shares.

(24) CASH CONTRIBUTION TO CAPITAL

The cash contributions to capital are subject to the following terms:
- The balance is blocked with the Group over the lifetime of the Group,
- These contributions may be used to cover any losses,
- These contributions can be used to increase the capital of the Group,
- No interest is calculated on these contributions.

No interest has been paid on these cash contributions.

(25) RESERVES AND NON-DISTRIBUTABLE RETAINED EARNINGS

(i) Reserves

In thousands of Lebanese Pound	2018	2017
General banking risks reserve (a)	–	65,807,800
Legal reserve (b)	37,733,417	34,750,852
Reserve appropriated to capital increase (c)	40,539,577	40,539,577
General reserves (i)	118,846,718	4,726,684
Other reserves	6,412,879	–
Capital reserves	203,532,591	145,824,913
Reserve against retail portfolio (d)	–	3,492,688
Reserve against corporate portfolio (e)	–	15,162,320
Non-current assets held for sale reserve (f)	3,369,079	2,731,311
Fair value reserve (g)	2,306,186	4,131,778
Real estate revaluation reserve (h)	3,821,359	7,444,855
	213,029,215	**178,787,865**

(a) General banking risks reserve
The Group is required, according to the Central Bank regulations and commencing at 1998, to set up a reserve for general banking risks at a minimum of 0.2% and a maximum rate of 0.3% of the risk weighted assets and off-balance sheet financial instruments in local and foreign currencies. This reserve should not be less than 1.25% and 2% by the end of the 10th and the 20th years, respectively. This reserve is not available for distribution.

During 2018 LBP 4,386,155 thousand was appropriated from annual profits and LBP 70,193,955 thousand was transferred to General reserves.

(b) Legal reserve
The Lebanese Commercial Law and the Group's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. This reserve is not available for distribution.

(c) Reserve appropriated to capital increase
In compliance with Banking Control Commission circular no. 173, the gain realised on the sale of assets acquired in settlement of debt (note 16) should be appropriated from retained earnings and recorded as "Reserve for capital increase".

Movement on the reserve appropriated to capital increase is summarised as follows:

In thousands of Lebanese Pound	2018	2017
As at 1 January	40,539,577	36,003,739
Appropriation of previous year profits	–	4,471,764
Transfer from non-distributable retained earnings	–	64,074
	40,539,577	**40,539,577**

(d) Reserve against retail portfolio
BCC circular no. 280 introduced the requirement to establish a reserve for performing retail portfolio (i.e. where late settlements do not exceed 30 days) equal to 0.5% of the carrying amount of the portfolio at 31 December 2017. As at 31 December 2017, this reserve amounted to LBP 3,492,688 thousand (2016: LBP 2,113,772 thousand). Additional appropriations of 0.5% per annum were required to be made until the reserve reaches 3.5% of the total performing loans by 31 December 2020. As per article 16 of the Central Bank of Lebanon basic circular no. 143 dated 7 November 2017, financial institutions are no longer required to constitute a general reserve on the retail portfolio. Accordingly, this reserve will be considered a general non-distributable reserve in future year.

During 2018 LBP 3,492,688 thousand was transferred to General reserves.

(e) Reserve against corporate portfolio
BCC circular no. 280 introduced the requirement to establish a reserve for performing corporate portfolio not less than 0.25% of the carrying amount of the portfolio in 2014, 0.5% in 2015, 1% in 2016 and 1.5% in 2017. As at 31 December 2017, this reserve amounted to LBP 15,162,320 thousand (2016: LBP 7,769,144 thousand). As per article 16 of the Central Bank of Lebanon basic circular no. 143 dated 7 November 2017, financial institutions are no longer required to constitute a general reserve on the corporate portfolio. Accordingly, this reserve will be considered a general non-distributable reserve in future year.

During 2018 LBP 15,162,320 thousand was transferred to General reserves.

(f) Non-current assets held for sale reserve
In compliance with the Central Bank of Lebanon intermediary circular 499, banks are required to deduct from annual profits an amount of 5% of the carrying value of its properties acquired in settlement of debts within 2 years from the date of acquisition. The required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Group's tier capital nor is available for distribution. Upon disposal of these properties, this reserve is transferred to a reserve specifically restructured to future increases in share capital. As per Banking Control Commission circular no. 173, the gain realised on the sale of an asset acquired in settlement of debt should be recognised in the statement of comprehensive income at the date of the sale and transferred subsequently to the statement of changes in equity.

(g) Fair value reserve
The fair value reserve includes the cumulative net change in the fair value of equity investments measured at fair value through other comprehensive income. When such equity instruments are derecognised, the related cumulative amount in the fair value reserve is transferred to retained earnings.

(h) Real estate revaluation reserve
According to the provisions of law no.282 dated 30 December 1993 and decree no.5451 dated July 1994 and the Central Bank of Lebanon and the Banking Control Commission regulations, the Group proceeded in 1999 to the revaluation of its owned buildings. The Central Bank of Lebanon approved, on 26 January 2000 the revaluation amounting to LBP 7,444,856 thousand. During 2018, the Group disposed of property and released LBP 3,623,500 thousand from Real estate revaluation reserve to retained earnings

(i) General reserves
General reserves includes amounts transferred from reserve against corporate and retail portfolio, general banking risk reserve, distributable and non distributable retained earnings.

(ii) Non-distributable retained earnings
Movement on these retained earnings is summarised as follows:

In thousands of Lebanese Pound	2018	2017
At 1 January	30,689,023	18,049,769
Unrealised gain on financial instruments at fair value through profit and loss	–	12,703,328
Revaluation gains related to financial instruments sold (transferred to realised)	–	(64,074)
Transfer to general reserves	(30,689,023)	–
At 31 December	–	30,689,023

(26) NET INTEREST INCOME

In thousands of Lebanese Pound	2018	2017
Interest income, net of tax		
Balances with the Central Bank of Lebanon	166,980,780	114,375,718
Banks and financial institutions	2,279,832	2,478,210
Loans and advances to customers and related parties	256,212,181	211,767,858
Investment securities	18,703,246	18,137,138
Total interest income	444,176,039	346,758,924
Interest expense		
Due to banks and financial institutions	(10,963,852)	(5,364,547)
Deposits from customers and related parties	(310,025,770)	(246,269,949)
Total interest expense	(320,989,622)	(251,634,496)
Net interest income	**123,186,417**	**95,124,428**

Withholding taxes amounting to LBP 13,864,654 thousand were deducted from interest income.

(27) NET FEES AND COMMISSION INCOME

In thousands of Lebanese Pound	2018	2017
Fees and commission income		
Fees on letters of credit and acceptances	1,350,229	1,579,529
Fees on transactions with customers	22,717,966	17,150,557
Fees on letters of guarantee	3,260,238	3,359,901
Fees on various banking transactions	5,350,565	9,518,504
Total fees and commission income	32,678,998	31,608,491
Fees and commission expense		
Fees on banks and financial institutions accounts	(428,307)	(1,152,532)
Fees on various banking transactions	(6,719,804)	(5,125,349)
Total fees and commission expense	(7,148,111)	(6,277,881)
Net fees and commission income	**25,530,887**	**25,330,610**

(28) NET GAIN ON INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

In thousands of Lebanese Pound	2018	2017
Unrealised gain from investment securities at fair value through profit or loss	16,855,454	15,045,886
Unrealised loss from investment securities at fair value through profit or loss	(500,776)	(262,975)
Realised gain from investment securities at fair value through profit or loss	62,786	6,296,108
Realised loss from investment securities at fair value through profit or loss	–	(208,035)
	16,417,464	**20,870,984**

(29) NET (LOSS) / GAIN ON FINANCIAL ASSETS AT AMORTISED COST

In thousands of Lebanese Pound	2018	2017
Gain from sale of investments securities at amortised cost	–	341,360
Loss from early redemption of a term deposit with the Central Bank of Lebanon	(5,124,859)	–
Loss from Sale of Investment Securities at Amortised cost	–	(232,702)
	(5,124,859)	**108,658**

(30) PERSONNEL CHARGES

In thousands of Lebanese Pound	Note	2018	2017
Wages and salaries		28,989,667	28,424,395
Exceptional indemnities		4,677,375	6,265,292
Social security contributions		4,945,920	4,792,971
Provision for employee benefits obligations	21	2,237,339	1,832,331
Representation fees		1,443,850	1,429,923
Transportation		1,441,356	1,296,978
Insurance and medical expenses		1,339,748	1,296,369
Scholarships		1,336,698	1,293,168
Other benefits		5,279,041	4,324,709
		51,690,994	**50,956,136**

(31) ADMINISTRATIVE EXPENSES

In thousands of Lebanese Pound	Note	2018	2017
Professional fees		7,925,331	5,887,057
Marketing and advertising		3,783,527	4,554,986
Taxes		2,134,720	4,337,737
Maintenance and repair		3,121,393	3,173,217
Anelik Russia liquidation	36	1,744,660	3,550,693
Rental expenses		3,200,478	2,604,770
Premium of the guarantee of deposits		2,403,320	2,254,959
Board of Directors attendance allowance	36	1,178,100	1,027,950
Telecommunication and postage		938,168	996,659
Utilities		743,048	747,126
Stationary and printings		530,181	576,934
Transportation expense		185,763	141,112
Other expenses		8,489,385	8,230,866
		36,378,074	**38,084,066**

(32) INCOME TAX EXPENSE

In thousands of Lebanese Pound	2018	2018	2017	2017
Profit before tax		36,116,314		35,058,903
Income tax using the enacted tax rate	16.53%	5,971,348	15.17%	5,317,101
Effect of revenues not subject to tax or subject to other tax rates and other non-deductible expenses	-13.53%	(4,885,764)	-0.70%	(244,579)
Capital gain tax	2.75%	991,857	0.00%	–
Provision for income tax expense	5.75%	2,077,441	14.47%	5,072,522

During 2017, the Ministry of Finance increased the corporate income tax rate from 15% to 17%, 15% applicable for the period ending 26 October 2017 inclusive, and 17% applicable starting 27 October 2017.

Also during 2017, the Ministry of Finance increased the tax on interest earned from 5% to 7%; 5% applicable for the period ending 26 October 2017 inclusive, and 7% applicable starting 27 October 2017.

The books and records of the Group have not been reviewed by the tax authorities for the years 2014 through 2018. The ultimate outcome of any review cannot be currently determined.

(33) NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

In thousands of Lebanese Pound	2018	2017
New and increased impairment allowances		
Balances with Cental Bank of Lebanon	1,071,559	–
Balances with other banks and financial institutions	55,434	–
Loans and advances to customers at amortised cost	29,670,289	14,585,735
Other debtors	95,693	1,465,290
Off balance sheet	631,134	–
	31,524,109	**16,051,025**
Recoveries		
Investment securities	(109,518)	–
Loans and advances to customers at amortised cost	(1,122,951)	(238,508)
	(1,232,469)	(238,508)
	30,291,640	**15,812,517**

(34) IMPAIRMENT CHARGES ON INVESTMENTS IN A DECONSOLIDATED SUBSIDIARY / ASSOCIATE

In thousands of Lebanese Pound	Note	2018	2017
Impairment charges on investment in a deconsolidated subsidiary	36 c	7,930,314	7,236,000
Impairment charges on loan to a deconsolidated subsidiary	36 c	3,768,750	–
Impairment charges on investment in an associate	36 c	2,787,009	–
		14,486,073	**7,236,000**

(35) CASH AND CASH EQUIVALENTS

In thousands of Lebanese Pound	2018	2017
Cash on hand	44,776,253	47,958,851
Unrestricted accounts with the Central Bank of Lebanon	36,634,200	115,167,116
Banks and financial institutions	132,105,804	154,545,073
Due to banks and financial institutions	(112,702,161)	(56,292,621)
	100,814,096	**261,378,419**

(36) RELATED PARTIES

(a) Transactions and balances with key management personnel

Key management personnel compensation

Key management personnel compensation comprised the following:

In thousands of Lebanese Pound	2018	2017
Short term benefits	9,243,748	13,508,512
Board of Directors attendance allowance	1,178,100	1,027,950

Key management personnel accounts

A number of the board members hold positions in other entities that result in having control over the financial or operation policies of these entities.

A number of these entities transacted with the Group in the reporting period. The aggregated value of transactions and outstanding balances related to key management personnel and entities over which they have control were as follows:

	Balance outstanding at 31 December	
In thousands of Lebanese Pound	2018	2017
Loans and advances	6,741,106	6,188,027
Deposits	(7,514,137)	(20,696,194)

(b) Transactions and balances with key management personnel

	Transaction value for the year ended 31 December	
In thousands of Lebanese Pound	2018	2017
Related parties		
Interest income	14,785	290,843
Interest expense	(270,310)	(272,761)

(c) Investments in subsidiaries and an associate

In thousands of Lebanese Pound	31 December 2018	31 December 2017
Equity investments in unlisted associate (i)	71,399,817	73,082,499
Equity investments in unlisted subsidiaries (ii)	–	7,930,314
Subordinated loan to subsidiary (iii)	–	3,768,750
	71,399,817	**84,781,563**

(i) Equity investments in unlisted associate

			31 December 2018	31 December 2017
In thousands of Lebanese Pound	Country of incorporation	Number of shares	Ownership interest	Ownership interest
ID Bank CJSC	Armenia	273,926	71,399,817	73,082,499
			40.32%	40.32%

The Group's share of the investment in associate profit for the year ended 31 December 2018 amounts to LBP 2,787,009 thousands fully provided for.

Other comprehensive loss from investment in an associate amounted to LBP 1,682,681 thousand during 2018.

*(ii) CB Anelik RU LLC**

	Country of incorporation	Number of shares	2018 Ownership interest	2017 Ownership interest
CB Anelik RU LLC*	Russia	–	100.00%	100.00%
In thousands of Lebanese Pound				
Investment in subsidiaries :				
Opening balance			7,930,314	15,166,314
Impairement on investment in subsidiaries			(7,930,314)	(7,236,000)
			–	**7,930,314**

* CB Anelik RU LLC is a deconsolidated subsidiary 100% owned by Creditbank S.A.L. In July 2017, the Central Bank of Russia decided to withdraw the banking license of this subsidiary, ordered to cease off all their operations and designated a liquidator to proceed with the liquidation and accordingly lost control over "CB Anelik RU LLC". The Group has provided for a total provision amounting to LBP 15,166,314 thousands on its investment in CB Anelik RU LLC as at 31 December 2018 (2017: LBP 7,236,000). The Group incurred expenses equivalent to LBP 1,744,660 thousands during 2018 (2017: LBP 3,550,693 thousands) due to the liquidation of CB Anelik RU LLC (refer to note 31).

(iii) Subordinated loan to subsidiary

In thousands of Lebanese Pound	Country of incorporation	Number of shares	2018 Ownership interest	2017 Ownership interest
Subordinated loan	Russia	–	3,768,750	3,768,750
Provision against subordinated loans			(3,768,750)	–
			–	**3,768,750**

The subordinated loan is granted to CB Anelik Ru LLC amounting to USD 2.5 million free of interest (LBP 3,768,750 thousand) as at 31 December 2018 (USD 2.5 million free of interest, equivalent to LBP 3,768,750 thousand as at 31 December 2017). This loan was fully provided for during 2018.

(37) CONTINGENT LIABILITIES AND COMMITMENTS

In thousands of Lebanese Pound	2018	2017
Financing Commitments		
Financing commitments given to customers		
Guarantees		
Guarantees given to banks and financial institutions	58,528,903	34,651,331
Guarantees received from banks and financial institutions	16,749,026	16,749,775
Guarantees given to customers	186,527,418	148,697,308
Guarantees received from customers	5,689,993,540	5,830,412,561
Lending commitments	**187,659,156**	**229,817,774**
Operations in foreign currencies		
Foreign currencies to receive	48,183,129	70,343,250
Foreign currencies to deliver	48,356,988	70,866,811
Contingencies on legal disputes (a)	**53,694,445**	**47,913,502**
Fiduciary deposits	**11,989,708**	**12,091,916**
Bad loans fully provided for	**557,384**	**1,634,238**

(a) Contingencies on legal disputes

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on advice from legal counsel, management believes that legal claims not provided for will not result in any material financial loss to the Group.

(38) COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to comply with the basis of presentation adopted in the current year.

MANAGEMENT
& NETWORK

CREDITBANK S.A.L.

Board of Directors:

1. **Mr. Tarek Khalifé**
   Chairman and General Manager
2. **Mr. Fadi Barbar**
   representing Financial Profile Holding s.a.l. - Board Member
3. **Mrs. Maria Khalifé-Bazerji**
   Board Member
4. **H.E. Mr. Dimyanos Kattar**
   Independent Board Member
5. **Dr. Henri Chaoul**
   Independent Board Member
6. **Mr. Albert Letayf**
   Independent Board Member
7. **Me. Michel Tueni**
   representing Financial Trust Participation Holding s.a.l. (FTP) - Board Member
8. **Me. Paul Harb**
   representing Holfiban s.a.l. Holding - Board Member

HEAD OFFICE

Dekwaneh, Freeway Center, Sin El Fil Blvd.,
1st, 8th, 9th, 13th, and 15th to 19th floor
P.O.Box: 16-5795, Beirut Lebanon 1100 2802
Switchboard: 1587 – (01) 501600 – (03) 188881
Fax: (01) 485245
Swift: CBCBLBBE
Customer Service: (04) 727555
E-Mail: info@creditbank.com
Website: www.creditbank.com

CREDEX S.A.L.

Board of Directors:

1. **Mr. Tarek Khalifé**
   Chairman
2. **Creditbank s.a.l.**
   Board Member
3. **Mrs. Maria Bazerji**
   Board Member
4. **Me. Paul Harb**
   Board Member

General Manager:
Mr. Selim Beshara

HEAD OFFICE

Parallel 232 Center, Sin el Fil Blvd.,
Dekwaneh - Lebanon
Telefax: (01) 510666/7/8
E-Mail: info@credex.com.lb
Website: www.credex.com.lb

BEIRUT & SUBURBS

HEADQUARTERS

Dekwaneh Freeway Center, Sin El Fil Blvd., Dekwaneh
1st, 8th, 9th, 13th, and 15th to 19th floor
P.O.Box: 16-5795, Beirut Lebanon 1100 2802
Switchboard: 1587 – (01) 501600 – (03) 188881
Fax: (01) 485245
Swift: CBCBLBBE
Customer Service: (04) 727555
E-Mail: info@creditbank.com
Website: www.creditbank.com

MAIN BRANCH

Dekwaneh Freeway Center, Sin El Fil Blvd., Dekwaneh
Switchboard: (01) 481966 / 481986 / 484833
(03) 170012
Fax: (01) 481988
3 ATMs
Opened in: 2004
Manager: Ms. Maureen Tabet
E-Mail: dekwaneh@creditbank.com

AIN EL REMMANEH

Boutros Bldg., Wadih Naim Street, Chiyah
Ain El Remmaneh.
Telefax: (01) 288925 - (03) 002877
ATM
Opened in: 2013
Manager: Mr. Elie Asmar
E-Mail: ainelremmaneh@creditbank.com

ASHRAFIEH

680, Beshir Gemayel Blvd., Sassine Area
Switchboard: (01) 203432 / 218183 - (03) 584999
Fax: (01) 204325
ATM
Opened in: 1982
Manager: Mr. Charles Obeid
E-Mail: ashrafieh@creditbank.com

BADARO – SAMI EL SOLH

Sami El Solh Avenue
Telefax: (01) 384528/9 - (76) 777967
ATM
Opened in: 2015
Manager: Mr. Bassam Haddad
E-Mail: badaro@creditbank.com

BOURJ HAMMOUD

Lampsos Bldg., Armenia Street
Telefax: (01) 256971/2 - (70) 600707
ATM
Opened in: 2011
Manager: Mr. Razmig Shememian
E-Mail: bourjhammoud@creditbank.com

CHIYAH

Wazneh Bldg., Mesharrafiyeh
Telefax: (01) 552502/3 - (03) 528900
ATM
Opened in: 1995
Manager: Mr. Adib Silbak
E-Mail: chiyah@creditbank.com

CORNICHE EL MAZRAA

Abdel Latif Bldg., Corniche el Mazraa, Moussaitbeh
Telefax: (01) 707294/5/6 - (81) 636461
ATM
Opened in: 2016
Manager: Mr. Rabih Boudany
E-Mail: cmazraa@creditbank.com

HAMRA (RAS BEIRUT)

Vision 1974 Bldg., Sourati Street
Telefax: (01) 742877/8 - (03) 361836
ATM
Opened in: 1991
Manager: Mr. Marwan Harik
E-Mail: hamra@creditbank.com

HAZMIEH

Ghaleb Center - Said Freiha Street
Telefax: (05) 953410 – (70) 001720
ATM
Opened in: 2012
Manager: Mr. Marcelino Saad
E-Mail: hazmieh@creditbank.com

JAL EL DIB

Al Hajal Tower, Jal El Dib Highway
Telefax: (04) 713424/6 - (03) 516051
ATM
Opened in: 2001
Manager: Mr. Nader Al Khoury
E-Mail: jaleldib@creditbank.com

JDEIDEH

Azure Center, New Jdeideh, Street 21
Telefax: (01) 895072 - (03) 495849
ATM
Opened in: 1981
Manager: Ms. Thérèse Etr Bourjeily
E-Mail: jdeideh@creditbank.com

SODECO-ASHRAFIEH

Belle View d'Ashrafieh 784 Bldg., El Khatib Street,
Nasra, Ashrafieh
Telefax: (01) 425818 - (76) 649992
3 ATMs
Opened in: 2014
Manager: Mr. Rafic Makzoume
E-Mail: sodeco@creditbank.com

TABARIS

145, Saifi 311 Bldg., Sector 28, Tabaris Street 14, Ashrafieh
Telefax: (01) 200483 – (01) 204325 – (70) 148180
ATM
Opened in: 2019
Manager: Mr. Rony Doueiry
E-Mail: tabaris@creditbank.com

VERDUN

Nour El Hayat Center, Rashid Karameh Avenue, Verdun
Telefax: (01) 791345/6 – (76) 777965
ATM
Opened in: 2014
Manager: Mr. Mohamad Hachem
E-Mail: verdun@creditbank.com

OTHER REGIONS

AJALTOUN

Highway Center, Main Place
Telefax: (09) 235118-20 - (03) 249300
ATM
Opened in: 1986
Manager: Mr. Naji Abboud
E-Mail: ajaltoun@creditbank.com

AMIOUN

Chammas Bldg., Main Road – Serail Junction
Telefax: (06) 954046/7 - (70) 707616
ATM
Opened in: 2011
Manager: Ms. Lina Saadé
E-Mail: amioun@creditbank.com

CHTAURA

Al Kharfan Bldg., Damascus Road
Telefax: (08) 542700/4 - (03) 582562
ATM
Opened in: 2005
Manager: Mr. Zafer Fadel
E-Mail: chtaura@creditbank.com

GHAZIR

Première Center, Jounieh Highway
Telefax: (09) 852930/1 - (03) 234721
ATM
Opened in: 1994
Manager: Mr. Maroun Chelala
E-Mail: ghazir@creditbank.com

JBEIL

Farhat Center, Voie 13
Telefax: (09) 543016/7 - (70) 996682
ATM
Opened in: 2014
Manager: Mr. Joe Khalifeh
E-Mail: jbeil@creditbank.com

JDIDET EL JOUMEH – HALBA

Toufic & Charles Saad Bldg., Main Road,
Jdidet el Joumeh-Halba
Telefax: (06) 694078 - (81) 636462
ATM
Opened in: 2016
Manager: Mr. Samir Mourad
E-Mail: jjhalba@creditbank.com

JOUNIEH

Boueiz Bldg., Main Place
Telefax: (09) 914860/2 - (03) 312631
ATM
Opened in: 1982
Manager: Mr. Milad Sayegh
E-Mail: jounieh@creditbank.com

KORNET CHEHWAN - ELISSAR

Azar Bldg., Main Road, Kornet Chehwan
Telefax: (04) 921760/1 - (03) 417600
2 ATMs
Opened in: 1993
Manager: Mr. Patrick Jawhar
E-Mail: elissar@creditbank.com

MANSOURIEH

New Highway
Telefax: (04) 533871/2 - (70) 170008
ATM
Opened in: 2007
Manager: Mr. Tarek Saadé
E-Mail: mansourieh@creditbank.com

SAIDA

Sayah Bldg., Dekerman Area
Telefax: (07) 727601/2 - (03) 662220
ATM
Opening in: 2004
Manager: Mr. Georges Al Sahyouni
E-Mail: saida@creditbank.com

SARBA

Sarba Highway
Telefax: (09) 637511/2 - (03) 553232
ATM
Opened in: 2002
Manager: Ms. Georgette Chalfoun
E-Mail: sarba@creditbank.com

TRIPOLI

Karim Center, Riad El Solh Street, Tall Area
Telefax: (06) 428001/3 - (70) 949050
2 ATMs
Opened in: 2003
Manager: Mr. Selim Nassim
E-Mail: tripoli@creditbank.com

SUBSIDIARIES

CREDEX S.A.L.

Parallel 232 Center, Sin el Fil Blvd.,
Dekwaneh - Lebanon
Telefax: (01) 510666/7/8
General Manager: Mr. Selim Beshara
E-Mail: info@credex.com.lb
Website: www.credex.com.lb

AFFILIATES

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