Annual **Report** 2019

Creditbank S.A.L.

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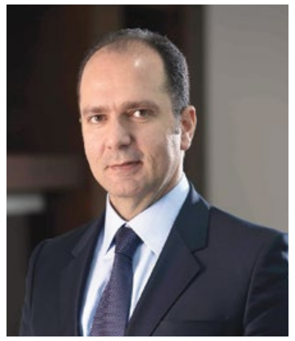
Chairman's **Letter**



Zooming into the events that rocked Lebanon from October 17 onward, 2019 has emerged as one of the most challenging years in recent memory on both the political and economic fronts; and after years of modest growth of the Lebanese economy, GDP last year declined by up to 4%.

Triggered by an attempt to raise taxes, mass protests erupted across the country, prompting the Prime Minister to resign and the government to step down. Demonstrators called for an end to corruption and public mismanagement, as well as a complete overhaul of the political system. This reflected an unsettling lack of trust in the Lebanese state and its functioning.

The situation accelerated the economic downturn. Firms were closing down, unemployment rose and pressure on the national currency grew. Rating agencies such as Moody's and S&P downgraded its credit ratings.

Facing concerns of possible debt default or a devaluation of the national currency, the Lebanese feared for their savings and in parallel, Lebanon's financial institutions were compelled to take drastic measures. Still, banks' combined deposits declined from $170.3 billion by the end of 2018 to $154.6 billion by the end of 2019.

In January 2020, Lebanon saw a new government with the task to control and manage the government spending in order to reduce the country's soaring national debt, which by end of 2019 amounted to over 150% of GDP. The government managed to pass a state budget with $700 million in spending cuts. However, it fell short of implementing a sound long term economic strategy, including proposals for constructive reforms, privatization and other vital initiatives.

Only then it is possible to restore faith in the country and help unlock the some $11 billion pledged by donor countries at the 2018 Paris conference in support of Lebanon. Only then the international community could contemplate to assist in a debt restructuring.

It is essential to highlight the fact that the Lebanese banking sector has always been a cornerstone of the national economy. And, while the situation is undeniably serious, this is not the time to despair. The Central Bank still continues to play a pivotal and stabilizing role within the economy as a whole and Lebanese banks have traditionally upheld a much higher liquidity threshold than international standards demand.

Creditbank did not escape the general malaise, yet we are positive that we can weather the storm. Our sovereign debt exposure versus equity is much less than most banks due to our risk assessment policy, and our sturdy yet dynamic business model presents a resilient platform during challenging times.

Furthermore, we have always been firm believers in a bank's catalyzing role as a market enabler, a platform for innovation and corporate citizenship contributing to the communities we operate in. The Bank's high standards in terms of ethics, transparency and business integrity only add to that conviction.

We have to highlight that in times of crisis, it is of crucial importance that all the country's constituents stand, act collectively and responsibly as a nation. Looking forward with hope that we will together overcome and set sail to brighter horizons.

Tarek Khalifé
Chairman - General Manager

General
Profile

Founded in 1981, Creditbank has rapidly grown to become one of Lebanon's leading banks. It was awarded Alpha Bank status in 2013 when deposits exceeded the USD 2 billion benchmark. Only 16 of Lebanon's 50 commercial banks are currently regarded Alpha Banks.

The Bank was first established as Crédit Bancaire by Joseph Khalifé and Fouad Zoghby who, despite the challenging situation in Lebanon during that period, maintained confidence in the country's financial sector and ability to regain its position as the region's main banking hub. By adopting a strategy of sustainable growth, the Bank in 2002 acquired Credit Lyonnais s.a.l the subsidiary of the leading French bank Credit Lyonnais, which induced the name change from "Crédit Bancaire" to "Creditbank s.a.l". Ever since, the Bank has persisted on a path of natural progress. Domestically, the Bank's branch network today covers all Lebanon's territory.

Internationally, Creditbank in 2013 finalized the acquisition of ID Bank CJSC in Armenia, previously known as Anelik Bank CJSC. In October 2016, Creditbank, then the sole shareholder of ID Bank CJSC, finalized an increase in equity of the latter by opening up its capital. Creditbank landed a 40.3% participation in ID Bank CJSC, which consequently has been deconsolidated from the Bank's annual financial statements since.

In parallel, the Bank managed to strengthen and expand its domestic market share, while broadening its shareholders' base mainly through strategically positioning itself for further growth through acquisition.

With a shareholders' equity of USD 381 million, Creditbank's branch network currently consists of 26 branches across the country, employing a workforce of 653. Based on the conviction that a bank's primary role is to function as a market catalyzer, Creditbank's loans-to-deposits ratio in 2019 amounted to 54.7%, while some 78.9% of net loans were extended to commercial firms and entrepreneurs.

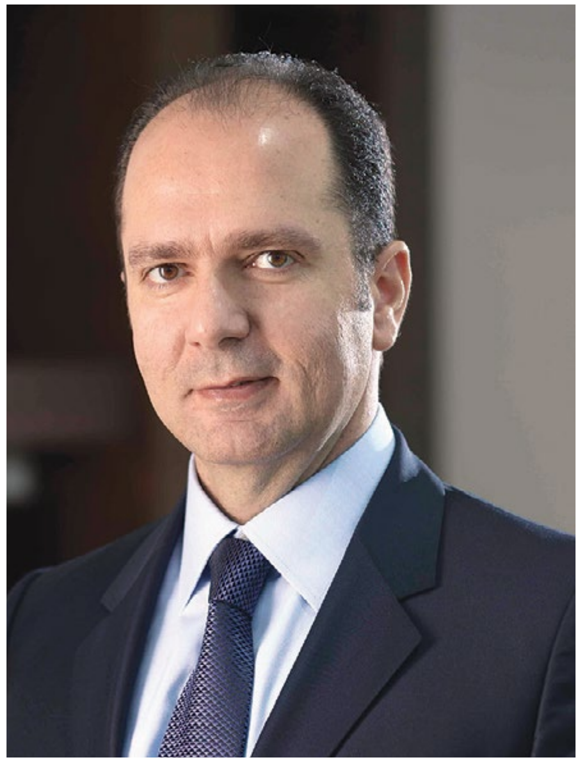
The Bank's main fields of expertise include all types of traditional and emerging banking operations, including Retail and Commercial Banking and Specialized Finance. Creditbank furthermore has a sustained reputation for providing specialized consultancy and advisory services. In addition, the Bank since its establishment in 1981 has been one of the country's forerunners when it comes to advancing state-of-the-art technologies in its products and services, while providing tailor-made retail solutions, both with the ultimate objective of boosting customer satisfaction.

Moreover, Creditbank's corporate identity has allowed it to prominently and distinctly establish itself within Lebanon's highly mature and competitive financial sector. At the heart of Creditbank's vision lies the concept of customer centricity, which comprises two key components. Firstly, the ability to interact with all its customers and comprehend their every need. Secondly, the aptitude to act and operate professionally in order to find customized solutions and establish long term partnerships.

In line with its brand identity, Creditbank completed the renovation and modernization of its branch network. The cutting-edge interior and workflow model was first introduced in 2014. Today, all of the Bank's new generation branches feature a harmonious balance between customer comfort and hi-tech innovation solutions.
The digitalized waiting lounge and smart queuing system lead to a seamless banking experience, while the one-on-one service pods provide both privacy and efficiency. Customers also have the option to finalize the main part of their daily transactions through the Bank's 24/7 smart ATMs.

Creditbank is dedicated to the highest standards of business ethics, transparency and customer protection, as formulated in its corporate governance framework, and continues to implement a coherent Corporate Social Responsibility policy, particularly in the fields of youth, health, education and environment.

Corporate **Governance**



MR. TAREK JOSEPH KHALIFÉ
CHAIRMAN AND GENERAL MANAGER

Mr. Khalifé is Chairman-General Manager of the Bank since 2003. Previously, in 1994, he was designated as delegate Board Member and Managing Director. He supervises management and implements the Bank's strategy as approved by the Board of Directors. He chairs the Bank's Board Committee on Corporate Governance. He is also a member of other Board Committees and Management Committees. Mr. Khalifé holds a degree in civil engineering and a master's degree in Business Administration from San Diego State University.

MR. FADI BARBAR
BOARD MEMBER

A graduate in Business Administration, Mr. Barbar is a non-executive Board Member representing Financial Profile Holding s.a.l., since August 24, 2009. Furthermore, Mr. Barbar represents Financial Profile Holding s.a.l. at the Board Committee on Audit and the Board Committee on Remuneration.

MRS. MARIA KHALIFÉ BAZERJI
BOARD MEMBER

Mrs. Bazerji is an executive Board Member and the Bank's Chief Administration Officer. She is a member of the Board Committee on Risk Management and the Board Committee on AML/CFT as well as several of the Bank's Management Committees. Mrs. Bazerji holds a master's degree in Business Administration and has vast experience in the fields of Human Resources, Organization and Procurement.

H.E. MR. DIMYANOS KATTAR
INDEPENDENT BOARD MEMBER

H.E. Mr. Kattar is a non-executive independent Board Member since 2007. He is currently the Minister of Environment and Administrative Reform in the Lebanese government and was formerly the Minister of Finance, Economy and Trade. He presides over the Board Committee on Audit and is a member of both the Board Committee on Remuneration and the Board Committee on Corporate Governance. Mr. Kattar holds degrees in Management and Strategy as well as Political Economics. Having worked in both the business and the academic fields, he is a widely recognized expert on corporate and public governance.
H.E. Mr. Dimyanos Kattar resigned on January 22, 2020, upon his appointment as Minister of Environment and Administrative Reform.

MICHEL TUENI Esq.

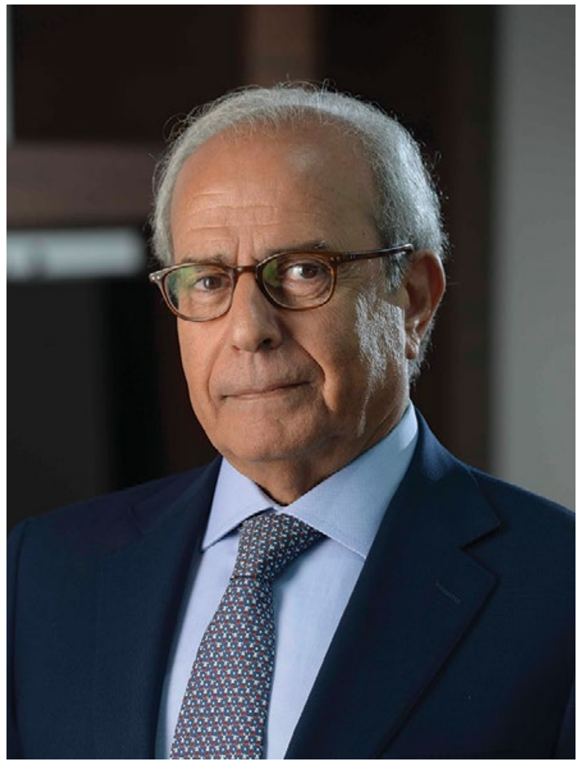
BOARD MEMBER

Me. Tueni is a Board Member representing Financial Trust Participation Holding s.a.l.
Holding 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. Me. Tueni is also a board member and an attorney for several other banks and companies, as well as an active member in several non-governmental associations.

PAUL HARB Esq.

BOARD MEMBER

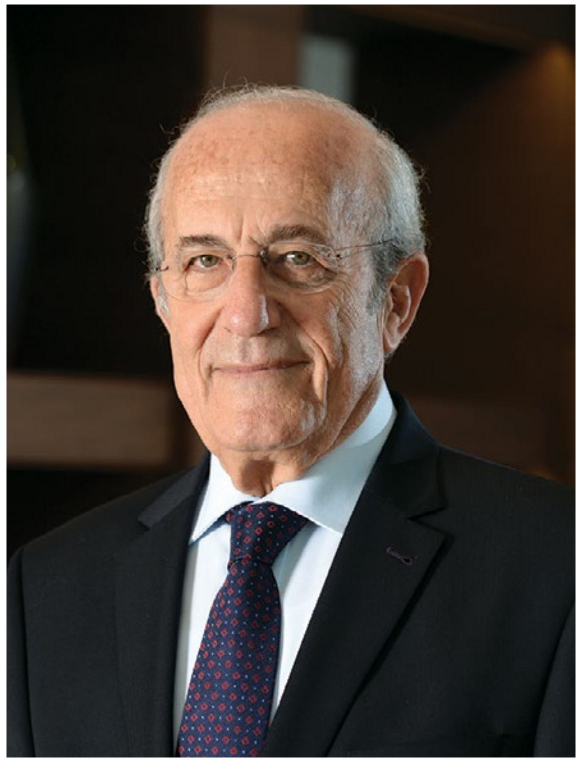
Me. Harb is a Board Member representing Holfiban Holding s.a.l. since 2012. Holding a master's degree in Advanced Private Law, he has been a member of the Beirut Bar Association since 1995. A Senior Partner in the Abirached Harb Moussa law firm, Me. Harb is the Bank's General Counsel. He is also secretary of the Board Committee on Corporate Governance and the Board Committee on Remuneration, as well as a member of Management Committees. As of end of December 2019, Me. Harb ceased to represent Holfiban Holding s.a.l.



RENÉ ABIRACHED Esq.

SECRETARY OF THE BOARD

Me. Abirached is Secretary of the Board of Directors. Holding a Lebanese and French master's degree in law, he 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. Me. Abirached is also secretary of the Board Committee on Audit.



MAROUN ZEIN Esq.

SECRETARY OF THE BOARD

Me. Zein is Secretary of the Board of Directors and the Bank's legal advisor since 1985. Holding 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.

DR. HENRI CHAOUL

Dr. Chaoul was a non-executive independent Board Member from 2011 till May 2020. He headed the Board Committee on Risk Management and the Board Committee on Remuneration. Dr. Henri Chaoul submitted his resignation on May 17, 2020.

MR. ALBERT LETAYF

Mr. Letayf was a non-executive independent Board Member. Having joined the Bank in 2018, Mr. Letayf headed the AML/CFT Board Committee. Mr. Albert Letayf submitted his resignation on May 4, 2020.

Creditbank has always demonstrated a commitment to the highest standards of corporate governance as the basis for its development to achieve sustainable growth and meet the demands and expectations of all stakeholders.

Corporate governance refers to the framework of rules, regulations and best practices by which the Board of Directors (the Board) operates and ensures accountability, fairness and transparency in the Bank's relationship with all stakeholders, including financiers, clients, staff, government and the wider community.

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

- **Responsibility** – a clear division and delegation of authority.
- **Accountability** – between the Board of Directors 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 Bank's main organizational framework consists of: 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

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

The Board's main objective is to safeguard that the interests of shareholders, depositors, creditors, employees and all other stakeholders are met.

The Board approves the Bank's long and mid-term strategic goals and ensures the realization of the set objectives based on the approved business plans and the Bank's set guidelines. The Board also oversees senior management, which is in charge of day-to-day operations. It ensures the Bank is managed prudently and in compliance with all applicable laws and regulations issued by regulators and supervisory bodies as well as with the Bank's own policies.

Crucially, the Board verifies that the Bank's internal control mechanisms are effective and up to date, and ensures that all of the Bank's risks are measured accordingly. It establishes temporary and permanent management committees, formulates the Bank's expansion plan and all policies in terms of placements, investments, participations and expenditures.

2) Composition and Meetings of the Board

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

The presence of at least three independent members aims to safeguard effectiveness, ensure objectivity and enhance impartiality in the Board's decision-making process. The increase in the number of independent Board members furthermore emphasizes the importance of diversity within the Board. 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 times a year. The Board Secretary keeps a written record of the Board's discussions, votes and resolutions adopted during the meetings.

II- The Chairman

The Board elects the Bank's Chairman from among its members for a three-year period. The Chairman promotes a culture of constructive discussion in the boardroom and encourages alternative viewpoints on subjects under consideration.

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

III- Board Committees

To ensure 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 appointment of a Board Committee member is conducted through a formal and transparent process.

The role and responsibilities of each committee are set in a pre-approved charter, which clearly outlines its scope of work and working procedures. Every committee has full and direct access to all members of the Bank's upper management.

All Board committees' decisions and recommendations are submitted to the Board, that verifies their conformity with the Bank's strategic objectives set by the Board.

1) The Board Committee on Audit
This committee includes 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 reviews and reports to the Board the Bank's annual financial results, the assessment of the financial statements accuracy 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
Composed of three members, the Board Committee on Risk Management reviews the plans and strategies put forward by the internal Risk Management, before they are evaluated and approved by the Board. The main role of the Committee is to set and guide the Bank's risk strategy, ensure its implementation based on 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
In accordance with BDL Basic Circular № 133 regarding remunerations and bonuses granted to bank employees, the Board has established a Remuneration Committee composed of three members, responsible for establishing an Employees Performance Evaluation System, as well as sound remuneration policies and procedures and supervising their implementation in conformity with the indicated circular.

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), which consists of three Board members. The committee's main responsibilities are supporting the Board of Directors in its function and supervisory role regarding fighting money laundering and terrorism financing, as well as understanding the related risks and assisting in making the appropriate decisions in this respect.

5) The Board Committee on Corporate Governance
The Board Committee on Corporate Governance is comprised of the Chairman and the three independent board 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 Bank's day-to-day operations and management as per the Board's directives. The Board assures a clear separation of powers within the Bank's bodies 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 Products and Services Committee
- Procurement Committee
- Human Resources Committee
- Security Committee
- Committee on Operational Risk Management
- Follow up Committee for Subsidiaries Abroad

Creditbank diligently follows up on the evolution of corporate governance and best banking practices, as it continuously updates and upgrades its corporate framework and decision-making process in order to provide the best possible outcome for all internal and external stakeholders involved.

Corporate **Social** Responsibility

Ever since Creditbank's foundation, Corporate Social Responsibility (CSR) has been a major pillar of our brand identity and vision. In 2019, we continued to engage in a range of existing affiliations, while embracing new initiatives.

Our emphasis has always been on health, education and environment, aiming to maintain long term mutual partnerships rather than embracing one-off projects – an approach that allows us to make a substantial and lasting impact on the communities we feel part of.

Based on the above, we have closely collaborated since 2015 with the Institut de Reeducation Audio-Phonetique (IRAP) in Ain Aar. Founded in 1960, IRAP is a center specialized in the education of hearing impaired children and adolescents. A multidisciplinary team of experts offers some 100 minors schooling from the first level up to the General Education Diploma (Brevet).

The Bank's support in recent years has helped modernize the IRAP kitchen to increase its capacity and overall efficiency, since the kitchen plays a crucial role as an income generator and in the institute's financial wellbeing.

Furthermore in 2017, Creditbank in collaboration with IRAP launched a new initiative: the construction of "IRAP Providence", a brand new building to bring all activities related to pastry production under one roof. The symbolic first stone for the building was laid in a ceremony in 2018. Our team conducted several visits to IRAP in 2019, to stay connected to the IRAP family, learn about the project and teaching techniques, as well as to follow up on the construction process of the "IRAP Providence" building. The structure's foundation and three-story main frame were completed. Once fully ready, the pastry production facility is set to greatly help the institute one step further on the path towards self-sufficiency.

Since 2016, we have also worked closely together with the Lebanese Mountain Trail Association (LMTA), which for over a decade has been dedicated to the development and protection of Lebanon's one and only long-distance hiking path. The LMTA aims to promote social responsible tourism, raise awareness about the importance of Lebanon's mountains, encourage respect and appreciation for the country's incredible wealth in natural resources, attract visitors and help safeguard Lebanon's natural, cultural and historical heritage.

In 2019, Creditbank for the fourth consecutive year took part in the LMTA's annual Fall Trek, which saw two teams of hikers walk the entire 280 km trail in opposite directions over a period of 16 days. More than 90 hikers from 11 countries participated in the event under the slogan "Hike It to Protect It".

With an eye on environmental awareness, Creditbank furthermore for the 7th year continued its support of Jouzour Loubnan, a nongovernmental organization (NGO) dedicated to the reforestation of Lebanon's mountains in order to sustain their immensely important ecological role. Since its establishment in 2013, Jouzour Loubnan has planted over 300,000 trees.

For the fifth year, we have cooperated with Donner Sang Compter (DSC) by participating in their yearly fundraising. DSC is a Lebanese organization dedicated to collecting blood donations in case of medical emergencies, such as accidents and surgeries. In association with some 30 hospitals, DSC has conducted over 650 blood drives across the country.

Creditbank has also supported during the past four years the American University of Beirut Medical Centre (AUBMC) which is dedicated to improving people's health by offering quality care, excellence in education, and leadership in research. In this respect, we particularly support the following initiatives:

- The Sickle Cell Needy Patient Fund which treats nearly 300 patients, both children and adults, who require continuous check-ups and comprehensive treatment. Sickle cell disease is an inherited genetic disorder that produces a lack of red blood cells. The ailment first manifests itself in childhood through severe pain, strokes and anemia, complications that only worsen into adulthood.

- The AUBMC I Fight PID Fund, a voluntary initiative for children with Primary Immuno-deficiency Diseases (PID). These rare immunity diseases are extremely costly to treat, as the main therapeutic approach consists of bone marrow transplantation.

- The AUBMC's Middle East Medical Assembly (MEMA), which organizes annual fundraisings to help finance the Medical Students Scholarship funds.

As Lebanon's youth represents the future of the country, Creditbank strongly believes in empowerment through education. Since 2016, we have supported the American University of Beirut Model United Nations Club (AUBMUNC), a student-run society organizing local conferences. The aim is for its members to become confident speakers, negotiators and community leaders, as well as to represent Lebanon and the AUB in the three top Model United Nations (MUN) conferences around the world.

In 2019 the AUBMUNC won the Outstanding Delegation Award at the MUN New York.

In the same direction, we also supported in 2019 for the third consecutive year the College Sainte Famille – Sahel Alma in honoring their top students. Every year, the students with the highest grades are rewarded for their hard work and perseverance. As in previous years, Creditbank representatives attended the award ceremony of 2019 to engage with students and faculty staff to emphasize and strengthen our support for youth empowerment.

As a new initiative, Creditbank welcomed in 2019 a partnership with Association L'Ecoute, which since 1990 attends to the needs of physically challenged people. Following a recycling workshop, Creditbank on behalf of the association started collecting all recyclable materials, such as paper, plastic and cans, under the theme "Reduce, Reuse and Recycle".

A series of communications directed to all internal stakeholders was launched to raise awareness and provide tips and advice on how best to recycle different items. By the end of 2019 over a ton of materials were collected by the Bank's many offices and branches on behalf of L'Ecoute. In addition to help funding the association, the initiative has instilled a culture of environment-friendly practices within and outside the workplace.

In short, despite the many challenges that faced Lebanon in 2019, we ensured to maintain and strengthen existing partnerships and welcome a new initiative. In our role as a good corporate citizen, we at Creditbank hope to continue to be a force for change for years to come.

Economic **Overview**

The civic protests in the second half of 2019, mainly triggered by a government initiative to raise taxes, in addition to domestic political uncertainty and regional circumstances rocked the Lebanese economy which was already in a state of recession. Following years of modest growth, GDP contracted by some 4%, unemployment and inflation sharply increased, while the dollar-pegged Lebanese pound lost substantially its value. Furthermore, a shortage in foreign currency led to difficulties for Lebanese importers paying for their goods. Companies were forced to cut salaries and lay off staff and as the crisis deepened, inflation soared due to the decline in the value of the national currency.

A reform package introduced by the government then, failed to impress protesters, who called for a complete overhaul of the political system. The Prime Minister resigned, and a new government was formed in January 2020.

Initiated by a tax hike, the nationwide protests were widely perceived to be a reflection of the rejection over years of public mismanagement, failing services and a declining economy. According to the World Economic Forum Report, Lebanon in 2018 ranked as the world's 4th lowest performing in terms of electricity supply. The scores of other criteria were also declining with respect to International Indexes.

Whereas Lebanon's GDP registered a record 10% uptick in 2010, average economic growth in recent years did not surpass the 1% mark. As a highly dollarized service economy with an emphasis on banking, trade and tourism, Lebanon has greatly suffered from the political unrest in the region. In fact, with a population of some 4.8 million, Lebanon has been home to a very considerable number of refugees. This undoubtedly has brought about a negative impact on infrastructure, social services and employment.

For years, subsequent governments have sought to sort out the country's issues, but to little avail. Last year, the public deficit narrowed by 6.5%, as a 5% decline in government spending outweighed a 4.17% decrease in income. Yet the deficit still amounted to $5.8 billion, as revenues and expenditure amounted to $11.1 and $16.9 billion respectively.

As a result, Lebanon's gross public debt continued to grow to over $90 billion in 2019. At some 155% at year's end, Lebanon's debt-to-GDP ratio ranked as the world's third highest, while annual debt servicing costs stood at a whopping $4.24 billion.

In terms of trade, Lebanese exports witnessed a $700 million increase to reach $3.7 billion, while imports decreased from $20 billion in 2018 to $19.2 billion in 2019. Except fuel and oil products, all imports saw a decline. As a result, Lebanon's trade deficit contracted by 9% to reach $15.5 billion.

Moreover, it should not come as a surprise that the number and value of real estate transactions contracted by 17% and 16% respectively to reach 50,352 transactions with a value of $6.8 billion. Demand for new projects remained subdued, as the number of issued construction permits decreased by nearly 20%.

While the number of foreign visitors registered an uptick of 8% in the first half of 2019, by the end of the year foreign arrivals showed a decline of 1.4% compared to 2018 when over 1.9 million tourists flocked to the country. In fact, the Beirut International Airport in 2019 witnessed its first decline in arrivals in 8 years, welcoming a total of 8.69 million passengers. The Syndicate of Owners of Restaurants, Cafes, Night-Clubs, and Pastries in Lebanon disclosed that, between September 2019 and February 2020, over 785 restaurants and other leisure establishments closed.

As a result of the widespread demonstrations and economic downturn, Lebanon's commercial banks saw their combined deposits decline from $170.3 billion by the end of 2018 to $154.6 billion by the end of 2019. Loans to the private sector fell by 16.2% to reach $49.8 billion.

The total number of accounts in Lebanese banks decreased by 2.08% to 2,813,243. Accounts worth less than $100,000 accounted for 99.2% of all accounts and 52.8% of total deposits. Just 0.8% of Lebanese accounts represented 47.19% of total deposits. The dollarization ratio by the end of 2019 stood at 75.57%.

The Lebanese Central Bank (BDL) intervened in numerous ways in order to regulate the financial sector and protect the economy. The BDL, among other directives, called upon Banks to increase their capital by 20% and to set limits on interest rates in both LBP and USD. Nonetheless, international agencies such as Moody's decided to downgrade their credit ratings for both Lebanon as a whole and numerous of the country's banks.

Excluding Lebanese Eurobonds worth $5.7 billion, the BDL saw its assets in foreign currency decrease by $3.9 billion to amount to $31.6 billion by end 2019. The decline was mainly due to an outflow of deposits and the BDL paying maturing Eurobonds and external interest on behalf of the government.

BDL deposits of the financial sector amounted to $112 billion by the end of 2019, down by 6.5% from 2018, while the value of its gold reserves in 2019 rose by 18.4% to amount to $13.9 billion. The securities portfolio increased by 23.2% to $38 billion by the end of 2019, due to BDL's increased holdings of Lebanese Treasury notes. With Lebanon facing interest and loan repayments of nearly $4.4 billion, the danger of a default in 2020 became tangible.

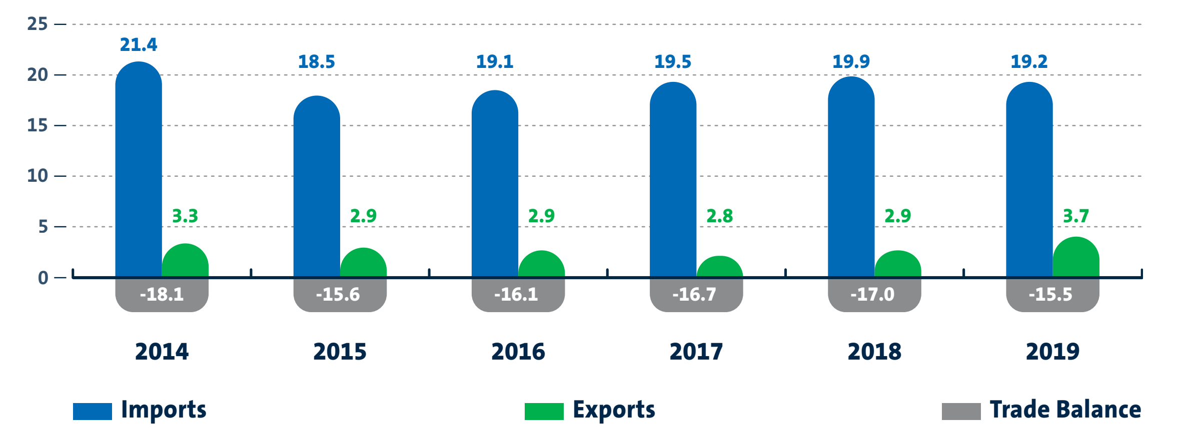
Seeing the dire situation Lebanon found itself in by the end of 2019, it is of crucial importance for the public and private sectors to come together in order to recommend and start implementing the constructive measures for a remedy roadmap.

BALANCE OF PAYMENTS – CHANGES IN THE NET FOREIGN ASSETS OF THE FINANCIAL SECTOR

	2015	2016	2017	2018	2019
USD Million	-3,354.3	1,237.5	-155.7	-4,823.1	-4,340.1

Source: Banque du Liban

LEBANON'S TRADE BALANCE (IN USD BILLION)



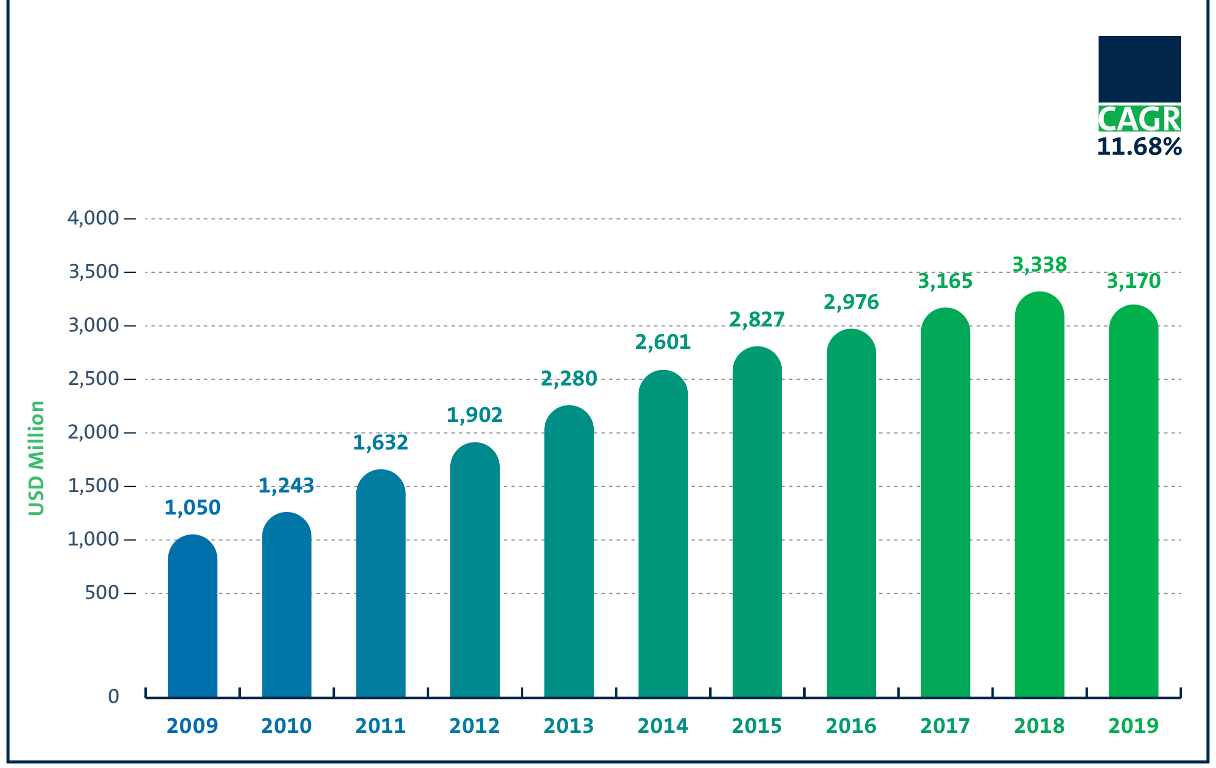
Source: Investment Development Authority of Lebanon

Management **Discussion** & Financial Analysis

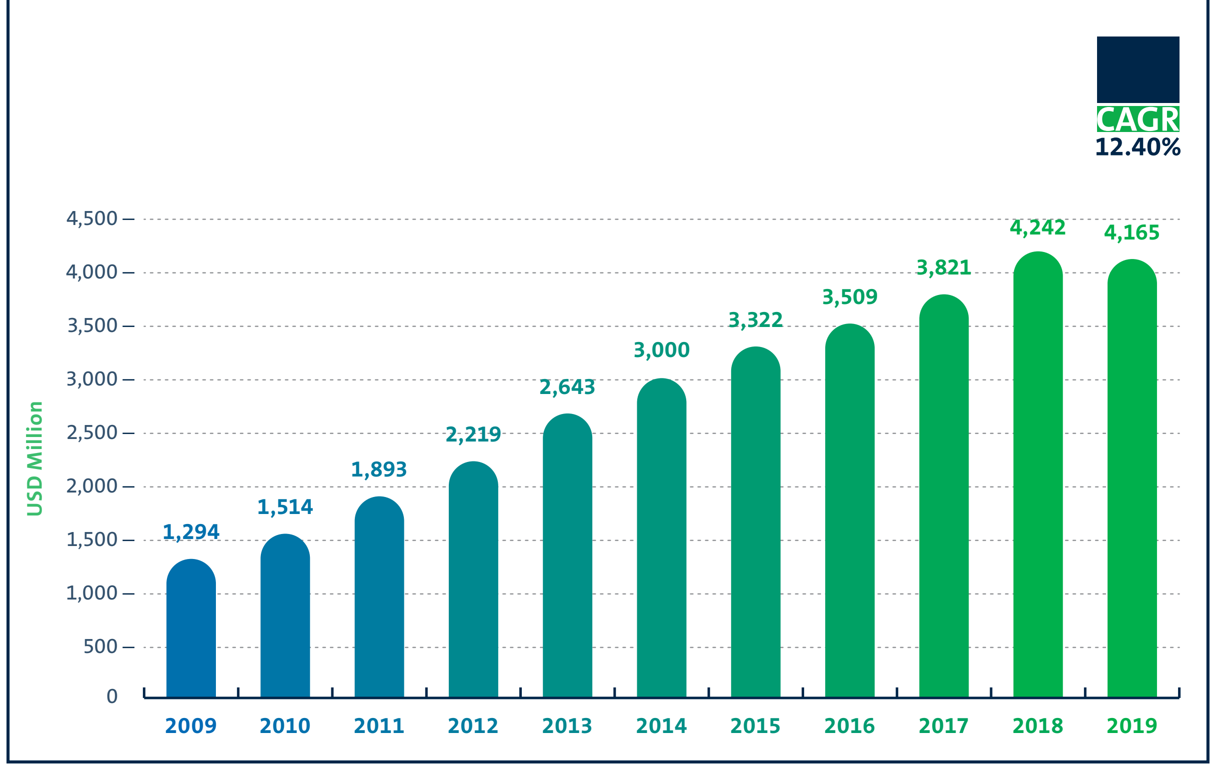
USD Million	2019	2018	2017	2016
Main Financial Indicators				
Total Assets	4,165	4,242	3,821	3,509
Customer Deposits	3,170	3,338	3,165	2,976
Loans and Advances to Customers	1,733	1,958	1,802	1,817
Net Liquid Assets	1,586	1,625	1,601	1,398
Shareholders' Equity	381	413	398	328
Total Operating Income	169	111	101	152
Net Profit / (Loss)	(24)	23	20	39
Number of Branches	26	25	25	27
Number of ATMs	53	52	52	54
Number of Employees	663	669	628	746
Profitability & Efficiency Ratios (%)				
ROAA	–	0.56%	0.54%	1.15%
ROAE	–	5.57%	5.48%	12.98%
Leverage Multiplier	10.60	9.95	10.10	11.25
Spread	1.19%	1.77%	1.47%	1.72%
Net Interest Margin	1.59%	2.15%	1.82%	2.04%
Cost / Income	36.97%	55.58%	61.70%	36.05%
Assets Quality Ratios (%)				
Gross Non Performing Loans / Gross Loans	32.04%	13.78%	8.92%	5.93%
NPL Provisions / Non Performing Loans	35.81%	35.78%	50.34%	56.12%

USD Million	2019	2018	2017	2016
Liquidity & Funding Ratios (%)				
Loans and Advances to Customers / Assets	41.59%	46.16%	47.17%	51.78%
Customer Deposits / Assets	76.11%	78.68%	82.84%	84.81%
Net Liquid Assets / Assets	38.07%	38.30%	41.90%	39.83%
Loans and Advances to Customers / Customer Deposits	54.65%	58.67%	56.94%	61.06%
Capital Adequacy Ratios (%)				
Total Capital Adequacy Ratio (CAR)	8.67%	15.84%	16.29%	13.13%
Equity / Total Assets	9.14%	9.72%	10.42%	9.34%
Internal Capital Growth	–	3.60%	3.57%	10.73%
Growth Indicators (Creditbank)				
% Growth in Assets	-1.81%	11.02%	8.88%	5.62%
% Growth in Deposits	-5.01%	5.45%	6.36%	5.28%
% Growth in Loans and Advances to Customers	-11.52%	8.64%	-0.81%	7.88%
% Growth in Shareholders' Equity	-7.71%	3.63%	21.47%	17.32%
% Growth in Total Operating Income	52.57%	10.12%	-33.75%	32.81%
% Growth in Net Profit	–	13.51%	-49.50%	11.72%
Growth Indicators (Alpha Group)				
% Growth in Assets	-11.12%	11.10%	6.10%	6.07%
% Growth in Deposits	-6.59%	2.10%	3.00%	3.67%
% Growth in Loans and Advances to Customers	-15.88%	-4.70%	0.80%	1.39%
% Growth in Shareholders' Equity	-16.42%	0.20%	5.90%	10.69%
% Growth in Total Operating Income	-8.62%	-6.60%	-19.60%	37.54%
% Growth in Net Profit	–	-5.70%	4.80%	10.47%

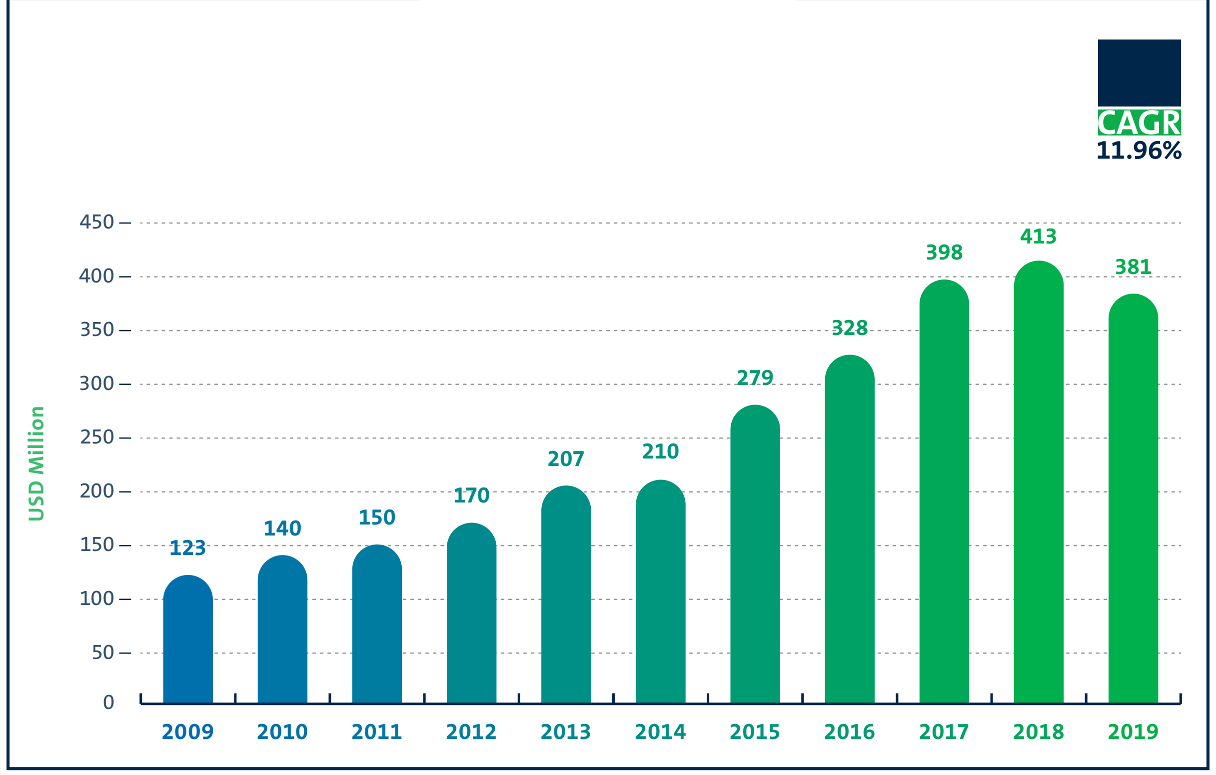
CUSTOMER DEPOSITS



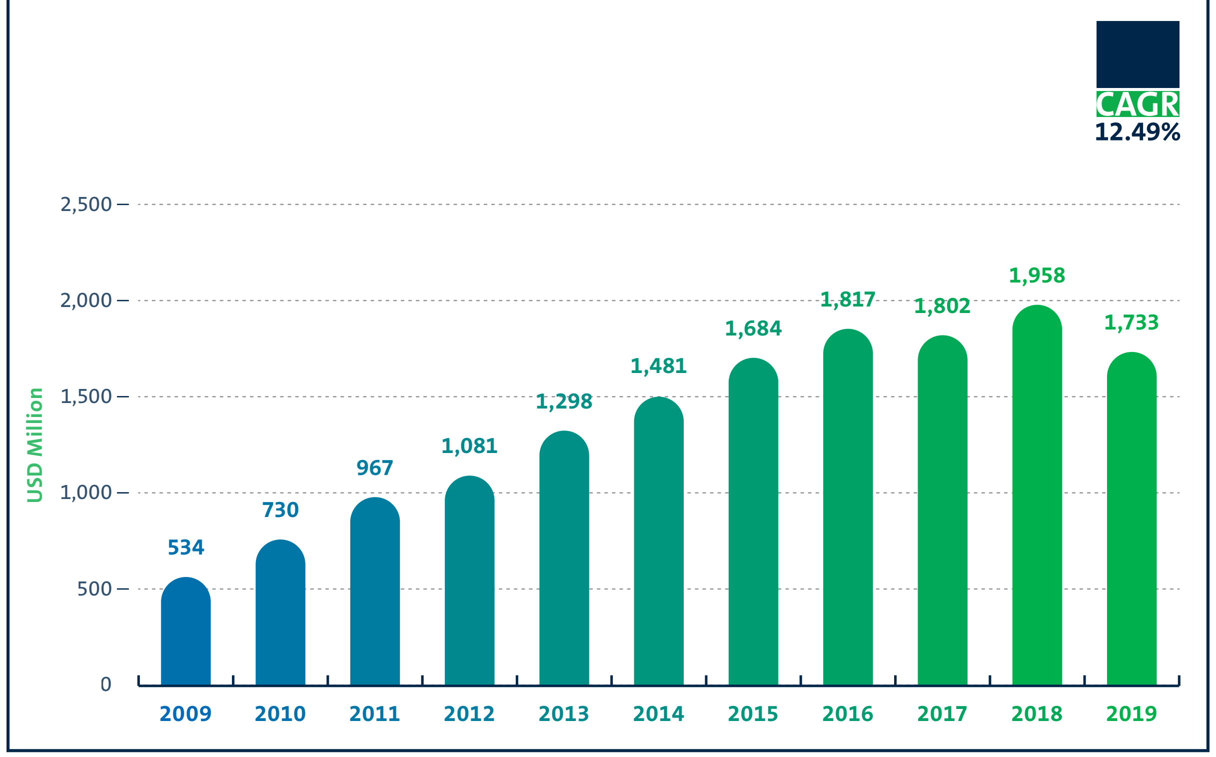
TOTAL ASSETS



TOTAL EQUITY



LOANS & ADVANCES TO CUSTOMERS



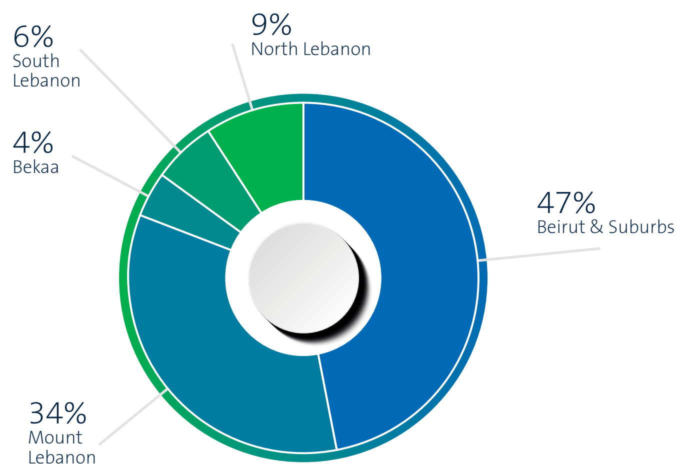
OVERVIEW

On December 31, 2019, the Group had 663 employees and a network of 26 branches in Lebanon. The Group owns 99.76% of an insurance brokerage company 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 2019 in comparison with the previous year. The data are based on the Group's audited consolidated financial statements.

All USD amounts disclosed in this section were converted at the official exchange rate of 1,507.5 USD/LBP.

GEOGRAPHICAL DISTRIBUTION OF ATMS

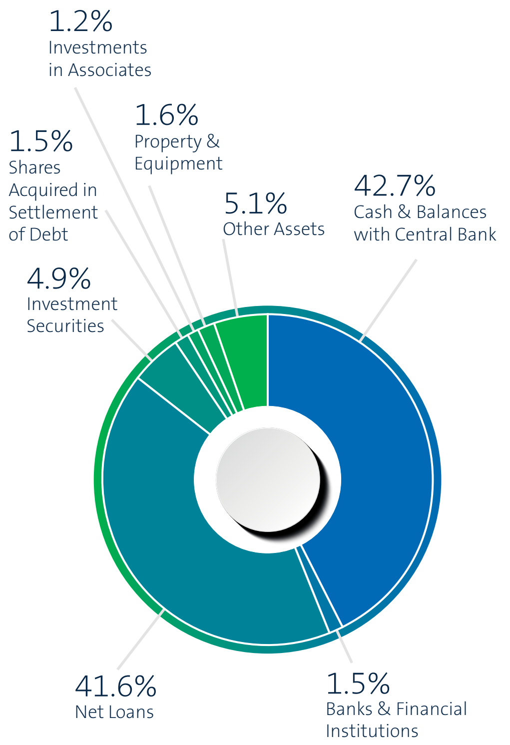


TOTAL ASSETS

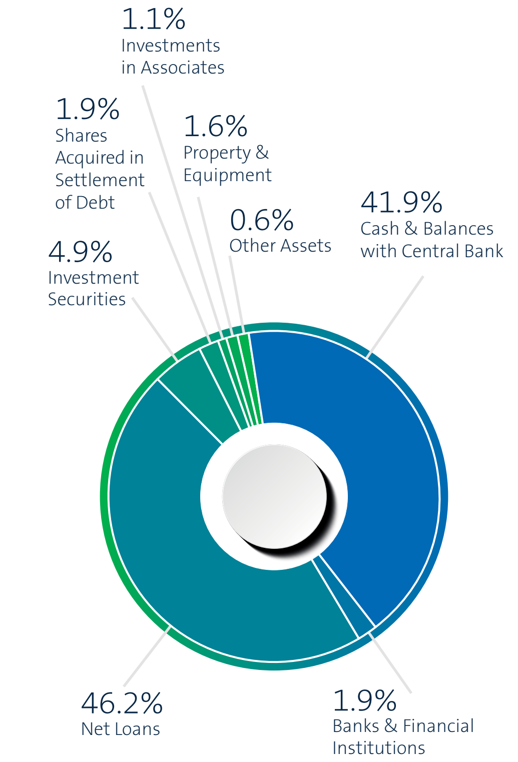
The following table shows the composition of the Group's total assets, as well as the percentage of total and percentage changes therein, on December 31, 2019, and December 31, 2018, respectively:

LBP Million	2019	% of Total	2018	% of Total	Change	% Change
Cash and Balances with Central Bank	2,683,920	42.7%	2,677,745	41.9%	6,175	0.2%
Banks and Financial Institutions	92,010	1.5%	122,685	1.9%	(30,675)	-25.0%
Loans and Advances to Customers	2,611,927	41.6%	2,952,089	46.2%	(340,161)	-11.5%
Investment Securities	305,928	4.9%	310,871	4.9%	(4,943)	-1.6%
Shares Acquired in Settlement of Debt	92,447	1.5%	120,044	1.9%	(27,597)	-23.0%
Investments in Associates	72,339	1.2%	71,400	1.1%	940	1.3%
Property and Equipment	97,913	1.6%	99,547	1.6%	(1,634)	-1.6%
Other Assets	322,956	5.1%	40,745	0.6%	282,211	692.6%
Total Assets	**6,279,440**		**6,395,124**		**(115,684)**	**-1.8%**

BREAKDOWN OF TOTAL ASSETS 2019



BREAKDOWN OF TOTAL ASSETS 2018



As at December 31, 2019, the Group's total assets stood at LBP 6,279,440 million (USD 4,165 million), compared to LBP 6,395,124 million (USD 4,242 million) on December 31, 2018.

The Group's net loans amounted to LBP 2,611,927 million (USD 1,733 million) as at the end of 2019, compared to LBP 2,952,089 million (USD 1,958 million) as at the end of 2018.

Cash and balances with Central Bank and net loans constituted respectively 42.7% and 41.6% of the Group's total assets in 2019, compared to 41.9% and 46.2% in 2018.

BALANCES WITH CENTRAL BANK

The following table sets out the composition of the Group's balances with Central Bank of Lebanon by currency, as well as the percentage changes therein on December 31, 2019, and December 31, 2018, respectively:

LBP Million	2019	% of Total	2018	% of Total	Change	% Change
LBP Current Account	113,122	4.2%	124,256	4.7%	(11,134)	-9.0%
Foreign Currency Current Account	577,038	21.7%	538,937	20.4%	38,100	7.1%
LBP Placements	1,330,982	50.0%	1,511,979	57.3%	(180,997)	-12.0%
Foreign Currency Placements	588,151	22.1%	416,584	15.8%	171,567	41.2%
Accrued Interests	55,298	2.1%	49,113	1.9%	6,185	12.6%
Gross Balances with Central Bank	**2,664,592**		**2,640,870**		**23,721**	**0.9%**
ECL allowances	(4,917)		(7,902)		2,985	-37.8%
Balances with Central Bank	**2,659,675**		**2,632,968**		**26,706**	**1.0%**

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, 2019, and December 31, 2018, respectively:

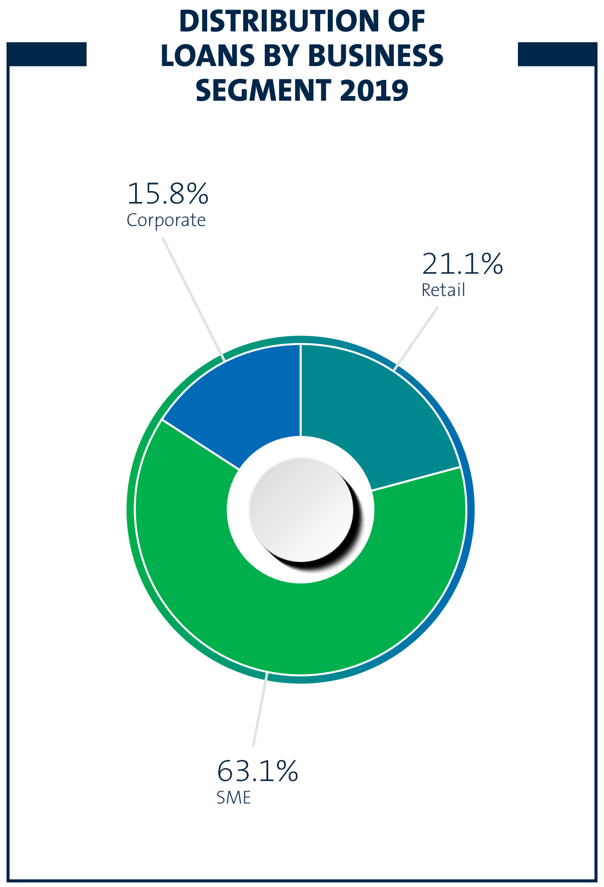
LBP Million	2019	% of Portfolio	2018	% of Portfolio	Change	% Change
Retail	550,882	21.1%	648,622	22.0%	(97,740)	-15.1%
SME	1,648,832	63.1%	1,870,863	63.4%	(222,031)	-11.9%
Corporate	412,213	15.8%	432,603	14.7%	(20,390)	-4.7%
Total	**2,611,927**		**2,952,089**		**(340,161)**	**-11.5%**

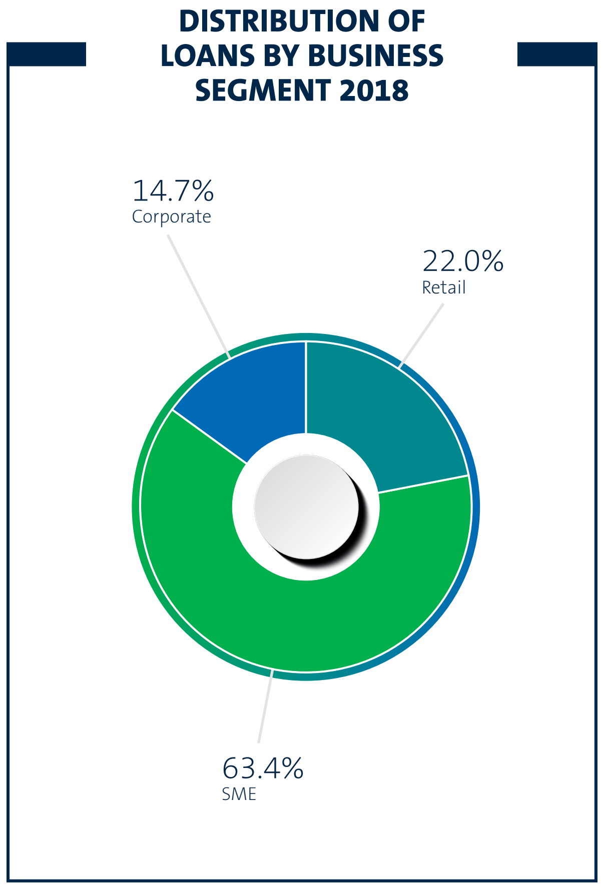
Corporate lending amounted to LBP 412,213 million (USD 273 million) on December 31, 2019, compared to LBP 432,603 million (USD 287 million) on December 31, 2018.

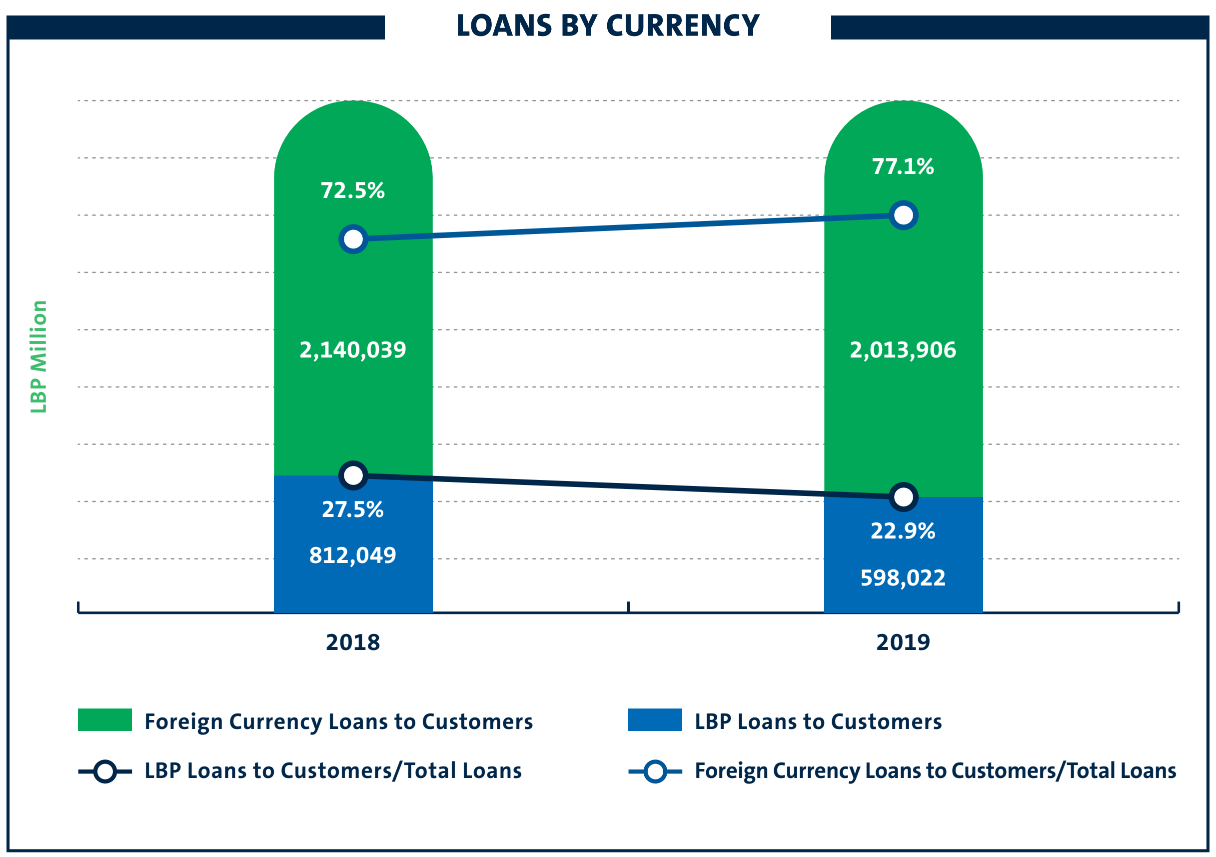
SME lending reached LBP 1,648,832 million (USD 1,094 million) on December 31, 2019, compared to LBP 1,870,863 million (USD 1,241 million) on December 31, 2018.

Retail lending amounted to LBP 550,882 million (USD 365 million) on December 31, 2019, compared to LBP 648,622 million (USD 430 million) on December 31, 2018.

Corporate, SME, and Retail loans constituted 15.8%, 63.1% and 21.1% of total loans respectively on December 31, 2019, compared to 14.7%, 63.4% and 22% on December 31, 2018.







DISTRIBUTION OF LOANS BY CURRENCY

Due to the challenging economic conditions in Lebanon during 2019, the loan portfolio dropped by LBP 340,161 million (USD 226 million) or 11.5% to reach LBP 2,611,927 million (USD 1,733 million) at year end 2019.

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, 2019, and December 31, 2018, respectively:

LBP Million	2019	2018	Change	% Change
LBP Loans to Customers	598,022	812,049	(214,028)	-26.4%
Foreign Currency Loans to Customers	2,013,906	2,140,039	(126,133)	-5.9%
Total	**2,611,927**	**2,952,089**	**(340,161)**	**-11.5%**

Loans to customers in LBP represented 22.9% or LBP 598,022 million (USD 397 million) of total loans as at December 31, 2019, whereas loans to customers in foreign currencies represented 77.1% or LBP 2,013,906 million (USD 1,336 million) of total loans.

As at December 31, 2018, loans to customers in LBP represented 27.5% or LBP 812,049 million (USD 539 million), while loans in foreign currencies represented 72.5% or LBP 2,140,039 million (USD 1,420 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, 2019, and December 31, 2018, respectively:

LBP Million	2019	% of Total	2018	% of Total	Change	% Change
Lebanon	2,352,814	90.1%	2,563,130	86.8%	(210,316)	-8.2%
Americas	11,139	0.4%	40,187	1.4%	(29,048)	-72.3%
Europe	86,820	3.3%	174,676	5.9%	(87,856)	-50.3%
Asia Pacific	632	0.0%	371	0.0%	261	70.5%
Middle East and Africa	160,474	6.1%	173,666	5.9%	(13,192)	-7.6%
Australia	48	0.0%	59	0.0%	(11)	-19.2%
Total Loans	**2,611,927**		**2,952,089**		**(340,161)**	**-11.5%**

The majority of the Group's loan portfolio is concentrated in Lebanon, amounting to 90.1% as at December 31, 2019, compared to 86.8% as at December 31, 2018.

CREDIT QUALITY ANALYSIS

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 as at December 31, 2019, and December 31, 2018, respectively:

Gross Loans

LBP Million	2019	% of Total	2018	% of Total	Change	% Change
Performing Loans	2,034,666	68.0%	2,710,538	86.2%	(675,872)	-24.9%
Non-Performing Loans	959,401	32.0%	433,063	13.8%	526,338	121.5%
Total Gross Loans	**2,994,068**		**3,143,602**		**(149,534)**	**-4.8%**

Net Loans

LBP Million	2019	% of Total	2018	% of Total	Change	% Change
Performing Loans	1,996,093	76.4%	2,673,980	90.6%	(677,886)	-25.4%
Non-Performing Loans	615,834	23.6%	278,109	9.4%	337,725	121.4%
Total Net Loans	**2,611,927**		**2,952,089**		**(340,161)**	**-11.5%**

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 / Follow up and Regularization (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.

INVESTMENT SECURITIES

The following tables set out the composition of the Group's investment securities, as well as the percentage changes therein as at December 31, 2019, and December 31, 2018, respectively:

LBP Million	2019	2018	Change	% Change
Lebanese Government Treasury Bills	130,570	130,786	(216)	-0.2%
Eurobonds	43,893	44,230	(336)	-0.8%
Certificates of Deposit - USD	117,051	117,820	(769)	-0.7%
Equity Securities	5,816	5,864	(48)	-0.8%
Funds	8,739	9,134	(396)	-4.3%
Interest Receivable	4,390	4,372	19	0.4%
Expected Credit Loss	(4,532)	(1,335)	(3,197)	239.4%
Total	**305,928**	**310,871**	**(4,943)**	**-1.6%**

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 as at December 31, 2019, and 2018 respectively:

LBP Million	2019	% of Total	2018	% of Total	Change	% Change
Due to Banks and Financial Institutions	691,414	11.0%	661,731	10.3%	29,683	4.5%
Deposits from Customers and Related Parties	4,779,381	76.1%	5,031,579	78.7%	(252,198)	-5.0%
Other Liabilities	211,291	3.4%	69,070	1.1%	142,221	205.9%
Provisions	23,423	0.4%	10,854	0.2%	12,569	115.8%
Total Liabilities	**5,705,510**	**90.9%**	**5,773,235**	**90.3%**	**(67,724)**	**-1.2%**
Equity	573,930	9.1%	621,890	9.7%	(47,960)	-7.7%
Total Liabilities & Equity	**6,279,440**		**6,395,124**		**(115,684)**	**-1.8%**

The Group's total liabilities reached LBP 5,705,510 million (USD 3,785 million) as at December 31, 2019, compared to LBP 5,773,235 million (USD 3,830 million) as at December 31, 2018.

As at December 31, 2019, total equity reached LBP 573,930 million (USD 381 million), compared to LBP 621,890 million (USD 413 million) as at December 31, 2018. Its share of total liabilities and equity reached 9.1% in 2019 compared to 9.7% in 2018.

Total liabilities and equity amounted to LBP 6,279,440 million (USD 4,165 million) as at December 31, 2019, compared to LBP 6,395,124 million (USD 4,242 million) as at December 31, 2018.

Deposits from customers and related parties constituted 76.1%, the largest share of total liabilities and equity as at the end of December 2019 compared to 78.7% as at the end of December 2018.

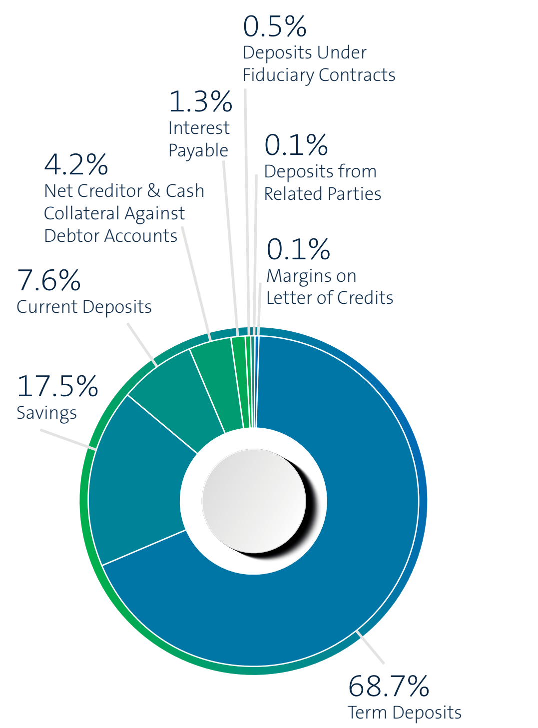
DEPOSITS FROM CUSTOMERS & RETALED PARTIES

Total customers' deposits decreased by 5% reaching LBP 4,779,381 million (USD 3,170) as at December 31, 2019.

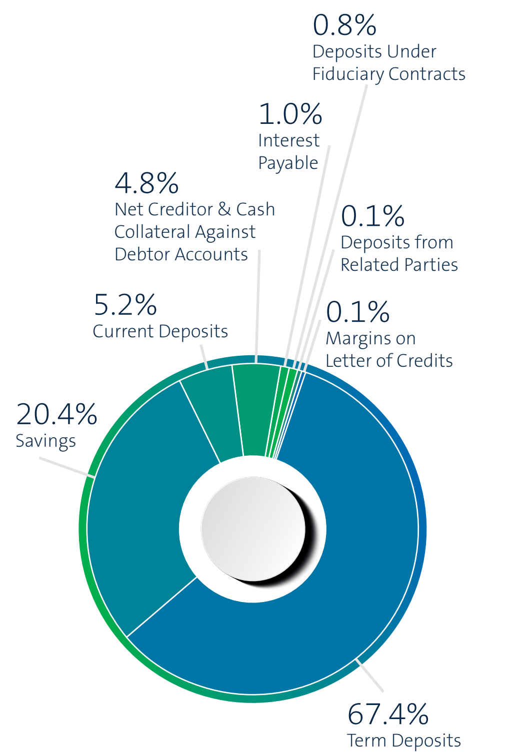
The following table shows the composition of the Group's deposits by type of account, as well as the percentage of total and percentage changes therein on December 31, 2019, and 2018 respectively:

LBP Million	2019	% of Total	2018	% of Total	Change	% Change
Term Deposits	3,283,912	68.7%	3,392,320	67.4%	(108,408)	-3.2%
Savings	834,493	17.5%	1,027,169	20.4%	(192,677)	-18.8%
Current Deposits	364,349	7.6%	262,659	5.2%	101,690	38.7%
Net Creditor and Cash Collateral Against Debtor Accounts	200,102	4.2%	242,460	4.8%	(42,359)	-17.5%
Deposits Under Fiduciary Contracts	25,709	0.5%	42,578	0.8%	(16,869)	-39.6%
Deposits from Related Parties	6,337	0.1%	7,513	0.1%	(1,176)	-15.7%
Margins on Letter of Credits	3,780	0.1%	5,803	0.1%	(2,023)	-34.9%
Interest Payable	60,700	1.3%	51,077	1.0%	9,623	18.8%
Total Deposits	**4,779,381**		**5,031,579**		**(252,198)**	**-5.0%**

BREAKDOWN OF DEPOSITS FROM CUSTOMERS & RELATED PARTIES 2019



BREAKDOWN OF DEPOSITS FROM CUSTOMERS & RELATED PARTIES 2018



Deposits from customers and related parties continued to be the Group's main source of funding. Constituting 76.1% and 78.7% of the Group's total liabilities and equity, they amounted to LBP 4,779,381 million (USD 3,170 million) and LBP 5,031,579 million (USD 3,338 million) on December 31, 2019 and December 31, 2018 respectively.

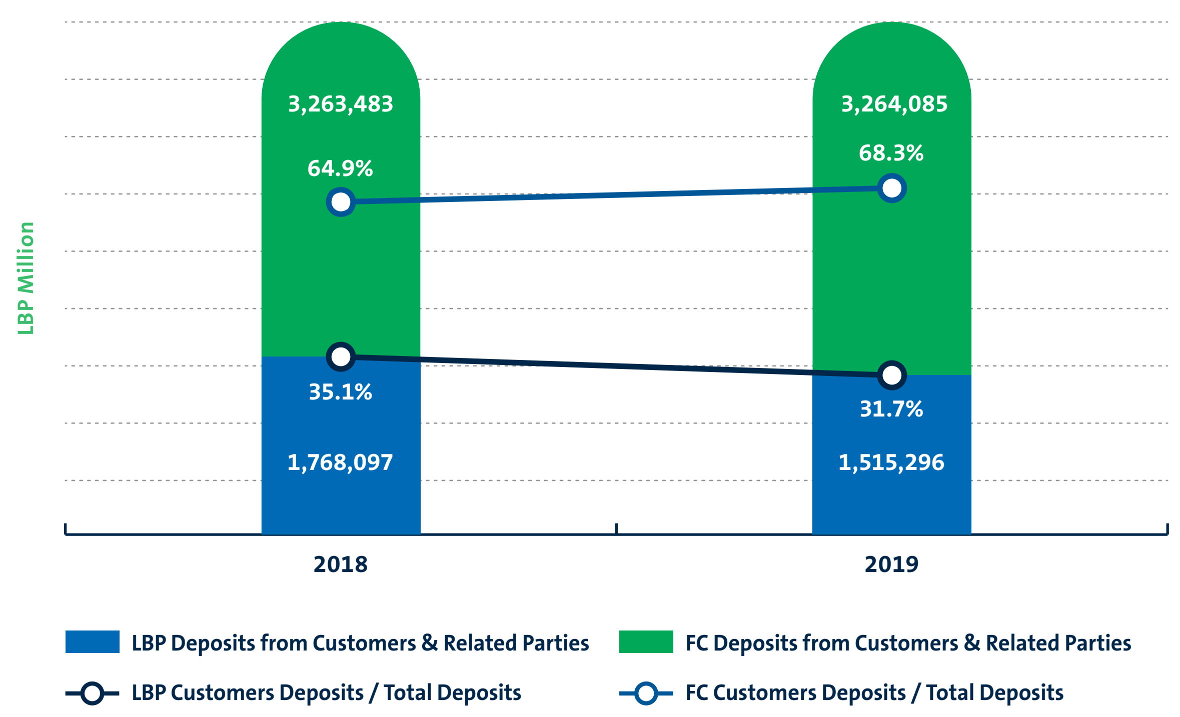
Term Deposits, savings, and current deposits constituted 68.7%, 17.5%, and 7.6% of total deposits from customers and related parties on December 31, 2019, compared to 67.4%, 20.4%, and 5.2% on December 31, 2018.

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, 2019, and 2018 respectively:

LBP Million	2019	2018	Change	% Change
LBP Deposits from Customers & Related Parties	1,515,296	1,768,097	(252,800)	-14.3%
FC Deposits from Customers & Related Parties	3,264,085	3,263,483	602	0.0%
Total Deposits	**4,779,381**	**5,031,579**	**(252,198)**	**-5.0%**

DEPOSITS BY CURRENCIES



Deposits from customers and related parties as at December 31, 2019 reached LBP 4,779,381 million (USD 3,170 million) of which 31.7% or LBP 1,515,296 million (USD 1,005 million) in Lebanese Pounds and 68.3% or LBP 3,264,085 million (USD 2,165 million) in foreign currencies, mainly denominated in USD.

On December 31, 2018, deposits from customers and related parties 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, mainly denominated in USD.

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, 2019, and 2018 respectively:

LBP Million	2019	2018	Change	% Change
Share Capital - Common Shares	152,300	152,300	-	0.0%
Share Capital - Preferred Shares	62,500	62,500	-	0.0%
Share Premium - Common Shares	17,274	17,274	-	0.0%
Share Premium - Preferred Shares	125,937	125,937	-	0.0%
Cash Contribution to Capital	10,854	10,854	-	0.0%
Reserves	239,009	213,029	25,979	12.2%
Retained Earnings	(34,012)	39,936	(73,948)	-185.2%
Equity Attributable to Equity Holders of the Bank	**573,861**	**621,830**	**(47,969)**	**-7.7%**
Non-Controlling Interests	68	60	9	14.6%
Total Equity	**573,930**	**621,890**	**(47,960)**	**-7.7%**

The Group's total equity amounted to LBP 573,930 million (USD 381 million) by December 31, 2019, compared to LBP 621,890 million (USD 413 million) at December 31, 2018.

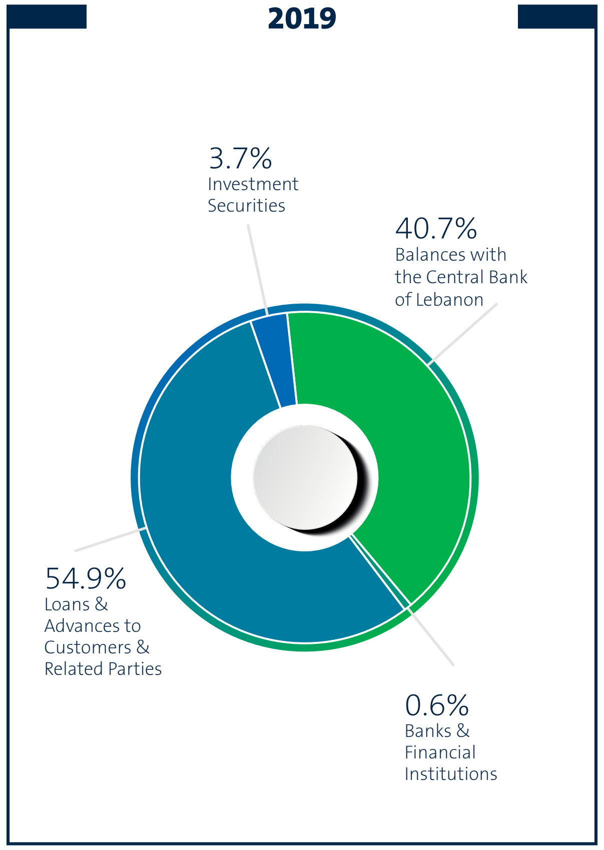
Total equity decreased by 7.7% compared to an increase in prior year of 3.6%.
The decrease in 2019 total equity is mainly due to losses of LBP 34,012 million (USD 23 million).

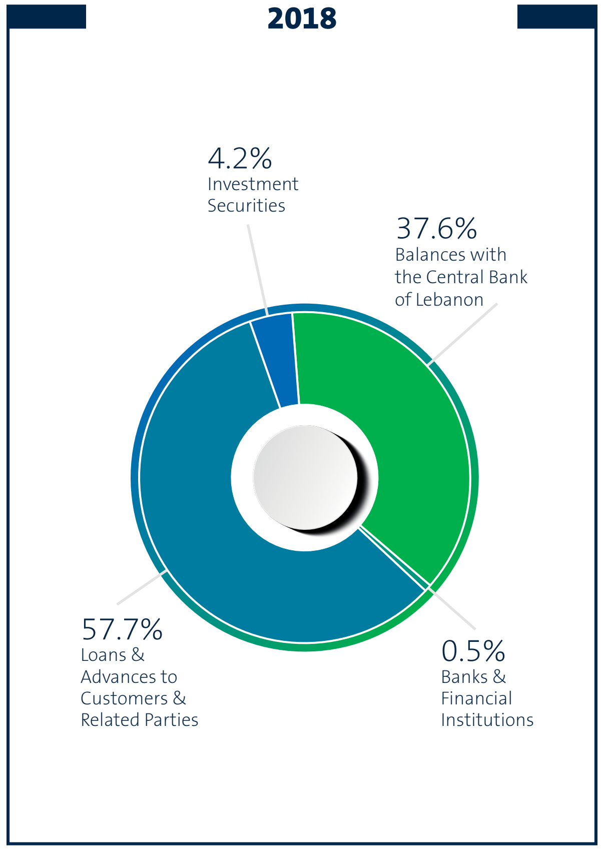
STATEMENT OF PROFIT OR LOSS

The following table shows the composition of the Group's statement of profit or loss, as well as the percentage changes therein for the year 2019, and 2018, respectively:

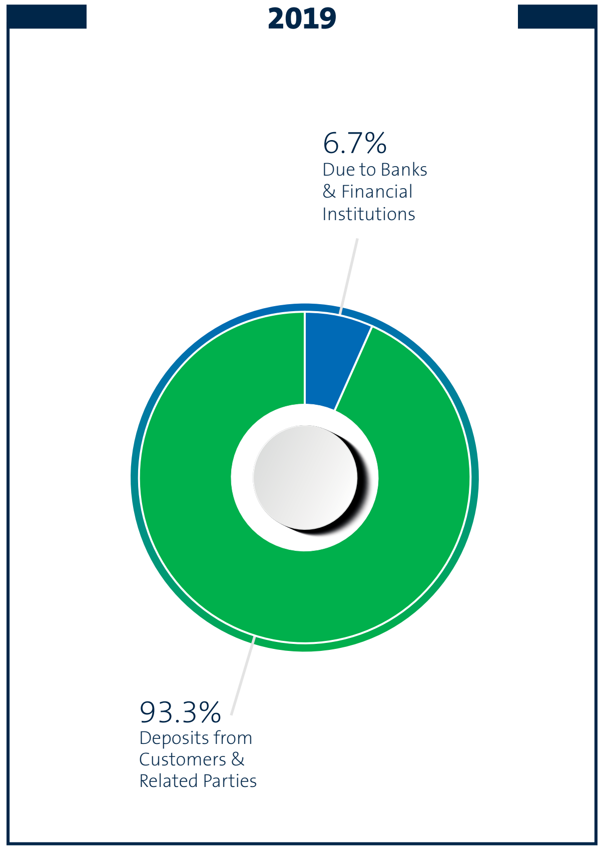
LBP Million	2019	2018	Change	% Change
Total Interest Income	**536,626**	**444,176**	**92,450**	**20.8%**
Total Interest Expense	**443,473**	**320,990**	**122,484**	**38.2%**
Net Interest Income	**93,153**	**123,186**	**(30,034)**	**-24.4%**
Net Fees and Commissions Income	**8,383**	**25,531**	**(17,148)**	**-67.2%**
Net Trading Income / (Loss)	(10,131)	2,887	(13,018)	-451.0%
Net Income from Investment Securities at Fair Value / (Loss)	(19,215)	16,417	(35,632)	-217.0%
Net Income from Investment Securities at Amortized Cost	178,339	(5,125)	183,464	-3579.9%
Other Income	4,679	4,373	306	7.0%
Net Income from Other Operating Activities	**153,672**	**18,552**	**135,120**	**728.3%**
Total Non-Interest Income	**162,055**	**44,083**	**117,972**	**267.6%**
Total Operating Income	**255,208**	**167,269**	**87,938**	**52.6%**
Net Impairment Loss on financial assets	(194,202)	(30,292)	(163,910)	541.1%
Impairment Charges on investment in subsidiary / associate	(3,263)	(14,486)	11,223	-77.5%
Total Operating Income (After Impairment)	**57,743**	**122,492**	**(64,748)**	**-52.9%**
Operating Expenses	(86,087)	(88,069)	1,982	-2.3%
Depreciation & Amortization	(8,260)	(4,906)	(3,354)	68.4%
Net gain / (loss) on sale of property and equipment	(15)	6,600	(6,615)	-100.2%
Tax Expense	(232)	(2,077)	1,846	-88.8%
Net Income / (Loss)	**(36,851)**	**34,039**	**(70,890)**	**-208.3%**

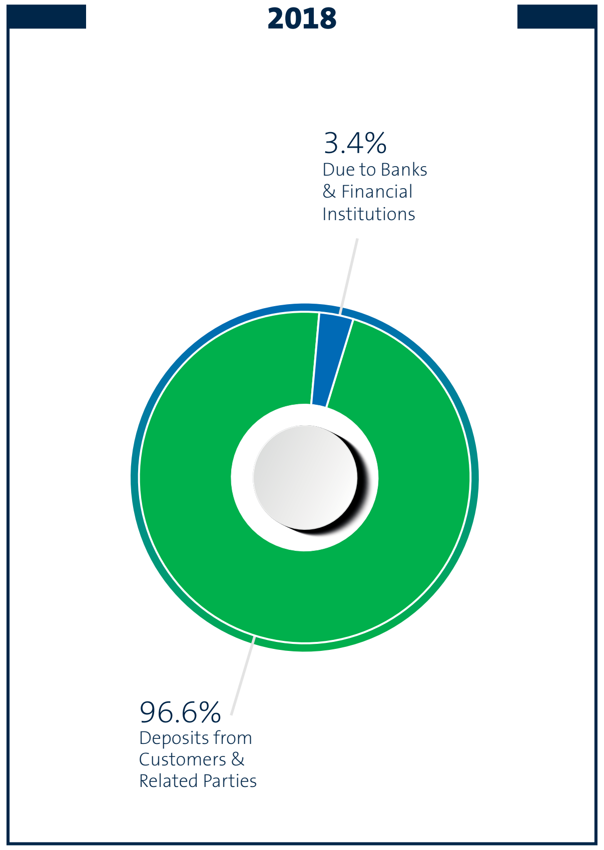
In 2019, the Group recorded interest income of LBP 536,626 million (USD 356 million) compared to LBP 444,176 million (USD 295 million) in 2018, divided as per the below graphs:





The Group's interest expense amounted to LBP 443,473 million (USD 294 million) by December 31, 2019, as compared to LBP 320,990 million (USD 213 million) by December 31, 2018, divided as per the below graphs:





The Group's net interest income reached LBP 93,153 million (USD 62 million) by December 31, 2019, compared to LBP 123,186 million (USD 82 million) by December 31, 2018.

During the year ending 31 December 2019, the Group recorded an expected credit loss on financial assets amounting to LBP 194,202 million (USD 129 million), 98% of this ECL was allocated to loans and advances to customers.

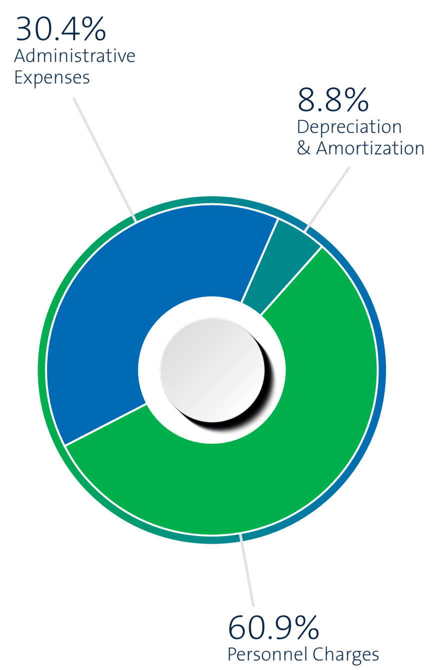
Net impairment loss on financial assets during 2018 amounted to LBP 30,292 million (USD 20 million).

OPERATING EXPENSES

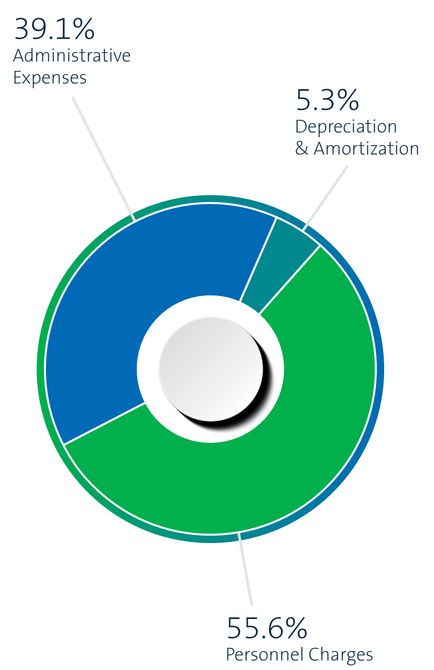
The following table shows the composition of the Group's operating expenses, as well as the percentage of total and changes therein by December 31, 2019, and December 31, 2018, respectively:

LBP Million	2019	% of Total	2018	% of Total	Change	% Change
Personnel Charges	57,420	60.9%	51,691	55.6%	5,729	11.1%
Administrative Expenses	28,667	30.4%	36,378	39.1%	(7,711)	-21.2%
Depreciation and Amortization	8,260	8.8%	4,906	5.3%	3,354	68.4%
Total Operating Expenses	**94,347**		**92,975**		**1,372**	**1.5%**

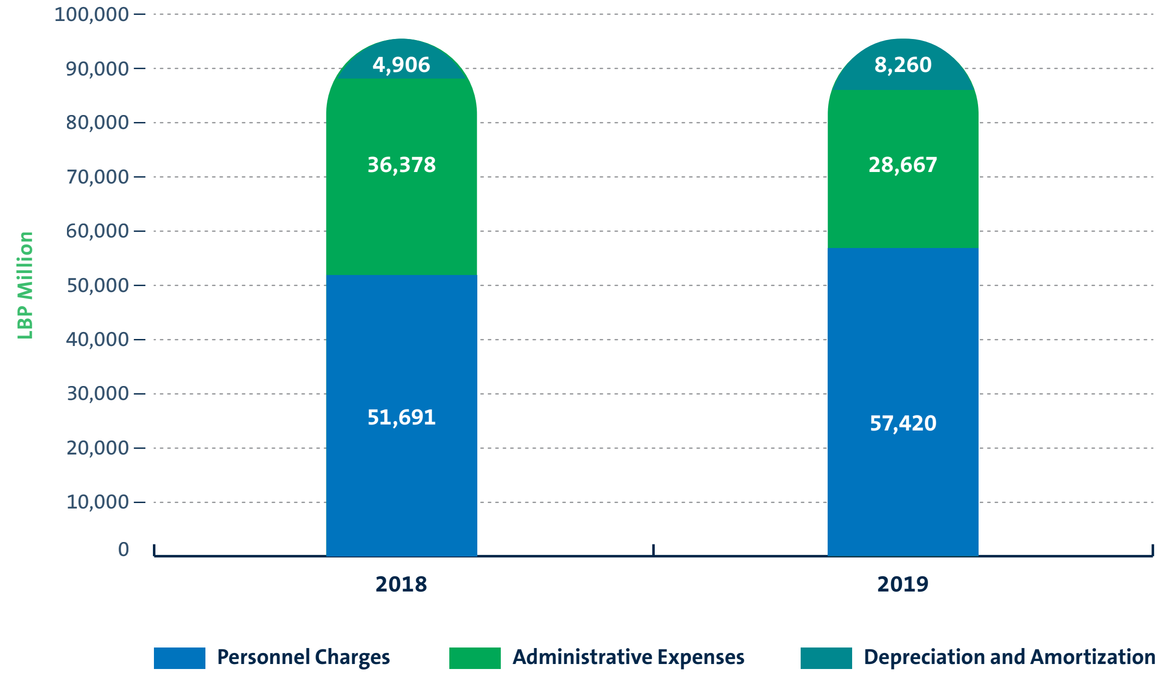
BREAKDOWN OF OPERATING EXPENSES 2019



BREAKDOWN OF OPERATING EXPENSES 2018



OPERATING EXPENSES



The Group's total operating expenses amounted to LBP 94,347 million (USD 63 million) on December 31, 2019, compared to LBP 92,975 million (USD 62 million) on December 31, 2018.

Personnel charges constituted 60.9% of the Group's total operating expenses by December 31, 2019, compared to 55.6% by December 31, 2018, while administrative expenses stood at 30.4% and 39.1% respectively.

RISK MANAGEMENT

Introduction

"Indeed, better Risk Management may be the only truly necessary element of success in banking," said Alan Greenspan. Especially so in challenging times.

Risk is inherent to banking. The Bank's aim is to manage its activities and the associated risks in a manner that balances the interests of its many stakeholders, while protecting the safety and soundness of the Bank itself.

Risks are being managed through a thorough process of identification, measurement, mitigation and monitoring. Risk limits and other mitigating controls are continuously being implemented and evaluated. Creditbank believes that effective risk management requires, among other things, the acceptance of responsibility, including the escalation of risk issues, by all individuals working within the Bank.

The Bank has defined its risk appetite and formulated strategies and policies for managing risks which were approved by the Board of Directors (the Board). It furthermore established adequate governance and controls to ensure that the Bank's aggregate risk profile is within acceptable levels.

With the help of regular department reports, Creditbank Board Committee on Risk Management (BCORM) provides a solid governance framework supervising risk management. All of the Bank's risk-related policies are approved by the BCORM and endorsed by the Board.

The bank is mainly exposed to credit risk, liquidity risk, interest rate risk, FX risk, and operational risks.

Risk Management Function

The Risk Management Function follows the prudential rules and regulations of the Lebanese Central Bank (BDL) and the Basel guidelines regarding measuring and assessing the various risks identified under Pillars I and II.

The Risk Management Department (RMD) reports to the Chairman-General Manager. Risk issues and reports are submitted regularly to the Board through the BCORM.

IFRS 9

Starting January 1, 2018, Creditbank has applied the IFRS 9 standard. The Expected Credit Loss (ECL) model encompasses facilities' staging and calculating the expected credit loss provision through a PIT risk rating system.

Creditbank has made an extensive exercise to estimate the ECL and allocate provisions for its various assets portfolios, comprising the development on an ECL engine and an estimate of the Probability of Default (PD) and Loss Given Default (LGD), relying on the Bank's own historical information to estimate PDs and LGDs – whenever 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, and Basel guidelines.

In order to ensure the adequate implementation of the IFRS 9 standard, Creditbank has mandated an external expert to conduct an independent review to determine its readiness in meeting the ECL requirements, assessing the methodologies used, such as the ECL engines, including all PDs and LGDs data, using forward-looking parameters.

ICAAP

Capital management is addressed in the Bank's Internal Capital Adequacy Assessment Process (ICAAP), which is done annually, to disclose risk appetite and inform the Board of the ongoing assessment of all risks to which the Bank is or may be exposed, along with an assessment of capital levels complementing the Pillar I regulatory capital calculations. The Bank's ICAAP integrates stress testing protocols with capital planning.

Enterprise-wide Stress Testing

The bank considers stress testing a major risk management tool enabling a forward looking vision regarding the Bank's resilience to upcoming events and their impact on solvency, profitability and liquidity.

Risk Management Framework

Risk management is applied through the implementation of risk policies and limits, which are approved by the Board and put in place by the Risk Management function in cooperation with concerned management committees and business lines.

Creditbank's risk management governance and oversight framework involves managing risks, while understanding the risks' drivers, and working on mitigating the resulting impact.

Drivers of Risks → Types of Risks → Impact of Risks

A. Drivers of Risk include, among others things, the economic environment, competition, market evolution, business decisions, process and judgment error.

B. Types of Risks Creditbank is mainly exposed to credit risk, liquidity risk, interest rate risk and operational risks, and FX risk.

I. Credit Risk

Credit Risk is defined as the uncertainty in a counterparty's ability to meet its obligations, whether this concerns an individual client, a company, a financial institution or any other party the bank is exposed to in the banking book.

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 or she operates.

The Bank manages its credit exposure by setting limits in line with the Board's appetite and regulations. Such limits are continuously monitored.

Various conditions related to commercial obligors are analyzed through the credit risk system in order to derive the obligor's risk rating and determine the probability of default.

An analysis of facility repayment behavior, as well eligible collaterals and/or guarantees is furthermore used to determine the expected credit loss, upon which provisioning and risk pricing are based.

Reference page 42 (Gross and Net Loans) and page 43 (Loans Classification)

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

Reference pages 39-40 (Distribution of Loans by Business Segment), pages 40-41 (Distribution of Loans by Currency) and page 42 (Distribution of Loans by Location)

II. Liquidity Risk
Liquidity Risk is defined as the risk that the bank cannot fund increases in assets and meet obligations as they come due – without incurring unexpected losses.

Regarding this concern, a Liquidity Risk Management Policy is established in order to identify, measure, manage and monitor liquidity risk and ensure a sufficient liquidity position in normal and stressful periods.

The Asset-Liability Committee oversees the execution of the Bank's Liquidity Risk Management Policy. However, the ultimate responsibility for effective liquidity risk management rests with the Board.

Liquidity risk management aims at enabling the Bank to adequately fund its business activities in both normal and stressed market conditions through developing strategies and plans to manage liquidity risk in accordance with the risk tolerance set by the Board.

The liquidity position is assessed using various scenarios and stress tests that may impact different liquidity ratios in line with regulatory requirements.

Reference pages 45-46 (Deposits from Customers & Related Parties), page 47 (Distribution of Deposits by Currency) and pages 122-123 (Maturity Analysis for Assets and Liabilities)

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

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

Reference pages 124-125 (IRR Tables)

IV. Market Risk (mainly Foreign Exchange & Equity Risks)
Market risk at the Bank arises from open positions in interest rates (related to debt instruments that are being traded), in 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 Asset and Liability Committee (ALCO) oversees the Bank's investment portfolio under the terms of the Investment Policy.

Reference pages 131-132 (Investment Securities: Equity and Debt Instruments) and page 126 (Exposure to currency risks)

V. Operational Risk
Operational Risk is defined as the risk inherent to 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 includes Legal Risk which is the "Risk of loss resulting from failure to comply with laws as well as prudent ethical standards or contractual obligations" and Regulatory Risk which is the "Risk of loss resulting from failure to abide by regulatory requirements." However, it excludes Strategic and Reputational Risks.

However, due to the importance given by the Board to Reputational Risk, as the latter could impact the Bank's relation with its customers and could severely impact 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

The Bank's objective is to enhance the control environment in relation to the Bank's activities, processes, products and systems. The framework for collecting, managing and controlling operational financial and nonfinancial (reputational) risks encompasses various tools including:

- Risk and Control Self-Assessment (RCSA)
- Operational losses (direct/indirect), exceptional profits, near misses, reputational/regulatory risk events data collection reported by co-workers in all branches/departments/units through the ORM solution.
- Assessment and analysis of reported operational risk events
- Key Risk Indicators (KRIs)
- Profit and loss accounts monitoring
- Internal audit reports review
- Reputational risk events through monthly customers' complaints

C. Impacts of Risks might be quantitative, as in a reduction in earnings, liquidity outflows, fines or penalties, or they might be qualitative as in reputation damage, loss of customers, or regulatory and enforcement actions.

Consolidated **Financial** Statements

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To the shareholders of Creditbank S.A.L.

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit 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 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for Disclaimer of Opinion

1. The consolidated financial statements of the Group have been prepared on the assumption that the Group will continue as going concern. The application of the going concern basis is based on the assumption that the Group will be able to realise its assets and settle its liabilities in the normal course of business.

   We were unable to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption as management didn't make an assessment of the Group's ability to continue as a going concern. In the absence of information provided by management, we were unable to conclude on the appropriateness of the management's use of going concern basis of preparation and determine whether any adjustments to the financial statements might have been necessary in this regard.

   Further, as disclosed in Note 1 to the accompanying consolidated financial statements there is currently a high degree of uncertainty surrounding the Lebanese banking industry and the Lebanese economy as a whole arising from the following events and conditions:

   - business disruption since the last quarter of 2019;
   - a series of Lebanese sovereign credit risk downgrades which started to deteriorate from the last quarter of 2019 and reached a default credit risk rating (to category "RD") by all major rating agencies in March 2020, after years of a stable credit risk rating of "B" category;
   - restrictions on the movement and withdrawal of funds in foreign currencies;
   - the inability to transfer foreign currency funds outside Lebanon,
   - the sharp fluctuation in foreign currency exchange rates and the creation of parallel foreign exchange markets with a wide range of price variances,
   - subsequent to the reporting date, on 7 March 2020, the Lebanese Government announced its decision to default on 6.375% US$1,200,000,000 bonds due 9 March 2020 and on all remaining outstanding maturities in foreign currencies;
   - an announcement on 23 March 2020 by the Lebanese Government to discontinue payments on all of its US Dollar denominated Eurobonds;
   - further deterioration in the market value of Lebanese Government bonds to junk status, resulting in the valuations of most Lebanese financial assets being adversely impacted; and
   - prolonged inactivity in capital markets rendering markets illiquid.

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

   The events and conditions described above indicate the existence of a material uncertainty which may cast significant doubt on the Bank's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

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

2.a As described in Note 5 to the accompanying consolidated financial statements, the Group has not applied adequately the impairment requirements in IFRS 9 "Financial Instruments" to recognise and measure loss allowances for expected credit losses ("ECL") as at 31 December 2019. The determination of loss allowances for ECL is usually subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probabilities of default, losses given default, exposures at default and discount rates, adjustments for forward-looking information and other adjustment factors. Management judgment is usually involved in the selection of appropriate parameters and assumptions and their application, which should be based on reasonable and supportable information about current and future economic conditions that is available without undue cost or effort at the reporting date. However, the Group has not made such determinations with respect to these matters as at 31 December 2019. In particular:

- There are financial assets measured at amortised cost comprising of Lebanese Government debt securities, balances with the Central Bank of Lebanon and balances with local banks and financial institutions denominated in foreign currencies amounting to LBP 1,359,412,007 thousand as at 31 December 2019 which the Bank has not determined to be credit-impaired at that date but which, based on the audit evidence obtained, we considered to be credit-impaired at that date.
- Furthermore, the Group has not performed an appropriate credit assessment of the loans and advances to customers and related parties portfolio amounting to LBP 2,994,067,610 thousand, failing to take into account the circumstances and available information at 31 December 2019 to determine an appropriate credit staging for these exposures. Instead, management has used key parameters and assumptions which do not reflect reasonable and supportable information about current and forecast conditions.

We believe that the Group's management has not recognised an appropriate impairment loss in conformity with IFRS 9 requirements in relation to the Bank's portfolios of the following assets measured at amortised cost: Lebanese Government debt securities, loans and advances to customers and related parties, and Central Bank of Lebanon and local Lebanese bank placements denominated in foreign currencies. Because the determination of loss allowances for ECL requires management to accumulate and analyse relevant data (including the key parameters and assumptions which included the identification of loss stages) and to apply judgement, in absence of adequate management's analysis, it was impracticable for us to determine the extent to which these consolidated financial statements are misstated as a result of this matter.

With respect to the disclosures in the financial statements related to financial assets measured at amortised cost:

- the financial statements do not include all the disclosures required by IFRS 7, *Financial Instruments Disclosures,* in particular on inputs, assumptions, judgements, sensitivity and the overall qualitative disclosures for managing credit risk;
- the estimates of the fair values have not been determined in accordance with IFRS 13 *Fair Value Measurement*; and
- other disclosures required by IFRS 13, *Fair Value Measurement*, in particular on inputs, assumptions, sensitivity and overall qualitative disclosures for the fair value determination of these assets, are incomplete and inaccurate.

2.b The Group's consolidated statement of financial position as at 31 December 2019 includes investments in debt and equity securities in Lebanon accounted for at fair value through profit and loss and investments in equity securities in Lebanon accounted for at fair value through other comprehensive income, amounting respectively to LBP 103,188,806 thousand and LBP 4,912,688 thousand. The Lebanese markets have witnessed a significant decrease in levels of activity following the start of the crisis in October 2019. The accompanying consolidated financial statements do not include fair value adjustments to the carrying amounts of these investments and related disclosures as required by IFRS 13 *Fair value measurement* and the carrying amounts are similar to those pertaining prior to the development of the crisis and do not appear to reflect market and economic conditions at 31 December 2019. Had such adjustments and disclosures been made, many elements and related disclosures in the accompanying consolidated financial statements would have been materially affected.

It was impracticable for us to determine the extent to which these consolidated financial statements are misstated as a result of this matter.

3. As disclosed in note 29 to the accompanying consolidated financial statements, the Bank has generated Day-one gains as a result of the leverage agreements entered into with the Central Bank of Lebanon ("BDL") for a period varying from 5 to 10 years and were recognised on the statement of profit or loss and other comprehensive income. The Bank recorded the net present value of gains in the statement of profit or loss and other comprehensive income, in accordance with the Central Bank of Lebanon Intermediary Circular No. 519 dated 1 July 2019.

   The recognition of the gains constitutes a departure from IFRS. Instead of immediate recognition of day-one gains in profit and loss, the Bank should have deferred the difference between the fair value of the financial instruments and the transaction price.

   Accordingly, had management properly accounted for these transactions in accordance with IFRS, loss for the year ended 2019 would have increased by LBP 183,337,516 thousands and other assets and retained earnings as at 31 December 2019 would have decreased by the same amount.

Other Matter

The consolidated financial statements of the Bank for the year ended 31 December 2019 are also audited by BDO, Semaan Gholam & Co as joint auditors, whose report dated 9 March 2021 expresses an adverse opinion on the consolidated financial statements. Their audit report is included on pages 5 to 7 to those consolidated financial statements.

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

The Board of directors and those charged with governance (referred to hereafter as "management") are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

Report on other legal and regulatory requirements

We draw attention to the fact that the matters raised in the Basis for disclaimer of opinion section above may have implications on the Bank's compliance with the requirements of the Lebanese Code of Commerce and the applicable banking regulations.

KPMG

9 March 2021
Beirut, Lebanon

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To the shareholders of Creditbank S.A.L.

Report on the Audit of the Consolidated Financial Statements

Adverse Opinion

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

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

Basis for Adverse Opinion

1. As disclosed in note 10 to the accompanying consolidated financial statements, the Bank holds assets with the Central Bank of Lebanon, a portfolio of Lebanese government debt securities, a portfolio of loans to the private sector and other assets concentrated in Lebanon. As disclosed in note 5, the accompanying consolidated financial statements do not include IFRS 9 adjustments to the carrying amount of these assets and related disclosures that would result from the resolution of the uncertainties disclosed therein and the future effects of the economic crisis and the government restructuring plan. In addition, due to the situation described in note 1 to the consolidated financial statements and the unprecedent levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, management is unable to produce faithful estimation of the fair value of these financial assets. The accompanying consolidated financial statements do not include IFRS 13 fair value disclosures for these financial assets and other financial instruments concentrated in Lebanon. Had such adjustments and disclosures been made, many elements and related disclosures in the accompanying consolidated financial statements would have been materially affected. The effects on these consolidated financial statements have not been determined.

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

3. The Bank’s consolidated statement of financial position as at 31 December 2019 includes investments in debt and equity securities in Lebanon accounted for at fair value through profit or loss and investments in equity securities in Lebanon accounted for at fair value through other comprehensive income, amounting respectively to LBP.103,188,806 thousand and LBP.4,912,688 thousand.

The Lebanese markets have witnessed a significant decrease in levels of activity following the start of the crisis in October 2019. The accompanying consolidated financial statements do not include fair value adjustments of the carrying amounts of these investments and related disclosures as required by IFRS 13 *Fair value measurement* and the carrying amounts are similar to those pertaining prior to the development of the crisis and do not appear to reflect market and economic conditions at 31 December 2019. Had such adjustments and disclosures been made, many elements and related disclosures in the accompanying consolidated financial statements would have been materially affected.

It was impracticable for us to determine the extent to which these consolidated financial statements are misstated as a result of this matter.

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

Other matter

The consolidated financial statements of the Bank for the year ended 31 December 2019 are also audited by KPMG as joint auditors, whose report dated 9 March 2021 expresses a disclaimer of opinion on the consolidated financial statements. Their audit report is included on pages 1 to 4 to those consolidated financial statements.

Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

The Board of Directors and those charged with Governance (referred to as management") are 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

Report on other legal and regulatory requirements

We draw attention to the fact that the matters raised in the Basis for adverse opinion section above may have implications on the Bank's compliance with the requirements of the Lebanese Code of Commerce and the applicable banking regulations.

BDO, Semaan, Gholam & Co

9 March 2021
Beirut, Lebanon

In thousands of Lebanese Pound	Note	31 December 2019	31 December 2018
Assets			
Cash and balances with the Central Bank of Lebanon	7	2,683,919,951	2,677,744,599
Banks and financial institutions	8	92,009,961	122,685,250
Loans and advances to customers and related parties	9	2,611,927,468	2,952,088,753
Investment securities	10	305,927,655	310,870,622
Shares acquired in settlement of debt at fair value through profit or loss	11	92,446,637	120,043,527
Investment in an associate	36(c)	72,339,436	71,399,817
Property and equipment	12	97,912,815	99,547,050
Intangible assets	13	554,427	635,734
Other assets	14	207,627,988	16,928,236
Right-of-use assets	38	32,236,205	–
Debtors by acceptances	15	52,654,711	15,910,560
Non-current assets held for sale	16	29,882,746	7,270,246
Total assets		**6,279,440,000**	**6,395,124,394**
Liabilities			
Due to the Central Bank of Lebanon	17	451,337,571	453,766,310
Due to banks and financial institutions	18	240,076,887	207,965,095
Deposits from customers and related parties	19	4,779,381,284	5,031,579,183
Current tax liabilities		-	2,077,441
Lease liabilities	38	31,781,023	–
Other liabilities	20	125,892,790	51,021,767
Engagement by acceptances	15	53,617,531	15,970,833
Other provisions	21	23,423,382	10,854,263
Total liabilities		**5,705,510,468**	**5,773,234,892**
Equity			
Share capital - common shares	22	152,300,000	152,300,000
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	239,008,502	213,029,215
Retained earnings		(34,012,339)	39,935,616
Equity attributable to equity holders of the Bank		**573,861,249**	**621,829,917**
Non-controlling interest		**68,283**	**59,585**
Total equity		**573,929,532**	**621,889,502**
Total liabilities and equity		**6,279,440,000**	**6,395,124,394**

The notes on pages 13 to 74 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 24 February 2021

Tarek Khalifeh
Chairman

In thousands of Lebanese Pound	Note	2019	2018
Interest income, net of tax		536,626,081	444,176,039
Interest expense		(443,473,280)	(320,989,622)
Net interest income	26	**93,152,801**	**123,186,417**
Fees and commission income		30,471,061	32,678,998
Fees and commission expense		(22,088,376)	(7,148,111)
Net fees and commission income	27	**8,382,685**	**25,530,887**
Net foreign exchange income		(10,130,987)	2,886,651
Net (loss) / gain on investment securities at fair value through profit or loss	28	(19,214,691)	16,417,464
Net gain / (loss) on financial assets at amortised cost	29	178,339,407	(5,124,859)
Dividend income		336,362	367,841
Other revenue		1,079,634	1,217,988
Gain from investment in associate	34	3,262,631	2,787,009
Net operating income		**255,207,842**	**167,269,398**
Personnel charges	30	(57,419,862)	(51,690,994)
Net impairment loss on financial assets	33	(194,201,749)	(30,291,640)
Impairment charges on investment in associate	34	(3,262,631)	(14,486,073)
Depreciation on right-of-use assets	38	(3,300,836)	–
Depreciation and amortisation	12, 13	(4,958,848)	(4,906,134)
Interest expense on lease liability	38	(2,473,185)	–
Administrative expenses	31	(26,194,243)	(36,378,074)
Net (loss) / gain on sale of property and equipment	12	(15,320)	6,599,831
(Loss) / Profit before tax		**(36,618,832)**	**36,116,314**
Income tax expense	32	(231,826)	(2,077,441)
(Loss) / Profit for the year		**(36,850,658)**	**34,038,873**
Other comprehensive income			
Net unrealized (loss) / gain on equity instruments designated at fair value through other comprehensive income:		944,183	(1,825,592)
Total other comprehensive income for the year		**944,183**	**(1,825,592)**
Total comprehensive income for the year		**(35,906,475)**	**32,213,281**
Profit attributable to:			
Equity holders of the Bank		(36,859,356)	34,030,003
Non-controlling interests		8,698	8,870
(Loss) / Profit for the year		**(36,850,658)**	**34,038,873**
Total comprehensive income attributable to:			
Equity holders of the Bank		(35,915,173)	32,204,411
Non-controlling interests		8,698	8,870
Total comprehensive (loss) / income for the year		**(35,906,475)**	**32,213,281**

The notes on pages 13 to 74 are an integral part of these consolidated financial statements.

	Attributable to equity holders of the Bank				Attributable to equity holders of the Bank						
In thousands of Lebanese Pound	**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 2019	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
Total comprehensive loss for the year											
Loss for the year	–	–	–	–	–	–	–	(36,859,356)	(36,859,356)	8,698	(36,850,658)
Other comprehensive (loss) / income, net of tax											
Net change in fair value on equity instruments designated at fair value through other comprehensive income (note 25)	–	–	–	–	–	944,183	–	–	944,183	–	944,183
Total other comprehensive income	–	–	–	–	–	944,183	–	–	944,183	–	944,183
Total comprehensive (loss)/income for the year	–	–	–	–	–	944,183	–	(36,859,356)	(35,915,173)	8,698	(35,906,475)
Transactions with owners of the bank											
Contributions and distributions											
Dividends paid to holders of preferred shares (series 2, 3, 4, 5, 6 and 7) (note 22)	–	–	–	–	–	–	–	(12,053,495)	(12,053,495)	–	(12,053,495)
Total contributions and distributions	–	–	–	–	–	–	–	(12,053,495)	(12,053,495)	–	(12,053,495)
Other transactions											
Transfer from retained earnings (note 25)	–	–	–	–	–	25,035,104	–	(25,035,104)	–	–	–
Total other transactions	–	–	–	–	–	25,035,104	–	(25,035,104)	–	–	–
Balance at 31 December 2019	152,300,000	62,500,000	17,273,587	125,937,499	10,854,000	239,008,502	–	(34,012,339)	573,861,249	68,283	573,929,532

The notes on pages 13 to 74 are an integral part of these consolidated financial statements.

	Attributable to equity holders of the Bank				Attributable to equity holders of the Bank						
In thousands of Lebanese Pound	**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) (note 22)	–	–	–	–	–	–	–	(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 13 to 74 are an integral part of these consolidated financial statements.

In thousands of Lebanese Pound	Note	2019	2018
Cash flows from operating activities			
(Loss) / Profit for the year		(36,850,658)	34,038,873
Adjustments for:			
- Depreciation and amortisation	12, 13	4,958,848	4,906,134
- Depreciation on right-of-use assets	38	3,300,836	–
- Net impairment losses on financial assets	33	194,201,749	30,291,640
- Net (loss) / gain on investment securities at fair value through profit or loss	28	19,214,691	(16,417,464)
- Net (gain) / loss on financial assets at amortized cost	29	(178,339,407)	5,124,859
- Impairment charges on investments in associate	34	3,262,631	14,486,073
- Dividend income		(336,362)	(367,841)
- Net loss / (gain) on sale of property and equipment	12	15,320	(6,599,831)
- Interest expense on lease liability	38	2,473,185	–
- Net interest income	26	(93,152,801)	(123,186,417)
- Tax expense	32	231,826	2,077,441
		(81,020,142)	**(55,646,533)**
Changes in:			
- Balances held with the Central Bank of Lebanon		(1,597,298)	(454,941,750)
- Banks and financial institutions		(7,231,633)	187,642
- Loans and advances to customers and related parties		127,706,909	(268,040,391)
- Other assets		(16,268,665)	(6,987,591)
- Due to the Central Bank of Lebanon		(3,277,056)	216,302,384
- Due to banks and financial institutions		32,355,177	145,967,640
- Deposits from customers and related parties		(261,821,193)	240,788,461
- Provisions		12,256,534	1,084,154
- Other liabilities		74,871,023	(3,064,778)
		(124,026,344)	**(184,350,762)**
Interest received		530,418,733	423,425,183
Interest paid		(433,245,054)	(300,070,823)
Income tax paid		(2,309,267)	(5,072,522)
Net cash used in operating activities		**(29,161,932)**	**(66,068,924)**

The notes on pages 13 to 74 are an integral part of these consolidated financial statements.

In thousands of Lebanese Pound	Note	2019	2018
Cash flows from investing activities			
Change in investment securities		11,427,725	(28,228,025)
Change in investments in associate		(4,202,250)	(1,104,327)
Acquisition of property and equipment	12	(3,236,264)	(6,227,148)
Acquisition of intangible assets	13	(23,929)	(134,654)
Proceeds from sale of property and equipment	12	1,567	8,064,253
Net cash from / (used in) investing activities		**3,966,849**	**(27,629,901)**
Cash flows from financing activities			
Proceeds from issue of preferred shares	22	–	10,000,000
Proceeds from issue premium - preferred shares	22	–	20,150,000
Redemption of preferred shares	22	–	(30,150,000)
Payment of lease liability	38	(3,962,284)	–
Dividends paid to preferred shares	22	(12,053,495)	(10,455,958)
Net cash used in financing activities		**(16,015,779)**	**(10,455,958)**
Net decrease in cash and cash equivalents		**(41,210,862)**	**(104,154,783)**
Cash and cash equivalents at 1 January		213,516,257	317,671,040
Cash and cash equivalents at 31 December	35	**172,305,395**	**213,516,257**

The notes on pages 13 to 74 are an integral part of these consolidated financial statements.

(1) REPORTING ENTITY, MACRO-ECONOMIC AND REGULATORY ENVIRONMENT IN LEBANON AND PARTICULAR SITUATION OF THE BANK

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 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	2019 Ownership interest	2018 Ownership interest
Credex SAL	Lebanon	74,820	99.76%	99.76%
Baabda 1587 S.A.L.	Lebanon	2,970	99.00%	99.00%
Achrafieh 784 S.A.L.	Lebanon	990	99.00%	99.00%

Macro-economic environment

Lebanon is experiencing a severe financial crisis that is impacting the banking sector and the economic and business environment more generally. The impact includes a significant public debt burden (above 150% of GDP), high interest rates, a level of country risk that is far above normal and increasing unemployment.

This has created liquidity pressures in most businesses. The crisis also led to the resignation of the Council of Ministers of Lebanon on 29 October 2019. A new Government was formed on 21 January 2020 which has begun to focus on urgent measures including the settlement of Eurobonds and requested the technical assistance of the International Monetary Fund.

Lebanon's sovereign debt amounted approximately to USD 91 billion as at 31 December 2019 which consisted of LBP debt of approximately 62% and USD Eurobonds of 38% of the total debt. All LBP debt is held by Lebanese banks and the Central Bank and only approximately a third of USD debt is held by foreign funds and financial institutions of Lebanon, the remaining USD debt is held by either Lebanese banks or the Central Bank of Lebanon.

International credit rating agencies have downgraded Lebanon's sovereign credit rating to imminent default and the rating of three commercial banks to selective default. Banks were downgraded as a result of the Central Bank of Lebanon requiring, on an exceptional basis, the settlement of interest on USD denominated deposits 50% in USD and 50% in LBP over the six months from 4 December 2019. On 7 March 2020, the Prime Minister of Lebanon officially declared that the government will not be in a position to settle the Eurobonds due on 9 March 2020, which is considered as an event of default. Accordingly, rating agencies have downgraded Lebanon's sovereign credit rating to selective default.

Throughout this sequence of events, the ability of the banking sector to borrow funds from international markets was significantly affected. Banks in Lebanon have restricted access to cash USD and have frozen some companies' credit facilities, which has in turn created significant liquidity pressure. Banks have implemented their unofficial foreign exchange capital controls that restrict USD transfers outside Lebanon and significantly reduce withdrawals of USD cash. Goods and services can be purchased using payment cards and cheques within the country, but companies have very limited ability to withdraw cash or transfer foreign currency outside Lebanon, with the exception of companies that import essential goods.

The financial crisis and in particular the difficulty of accessing foreign currency and credit has led to the emergence of a parallel market to the peg whereby the cost to access foreign currencies has been increasing constantly and has created significant liquidity pressure for businesses in Lebanon. This has in turn led to:

- A general slowdown in economic activity leading to a significant increase in credit risk;
- expected increase in actual and expected credit losses;
- some companies not being able to settle their bank facilities when due;
- decrease in new facilities granted and in customers' deposits;
- increased cost in connection with obtaining hard currency; and
- uncertainty about whether some entities and Banks can continue as a going concern.

Regulatory environment

To address the situation, the Central Bank of Lebanon has issued several circulars. The main circulars, up to the date of the issuance of these Financial Statements are:

- Intermediate **Circular 532** issued on 11 November 2019, requiring banks not to distribute dividends from profits of the financial year ending 2019. Moreover, banks are required to increase capital by 20% of the Common Equity Capital as at 31 December 2018; the increase should be through cash contribution in USD: the first 10% to be raised by 31 December 2019 and the remaining 10% by 30 June 2020 (this deadline has been extended till 31 December 2020 – BDL intermediate circular 567).

- Intermediate **Circular 536** issued on 4 December 2019, stating that interests on Banks' term USD placements with the Central Bank and on certificates of deposits will be paid 50% in USD and 50% in LBP. Similarly, banks have to settle interests same split on USD deposits received before 5 December 2019. As for deposits received or renewed after 4 December 2019, Banks have to apply the following ceilings:
  - 5% on foreign currency deposits; and
  - 8.5% on LBP deposits.

Yet BDL Int. Circular 544 issued on 13 February 2020 has further decreased interest rates ceilings as follows:

- for LBP deposits: 5.5% for 1-month, 6.5% for 6 months and 7.5% for a year or above; and
- for foreign currency deposits: 2% for 1-month, 3% for 6 months and 4% for a year or above.

- Intermediate **Circular 542** issued on 3 February 2020, requiring Expected Credit Loss ratios on Central Banks and Sovereign portfolios (in LBP and FCY) not to exceed the Minimum Regulatory Requirements.

- Intermediate **Circular 543** issued on 3 February 2020, increasing the minimum regulatory Expected Credit Losses on some portfolios including foreign currency exposure to the Sovereign and Central Bank of Lebanon. Moreover, the risk weight assigned on the Central Bank's FCY portfolio has been increased to 150%, while the minimum required capital adequacy ratios (CET1, Tier 1 and CAR ratios) have been decreased to 7%, 8.5% and 10.5% respectively.

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

- **BDL Basic Circular 151** issued on 21 April 2020, concerning the clients not tackled in basic Circular 148 and who wish to withdraw amounts of cash from their foreign currencies accounts. Banks should settle, with the client's consent, the equivalent of those amounts in LBP as per the Central Bank Platform exchange rate. The resulting foreign currencies should be sold to the Central Bank of Lebanon at the Platform rate.

- **BDL Int. Circulars 552** issued on 22 April 2020, requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for the clients who are not able to pay their dues, due to the current economic situation as assessed by the bank. The new loans are to be granted up to 5 years starting 30 June 2020 and provided, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

- **BDL Int. Circulars 567** issued on 26 August 2020, amending the Regulatory Expected Credit Losses (RECL) requirements that Banks must apply on their exposure to the Lebanese government and Central Bank. Further, the circular stipulated that banks can gradually build the needed provision over five years and that the Central Bank can extend this period to 10 years after the bank complies by the required increase in its capital by the end of 2020.

  Moreover, the circular asked banks to refrain from distributing dividends from profits of financial years 2019 and 2020. It also requested banks to increase their capital by the equivalent of 20% of their CET1 as at the end of 2018, through any capital tiers instruments in foreign currencies, with the exception of retained earnings and revaluation of real estate. It noted that banks have until the end of 2020 to meet the requirement.

  Further, the circular pointed out that each bank should build a capital conservation buffer of 2.5% starting 2022 until 2024. In addition, banks can exceptionally include in their CET1 some of stage 1 and stage 2 collective provisions related to performing assets (excluding ECLs on Lebanese government and Central Bank). Recognition of such provision to be gradually reduced starting 2022 until 2024.

- **BDL Basic Circular 154** issued on 27 August 2020, detailing exceptional measures to restore banking operations in Lebanon and instructing banks to perform the following:
  - Revaluation of assets and liabilities in order to be able to meet all capitalization, solvency and liquidity requirements;
  - managing 3% of the bank's total foreign currency deposits as at 31 July 2020 in correspondent banks abroad by 28 February 2021;
  - encourage customers to return a percentage of funds previously transferred abroad since 1 July 2017; and
  - Seeking the approval of BDL to recapitalize or increase its capital, depending on its needs, by the first quarter of 2021.

Particular situation of the Bank

As disclosed in Note 2 (d), assets and liabilities in foreign currency as of 31 December 2019 were valued at the official exchange rate of 1,507.5 USD / LBP. However, several exchange rates have emerged since last quarter of 2019 that vary significantly among each other and from the official exchange rate: parallel exchange markets with high volatility, recently issued BDL circulars, estimation exchange rates detailed in the "Restructuring plan" approved by the Council of Ministers on 30 April 2020, in addition to a wide range of exchange rates adopted for commercial transactions.

These consolidated financial statements do not include adjustments from any future change in the official exchange rate. The impact of the valuation of the assets and liabilities in foreign currency at a different rate is expected to be significant and will be recognized in the consolidated financial statements once the revamping of the peg is implemented by the Lebanese government.

Loss allowances on assets on the portfolio of Lebanese government securities held at amortised cost are recorded in the consolidated financial statements based on the guidance of BDL intermediary circulars 542 and 543. However, consolidated financial statements do not include adjustments of the carrying amount of these assets (in addition to Central Bank of Lebanon), to their recoverable amounts based on International Financial Reporting Standards and an expected credit Losses model. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. Management is proactively reviewing and managing the quality of these assets. Loss allowance on the Bank's portfolio of private loans have been estimated and recorded based on the best available information at the reporting date, about past events, current conditions and forecasts of economic conditions combined with expert judgments. The exercise being carried out by management is expected to reveal additional embedded losses in its private loan portfolios. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the results of the exercise undertaken by management are measurable and determinable. Maximum exposures to the credit risks of the Bank's portfolio of private loans and the recognized loss allowances, as well as their staging are detailed in note 5 of these consolidated financial statements.

Management will also assess the effects that the above matters will have on the equity of the Group and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.

Until the above uncertainties are resolved and a government plan is implemented, the Bank will continue its operations as performed since 17 October 2019 and in accordance with the laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon may expose the Bank to litigations that will be dealt with on a case by case basis if they occur. Meanwhile, the Bank is working on reviewing the quality of its private loan portfolio and reducing its commitments and contingencies to correspondent banks outside Lebanon and to secure liquidity needs mainly through borrowing from the Central Bank of Lebanon. Additionally, the Bank is working on a roadmap in accordance with BCCL memo 15 / 2020 that will be approved by the Board of Directors once finalized.

As disclosed in Note 5 (f) of these financial statements, the Bank's capital adequacy ratio as at 31 December 2019 was calculated based on the recorded figures and does not take into consideration the adjustments that will result from the resolution of the uncertainties reflected above. To meet the requirements of the Central Bank of Lebanon Intermediary Circular 532 towards increasing its regulatory capital by 10% by 31 December 2019 and another 10% by 30 June 2020, the Bank initiated the process of increasing its regulatory capital subsequently.

Finally, Management is currently assessing and developing restructuring and recapitalization plans. However, a reasonable and credible plan can only be achieved once the above uncertainties are resolved and the amount of recapitalization needs is accurately determinable.

(2) BASIS OF PREPARATION

(a) Statement of compliance
These consolidated financial statements have been prepared in accordance with IFRS standards.

This is the first set of the Group's annual financial statements in which IFRS 16 *Leases* has been applied. The related 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:

- Financial instruments at fair value through other comprehensive income are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value; and
- Shares acquired in settlement of debt are measured at fair value using the equity method.

(c) Functional and presentation currency
These consolidated financial statements are presented in Lebanese Pounds (LBP), which is the Group's functional currency. All amounts have been rounded to the nearest thousands, 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.

(i) Judgements
Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

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.

Note 3 (b) and (c): determination of control over investee.

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 SPPI on the principal amount outstanding.

Note 3 (k): Lease term: whether the Group is reasonably certain to exercise extension options.

(ii) Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes:

Note 5 (b) and Note 3 (m) *(vii)*: impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

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

(3) SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 4, the Group has consistently applied the following accounting policies 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 consolidated financial statements include the Group'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 exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date.

The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the 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 into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of financial assets at fair value through other comprehensive income are recognised in other comprehensive income.

The Group has used the official exchange rate of 1507.5 (USD/LBP) to translate assets, liabilities and statement of income items (year-end rate and average rate for 2019 and 2018).

(f) Interest

(i) 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.

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

(iii) 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 (when the asset is not credit impaired) 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.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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

(iv) 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 on debt instruments measured at FVOCI and
- interest on debt instruments measured at FVPL.

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

(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.

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.

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.

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 consolidated 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 trading 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.

(k) Leases

Group acting as a lessee - Operating leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or change) on or after 1 January 2019.

Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to consolidated non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be ready determined, the Group's incremental borrowing rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-values assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-values assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:
- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use asset.

As a lessee

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(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 on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable is the best estimate of the tax to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

(m) Financial assets and financial liabilities
(i) Recognition and initial measurement
The Group initially recognises loans and advances, deposits and debt securities 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 on which 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. The fair value of a financial instrument at initial recognition is generally its transaction price.

(ii) Classification
Financial assets
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.

In addition, on initial recognition, the Group may irrevocably elect to present subsequent changes in fair value in OCI - see note 3 (p). 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:
- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to Bank's management;
- the risks that affect the performance of the business model;
- the frequency, volume and timing of sales; and
- whether management's strategy focuses on earning contractual interest revenues.

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.

The Group's retail and corporate banking business comprise primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within the business model whose objective is to hold assets to collect the contractual cash flows.

Certain other debt securities are held by the Group to meet everyday liquidity needs. The Group seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The Group considers that these financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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.

(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 derecognised), 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 recognised in other comprehensive income is recognised in profit or loss.

Any cumulative gain/loss recognised in other comprehensive income 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 Note 3 (p). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a consolidated 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 derecognised. 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 sale-and-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

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 derecognised (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 Note 3 (e)).

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.

(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.

(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 at 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 at 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

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- 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. The Group does not apply the low credit risk exemption to any other financial instruments.

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'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which a lifetime ECL are recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that 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 all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:
- financial assets: the original effective interest rate or an approximation thereof;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contract issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

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' assessment of creditworthiness as reflected in the bond yields; and
- the probability of default being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

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; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in retained earnings.

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 other comprehensive income.

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.

(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.

Financial liabilities
The Group designates financial liabilities as at FVTPL in either of the following circumstances:
- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(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 or loss on investments securities at fair value through profit or loss".

(p) Loans and advances
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.

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.

(q) Investment securities
The investment securities caption in the statement of financial position includes:
- debt investment securities measured at amortised cost (see Note 3 m (i) (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 Note 3 m (i) (ii)); these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- interest revenue using the effective interest method;
- ECL and reversals;
- foreign exchange gains and losses; and
- when debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

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.

Fair value 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 Note 3 m (i) (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.

(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 is recognised in the statement of profit or loss.

(ii) Subsequent costs
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

Items of property and equipment are depreciated from the date they are available for use. 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. Depreciation is recognised in profit or loss. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property and equipment 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%, depending on the date the related loan was granted.

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

(u) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the 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 discounted. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount impairment losses are recognised in profit or loss. For assets except goodwill, 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 are 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 at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3 l (i) (*vii*)) and the amount initially representing recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles IFRS 15.

The Group has issued no loan commitments that are measured at FVTPL.

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 that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the 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 Bank’s shareholders. On 4 November 2019, BDL issued an intermediary circular 532 “Capital Adequacy Regulatory Framework for Banks Operating in Lebanon” in which it states that banks are not allowed to distribute dividends for the fiscal year 2019.

(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 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Bank’s consolidated financial statements:

- *Amendments to References to Conceptual Framework in IFRS standards*
- *Definition of a Business (Amendments to IFRS 3)*
- *IFRS 17 Insurance Contracts.*

(4) CHANGES IN ACCOUNTING POLICIES

The Group initially applied IFRS 16 *Leases* from 1 January 2019. A number of other new standards are also effective from 1 January, but they do not have a material effect on the Group's consolidated financial statements.

IFRS 16 *Leases*

The Group applied IFRS 16 using the modified retrospective approach, where right-of-use asset is equal to the lease liability and prepayments as at the adoption date. Therefore, there is no cumulative effect of adopting IFRS 16 as an adjustment to the opening balance of retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3 (j).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

(ii) As a lessee

As a lessee, the Group leases branches and office premises. The Group previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branches and office premises – i.e. these leases are on-balance sheet. Further, the Group has not entered into any new leases during the year ended 31 December 2019.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for leases of branches and office premises the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see Note 4 (iii)).

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application. The Group used a number of practical expedients when applying IFRS 16 to lease previously classified as operating leases under IAS 17. In particular, the Group:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(iii) Impact on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below:

In thousands of LBP	**1 January 2019**
Right-of-use assets	35,537,041
Lease liabilities	33,270,122
Prepayments (included under other assets)	2,266,919

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8.57%.

(5) FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

- Credit risk;
- liquidity risk;
- market risk; and
- operational risk.

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, operations and the financial soundness of the Group, and ensures the interests of the stakeholders are met and has overall responsibility for the establishment and oversight of the Group's risk management and corporate governance framework. 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 Group's website. The function, roles, and responsibilities of each Board Committee are set out in terms of reference and shall be published on the Group's website.

Each Board Committee has direct access to appropriate members of the Group'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.

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 established a board Audit Committee comprising of 3 members. Membership of the Audit Committee shall be disclosed in the annual report.

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

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.

The Bank Audit Committee oversees how management monitors compliance with the Bank's management policies and procedures.

The Audit Committee is associated in its oversight role by Internal Audit.

Internal Audit undertakes both regular and ad hoc reviews of controls and procedures, the results of which are reported to the Audit Committee.

Corporate Governance Committee

The Board has formed a Corporate Governance Committee to oversee the preparation and amendments of its 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 Bank. 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 Bank 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 Bank'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 management committees set up with clear missions authorities and responsibilities and include:

Executive and Investment Committee

The Executive and Investment Committee roles and responsibilities includes:

- defining strategic orientations of the Group;
- periodically set and review of Group policies; and
- setting targets, annual budgets etc. and reporting them to the board.

Asset Liability Committee (ALCO)

The Board of Directors has established the Group Asset and Liability Management Committee (ALCO), which is responsible for approving and monitoring the risk management policies.

The Credit Committee (CC)
Classification, Provisioning and Non-Performing Loans Committee (NPLC)
Committee on Operational Risk Management (CORM)
IT and Organisation Committee
Security Committee
Network Committee
Procurement Committee
Retail Products and Services Committee
Human Resources Committee
Internal Control Committee (ICC)
Follow-up Committee for Subsidiaries

(b) Credit risk

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

The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities is managed as a component of market risk.

(i) Settlement risk

The Bank'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 Bank 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 approvals.

(ii) Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to the Bank's Credit Committee. A Risk Management Department (reporting to the General Manager) is responsible for the monitoring of the Bank'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 collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure:* for the approval and renewal of credit facilities.
- *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 Bank's approach to controlling this concentration of exposure is by the diversification of its commitments and by selling limits at level of aggregate of products, economic sectors, region and segments.
- *Developing and maintaining the Bank'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.
- *Developing and maintaining the Bank's processes for measuring Expected Credit Losses* allocated per risk grading category as per the three stages in accordance with the International Financial Reporting Standard "IFRS 9".
- *Reviewing compliance* with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of 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 Bank in the management of credit risk.

(iii) Grading of credit risk

Each credit officer is responsible of implementing the Bank's 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 Bank 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.

Regular audits of the Bank's 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 / Follow up and Regularization (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 Specific Stage Rating 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).

	2019				2018			
In thousands of Lebanese Pound	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks and financial institutions at amortised cost								
Grade 1-2: Low fair risk	93,497,126	–	–	93,497,126	122,880,741	–	–	122,880,741
Grade 3: Low fair risk	–	–	–	–	–	–	–	–
Grade 4: Substandard	–	–	–	–	–	–	–	–
Grade 5: Impaired	–	–	–	–	–	–	–	–
Grade 6: Total loss	–	–	9,261,439	9,261,439	–	–	9,257,072	9,257,072
	93,497,126	–	9,261,439	102,758,565	122,880,741	–	9,257,072	132,137,813
Less ECL allowance	(1,487,165)	–	(9,261,439)	(10,748,604)	(195,491)	–	(9,257,072)	(9,452,563)
Net carrying amount	92,009,961	–	–	92,009,961	122,685,250	–	–	122,685,250
Loans and advances to customers and related parties at amortised cost								
Grade 1-2: Low fair risk	1,228,097,902	–	–	1,228,097,902	1,815,756,146	–	–	1,815,756,146
Grade 3: Low fair risk	–	806,568,534	–	806,568,534	–	894,782,109	–	894,782,109
Grade 4: Substandard	–	–	304,185,046	304,185,046	–	–	184,821,066	184,821,066
Grade 5: Impaired	–	–	607,492,937	607,492,937	–	–	230,638,879	230,638,879
Grade 6: Total loss	–	–	47,723,191	47,723,191	–	–	17,603,451	17,603,451
	1,228,097,902	806,568,534	959,401,174	2,994,067,610	1,815,756,146	894,782,109	433,063,396	3,143,601,651
Less ECL allowance	(33,251,817)	(5,321,492)	(343,566,833)	(382,140,142)	(7,372,827)	(29,185,877)	(154,954,194)	(191,512,898)
Net carrying amount	1,194,846,085	801,247,042	615,834,341	2,611,927,468	1,808,383,319	865,596,232	278,109,202	2,952,088,753

	2019				2018			
In thousands of Lebanese Pound	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at amortised cost								
Grade 1-2: Low fair risk	294,804,632	–	–	294,804,632	295,331,086	–	–	295,331,086
Grade 3: Low fair risk	–	–	–	–	–	–	–	–
Grade 4: Substandard	–	–	–	–	–	–	–	–
Grade 5: Impaired	–	–	–	–	–	–	–	–
Grade 6: Total loss	–	–	–	–	–	–	–	–
	294,804,632	–	–	294,804,632	295,331,086	–	–	295,331,086
Less ECL allowance	(4,531,834)	–	–	(4,531,834)	(1,335,305)	–	–	(1,335,305)
Net carrying amount	290,272,798	–	–	290,272,798	293,995,781	–	–	293,995,781
Lending commitments and financial guarantees								
Grade 1-2-3: Low fair risk	343,774,815	–	8,611,789	352,386,604	428,627,283	–	5,244,376	433,871,659
Less ECL allowance	(1,476,374)	–	(3,392)	(1,479,766)	(1,161,681)	–	(5,500)	(1,167,181)
Net carrying amount	342,298,441	–	8,608,397	350,906,838	427,465,602	–	5,238,876	432,704,478
Balances with the Central bank of Lebanon								
Grade 1-2-3: Low fair risk	2,664,591,525	–	–	2,664,591,525	2,640,870,118	–	–	2,640,870,118
Less ECL allowance	(4,916,909)	–	–	(4,916,909)	(7,901,772)	–	–	(7,901,772)
Net carrying amount	2,659,674,616	–	–	2,659,674,616	2,632,968,346	–	–	2,632,968,346
Debtors by acceptances								
Grade 1-2-3: Low fair risk	53,617,531	–	–	53,617,531	15,970,833	–	–	15,970,833
Less ECL allowance	(962,820)	–	–	(962,820)	(60,273)	–	–	(60,273)
Net carrying amount	52,654,711	–	–	52,654,711	15,910,560	–	–	15,910,560
Other assets								
Grade 1-2-3: Low fair risk	200,601,120	–	10,836,819	211,437,939	14,150,546	–	4,938,079	19,088,625
Less ECL allowance	(14,934)	–	(3,795,017)	(3,809,951)	(5,823)	–	(2,154,566)	(2,160,389)
Net carrying amount	200,586,186	–	7,041,802	207,627,988	14,144,723	–	2,783,513	16,928,236

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 three-stage assessment is based on relative credit risk compared to that at the time of initial recognition, in addition to forward-looking information that is available without undue cost or effort.

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. The Group will use these grades in identifying significant increase in credit risk under IFRS 9. 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 sued to measure the degree of riskiness of a given 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.

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.

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 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.

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 lifetime PD estimated on initial recognition.

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:
- Probability of default (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.

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD.
Lifetime ECL are calculated by multiplying the lifetime PD by LGD and EAD; contractual cash flows are discounted for present values.

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.

LGD represents 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.

The exposure is considered to be the higher between outstanding and authorised amounts, net present value and net of eligible collateral (reduced by a haircut).

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

	2019				2018			
In thousands of Lebanese Pound	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers at amortised cost								
Balance at 1 January	7,372,827	29,185,877	154,954,194	191,512,898	6,290,027	3,551,744	159,837,609	169,679,380
Net remeasurement and reallocations	828,488	–	193,269,671	194,098,159	1,180,179	25,634,133	2,606,611	29,420,923
Recoveries	(201,617)	–	(3,264,881)	(3,466,498)	(97,037)	–	(1,025,914)	(1,122,951)
Write-offs	(5,997)	–	–	(5,997)	–	–	(6,460,423)	(6,460,423)
Transfer from stage 3 to general provision (retail)	4,736,255	–	(4,736,255)	–	–	–	–	–
Transfer from general provision to stage 3 commercial	(3,327,451)	–	3,327,451	–	–	–	–	–
Transfer from stage 2 to stage 1	23,864,385	(23,864,385)	–	–	–	–	–	–
Foreign exchange difference	(15,073)	–	16,653	1,580	(342)	–	(3,689)	(4,031)
Balance at 31 December	33,251,817	5,321,492	343,566,833	382,140,142	7,372,827	29,185,877	154,954,194	191,512,898

	2019				2018			
In thousands of Lebanese Pound	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances with banks and financial institutions								
Balance at 1 January	195,491	–	9,257,072	9,452,563	132,208	–	9,264,921	9,397,129
Net remeasurement and reallocations	1,291,674	–	–	1,291,674	63,283	–	(7,849)	55,434
Foreign exchange difference	–	–	4,367	4,367	–	–	–	–
Balance at 31 December	1,487,165	–	9,261,439	10,748,604	195,491	–	9,257,072	9,452,563

In thousands of Lebanese Pound	2019 Stage 1-2-3	2018 Stage 1-2-3
Investment securities		
Balance at 1 January	1,335,305	1,444,823
Net remeasurement and reallocations	3,196,529	(109,518)
Balance at 31 December	4,531,834	1,335,305
Balances with the Central bank of Lebanon		
Balance at 1 January	7,901,772	6,830,213
Net (recoveries) / remeasurement and reallocations	(2,984,863)	1,071,559
Balance at 31 December	4,916,909	7,901,772
Lending commitments and financial guarantees		
Balance at 1 January	1,167,181	536,047
Net remeasurement and reallocations	312,585	631,134
Balance at 31 December	1,479,766	1,167,181
Other debtors		
Balance at 1 January	2,160,389	2,064,696
Net remeasurement and reallocations	1,649,562	95,693
Balance at 31 December	3,809,951	2,160,389

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the impairment losses on financial instruments line item in the consolidated statement of profit or loss and other comprehensive income.

Collateral held

Type of credit exposure

The Group holds collateral against certain of its credit exposures. An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers and related parties is shown below:

In thousands of Lebanese Pound	Fair value of collateral at year end 2019	Fair value of collateral at year end 2018
Against doubtful and bad debts		
Mortgaged property	430,591,166	78,814,520
Cash	5,815,414	4,879,681
Against substandard		
Mortgaged property	290,963,403	164,837,180
Cash	1,672,774	1,438,970
Against regular loans and advances		
Mortgaged property	1,691,184,729	2,349,529,669
Debt securities	–	247,364
Equities	105,129,704	65,190,741
Cash	205,878,656	261,986,511
Total	2,731,235,846	2,926,924,636

The Group typically does not hold collateral against balances with banks and financial institutions and against investment securities, and no such collateral was held at 31 December 2019 or 2018.

Non-financial assets were obtained by the Group during the year by taking possession of collateral held as security against loans and advances.

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 2019	Due from Central Bank, banks and financial institutions 2018	Loans and advances to customers and related parties 2019	Loans and advances to customers and related parties 2018	Investment securities (debt securities) 2019	Investment securities (debt securities) 2018	Lending commitments and financial guarantees 2019	Lending commitments and financial guarantees 2018
Carrying amount	7, 8, 9,10, 37	2,751,684,577	2,755,653,596	2,611,927,468	2,952,088,753	300,111,391	305,006,294	350,906,838	432,715,477
Concentration by sector									
Corporate		–	–	2,061,045,153	2,303,466,417	8,843,042	9,286,362	279,023,060	388,706,066
Sovereign		2,659,674,616	2,632,968,346	–	–	291,268,349	295,719,932	–	–
Bank		92,009,961	122,685,250	–	–	–	–	27,942,184	–
Retail		–	–	550,882,315	648,622,336	–	–	43,941,594	44,009,411
		2,751,684,577	2,755,653,596	2,611,927,468	2,952,088,753	300,111,391	305,006,294	350,906,838	432,715,477
Concentration by location									
Lebanon		2,678,822,087	2,661,773,801	2,352,814,186	2,563,129,767	300,111,391	305,006,294	286,694,209	369,751,127
Americas		4,344,261	45,899,916	11,139,399	40,187,311	–	–	331,958	317,534
Europe		43,838,834	39,057,274	86,820,479	174,676,172	–	–	34,384,460	35,822,292
Asia Pacific		31,924	31,726	631,882	370,523	–	–	14,586	13,184
Middle East and Africa		24,306,653	6,346,231	160,473,841	173,665,962	–	–	29,404,009	26,768,867
Australia		340,818	2,544,648	47,681	59,018	–	–	77,616	42,473
Carrying amount	7, 8, 9,10, 37	2,751,684,577	2,755,653,596	2,611,927,468	2,952,088,753	300,111,391	305,006,294	350,906,838	432,715,477

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in funding increases in assets and in meeting obligations as they come due (without incurring unexpected losses).

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; and
- 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 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 net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposits and acceptances and other debt instruments issued by the Group and loans from the public sector that mature within one year.

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 2019								
Non-derivative liabilities								
Due to Central bank, banks and financial institutions	17, 18	(691,414,458)	(830,945,141)	(334,293,700)	(37,514,393)	(23,289,880)	(172,152,279)	(263,694,889)
Deposits from customers and related parties	19	(4,779,381,284)	(5,011,984,884)	(2,217,041,841)	(1,025,718,092)	(1,329,366,771)	(439,858,180)	–
		(5,470,795,742)	(5,842,930,025)	(2,551,335,541)	(1,063,232,485)	(1,352,656,651)	(612,010,459)	(263,694,889)
Non-derivative assets								
Cash and balances with the Central Bank of Lebanon	7	2,683,919,951	5,003,911,253	229,121,486	44,368,097	204,769,212	969,012,954	3,556,639,504
Banks and financial institutions	8	92,009,961	92,363,818	88,243,986	20,838	4,098,994	–	–
Loans and advances to customers and related parties	9	2,611,927,468	3,766,153,124	1,370,984,504	33,035,841	168,830,117	770,039,744	1,423,262,918
Investment securities	10	305,927,655	595,215,068	2,651,206	10,369,454	16,551,437	120,017,354	445,625,617
		5,693,785,035	9,457,643,263	1,691,001,182	87,794,230	394,249,760	1,859,070,052	5,425,528,039
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
		6,063,389,224	9,816,727,606	1,473,683,522	150,529,684	472,953,450	1,873,317,232	5,846,243,718

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 adverse changes in market prices, such as interest rates, equity prices, foreign exchange rates that affect the Group's income. 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

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. Capital markets are monitoring the limits and the risk management department is suggesting these limits and highlighting breaches or risky positions.

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

In thousands of Lebanese Pound	Note	Gross 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 2019								
Cash and balances with the Central Bank of Lebanon	7	2,688,836,860	27,888,750	16,431,750	34,762,195	539,449,438	1,833,205,600	237,099,127
Banks and financial institutions	8	102,758,565	20,947,681	4,221,000	–	–	–	77,589,884
Loans and advances to customers and related parties	9	2,994,067,610	1,498,993,149	3,606,000	13,988,000	230,198,000	286,928,000	960,354,461
Investment securities at amortised cost (debt securities)	10	294,804,632	7,456,525	–	447,542	72,383,113	210,273,843	4,243,609
		6,080,467,667	1,555,286,105	24,258,750	49,197,737	842,030,551	2,330,407,443	1,279,287,081
Due to Central bank, banks and financial institutions	17, 18	(691,414,458)	(372,279,000)	(20,000)	(4,367,000)	(73,270,000)	(214,036,000)	(27,442,458)
Deposits from customers and related parties	19	(4,779,381,284)	(2,521,002,000)	(519,427,000)	(674,971,000)	(679,006,000)	–	(384,975,284)
		(5,470,795,742)	(2,893,281,000)	(519,447,000)	(679,338,000)	(752,276,000)	(214,036,000)	(412,417,742)
		609,671,925	(1,337,994,895)	(495,188,250)	(630,140,263)	89,754,551	2,116,371,443	866,869,339
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 at amortised cost (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

As disclosed in note 1, the Group's assets and liabilities in foreign currencies are valued at the official exchange rate, and due to high volatility and the significant variance in exchange rates between the multiple markets, Management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognized in the consolidated financial statements once the change in the official exchange rate is incremented by the Lebanese government.

Exposure to currency risks

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 2019			31 December 2018		
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	1,509,090,522	1,174,829,429	2,683,919,951	1,691,645,722	986,098,877	2,677,744,599
Banks and financial institutions	4,076,977	87,932,984	92,009,961	5,539,609	117,145,641	122,685,250
Loans and advances to customers and related parties	598,021,563	2,013,905,905	2,611,927,468	812,049,484	2,140,039,269	2,952,088,753
Investment securities	132,961,888	172,965,767	305,927,655	132,491,336	178,379,286	310,870,622
Shares acquired in settlement of debt at fair value through profit or loss	–	92,446,637	92,446,637	–	120,043,527	120,043,527
Investment in an associate	–	72,339,436	72,339,436	–	71,399,817	71,399,817
Property and equipment	86,067,623	11,845,192	97,912,815	87,580,610	11,966,440	99,547,050
Intangible assets	554,427	–	554,427	635,734	–	635,734
Other assets (including right-of-use-asset)	192,782,419	47,081,774	239,864,193	2,991,587	13,936,649	16,928,236
Debtors by acceptances	–	52,654,711	52,654,711	–	15,910,560	15,910,560
Non-current assets held for sale	–	29,882,746	29,882,746	–	7,270,246	7,270,246
Total assets	2,523,555,419	3,755,884,581	6,279,440,000	2,732,934,082	3,662,190,312	6,395,124,394
Liabilities and equity						
Due to Central Bank of Lebanon	240,536,696	210,800,875	451,337,571	432,550,846	21,215,464	453,766,310
Due to banks and financial institutions	100,709,026	139,367,861	240,076,887	85,009,265	122,955,830	207,965,095
Deposits from customers and related parties	1,515,296,280	3,264,085,004	4,779,381,284	1,768,096,526	3,263,482,657	5,031,579,183
Other liabilities (including lease liabilities)	25,478,948	132,194,865	157,673,813	18,162,163	32,859,604	51,021,767
Engagement by acceptances	–	53,617,531	53,617,531	–	15,970,833	15,970,833
Provisions	22,007,822	1,415,560	23,423,382	9,712,761	1,141,502	10,854,263
Equity	404,400,740	169,528,792	573,929,532	453,255,138	168,634,364	621,889,502
Total liabilities and equity	2,308,429,512	3,971,010,488	6,279,440,000	2,768,864,140	3,626,260,254	6,395,124,394

(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) general framework 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.

The Group's objective is to manage operational risk as to mitigate as possible forward losses and avoid damage to the Group's reputation.

(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.

On 3 February 2020, the Central Bank of Lebanon issued Intermediary Circular 543 in which it decreased the minimum regulatory capital adequacy ratios level as reflected in the table below. Under the same circular, the regulator has increased the risk weight on foreign currency exposures to the Central Bank of Lebanon from 50% to 150%, excluding deposits with original maturities less than one year, which are still subject to 50% risk weight. The Central Bank of Lebanon also requires minimum levels of 7%, 8.5% and 10.5% for CET1, Tier 1 and total CAR respectively for dividends' payments eligibility, and 4.5%, 6% and 8% respectively, excluding the capital conservation buffer. The capital conservation buffer of 2.5%, comprised Common Equity Tier 1, is established above the regulatory minimum capital requirement. When capital levels fall within this range, banks are required to increase capital levels above the conservation range within 3 years. In addition, constraints related to dividends are imposed.

On 26 August 2020, the Central Bank of Lebanon issued Intermediary Circular 567 allowing banks to build up the 2.5% capital conservation buffer starting 2022 up until 2024.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Year ended 31 December 2019			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%
Year ended 31 December 2018			
Minimum required capital ratios	5.50%	8.50%	10.50%
With capital conservation buffer	10.00%	13.00%	15.00%

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

In thousands of Lebanese Pound	2019	2018
Credit risk	4,944,769,816	3,568,535,263
Market risk	259,751,798	8,665,870
Operational risk	228,309,494	254,974,612
Total risk weighted assets	5,432,831,108	3,832,175,745

	2019	2018
Common Equity Tier 1 Ratio	4.31%	10.39%
Tier 1 Capital Ratio	7.78%	15.30%
Total Capital Adequacy Ratio	8.67%	15.84%

On 4 November 2019, the Central Bank of Lebanon issued Intermediary Circular 532 requiring Lebanese banks to increase the regulatory capital by 20% of the common equity Tier 1 capital as at 31 December 2018 through cash contributions in USD, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020.

To meet the requirements of Intermediary Circular 532 towards increasing its regulatory capital by 20%, the Bank initiated the process of increasing its regulatory capital subsequently.

In thousands of Lebanese Pound	2019	2018
Share capital - common shares	152,300,000	152,300,000
Share premium - common shares	17,273,587	17,273,587
Cash contribution to capital	10,854,000	10,854,000
Capital reserves	228,395,080	203,532,591
Retained earnings	(34,012,343)	27,702,611
Deductions:		
- Intangible assets	(554,426)	(635,734)
- Fair value reserve of financial assets at FVTOCI - loss	(375,518)	(303,158)
- Regulatory adjustment due to ECL minimum requirements	(139,823,571)	(12,698,570)
Net Common Equity - Tier 1	234,056,809	398,025,327
Share capital - preferred shares	62,500,000	62,500,000
Share premium - preferred shares	125,937,499	125,937,499
Net Tier 1 Capital	422,494,308	586,462,826
Tier 2 capital		
50% Fair value reserve of financial assets through OCI - gain	1,812,944	2,146,013
ECL Stage 1	46,613,000	18,301,115
	48,425,944	20,447,128
	470,920,251	606,909,954

The Group's policy is to maintain a strong capital base so as to maintain stakeholders' confidence.

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

Due to the situation described in note 1 and to the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing. Management is unable to produce a faithful estimation of the fair value of these financial assets and liabilities.

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

In thousands of Lebanese Pound	Note	2019	2018
Cash		24,245,335	44,776,253
Unrestricted balances		52,573,190	36,634,200
Included in cash and cash equivalents	35	76,818,525	81,410,453
Term balances with the Central Bank of Lebanon		1,919,133,101	1,928,563,053
Interest receivable		55,298,347	49,113,228
Expected credit loss	5 (b)	(4,916,909)	(7,901,772)
		2,046,333,064	2,051,184,962
Compulsory reserves held with the Central Bank of Lebanon		637,586,887	626,559,637
Cash and balances with the Central Bank of Lebanon		2,683,919,951	2,677,744,599

In accordance with the Central Bank's basic circular number 84, the Bank 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 Bank 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 Bank's day-to-day operations.

These reserves comprise compulsory reserves in Lebanese Pounds amounting to LBP 104,982,255 thousand (2018: LBP 123,472,709 thousand) and foreign currencies with a counter value of LBP 532,604,633 thousand (2018: LBP 503,086,928 thousand).

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

(8) BANKS AND FINANCIAL INSTITUTIONS

In thousands of Lebanese Pound	Note	2019	2018
Current accounts		77,554,188	106,692,457
Money market placements		–	4,210,689
Cash collateral		17,932,682	21,202,658
Included in cash and cash equivalents	35	95,486,870	132,105,804
Term placement with maturity > 3 month		7,236,000	–
Interest receivable		35,695	32,009
Expected credit loss	5 (b)	(10,748,604)	(9,452,563)
		92,009,961	122,685,250

(9) LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES

	2019			2018		
In thousands of Lebanese Pound	Gross amount	ECL allowance	Carrying amount	Gross amount	ECL allowance	Carrying amount
Retail customers:						
Mortgage lending	288,976,907	(5,135,016)	283,841,891	299,963,586	(1,154,604)	298,808,982
Personal loans	270,023,640	(21,511,920)	248,511,720	346,333,480	(17,721,578)	328,611,902
Credit cards	22,538,669	(4,009,965)	18,528,704	23,803,211	(2,601,759)	21,201,452
	581,539,216	(30,656,901)	550,882,315	670,100,277	(21,477,941)	648,622,336
Corporate customers:	2,412,528,394	(351,483,241)	2,061,045,153	2,473,501,374	(170,034,957)	2,303,466,417
	2,994,067,610	(382,140,142)	2,611,927,468	3,143,601,651	(191,512,898)	2,952,088,753

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	2019	2018
Financial instruments at fair value through profit or loss (a)	10,742,169	11,965,588
Financial instruments at fair value through other comprehensive income (b)	4,912,688	4,909,253
Financial instruments at amortised cost (c)	290,272,798	293,995,781
	305,927,655	310,870,622

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

In thousands of Lebanese Pound	2019	2018
Lebanese government treasury bills and eurobonds	7,964,357	8,275,302
Certificates of deposit	973,830	1,742,512
Funds	753,750	843,174
Interest receivable	146,656	149,525
Debt securities	9,838,593	11,010,513
Equity securities	903,576	955,075
	10,742,169	11,965,588

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

In thousands of Lebanese Pound	2019	2018
Equity securities	4,912,688	4,909,253

(c) Financial instruments at amortised cost

In thousands of Lebanese Pound	2019	2018
Lebanese government treasury bills and eurobonds*	166,498,481	166,740,139
Certificates of deposit**	116,077,500	116,077,500
Funds	7,985,042	8,291,250
Interest receivable	4,243,609	4,222,197
	294,804,632	295,331,086
Expected credit loss	(4,531,834)	(1,335,305)
Debt securities	290,272,798	293,995,781

(*) Lebanese government bonds include Lebanese treasury bills for a nominal amount of LBP 108,970,600 thousand (2018: LBP 108,970,600 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 (2018: LBP 190,198 thousand) 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 Bank 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 Bank should dispose of those shares within a period of two years from the date of acquisition.

During the year ended 31 December 2019, the Bank recorded an unrealised loss on those shares acquired in settlement of debt amounting to LBP 18,187,002 thousands recorded within "Net loss / gain on investment securities at fair value through profit and loss", within note 28.

(12) PROPERTY AND EQUIPMENT

In thousands of Lebanese Pound	Land and Buildings	Furniture and equipment	Work in progress	Total
Cost				
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
Balance at 1 January 2019	67,447,934	56,792,811	13,074,435	137,315,180
Additions	–	1,218,700	2,017,564	3,236,264
Disposals	–	(323,321)	–	(323,321)
Transfers	–	2,107,353	(2,237,802)	(130,449)
Balance at 31 December 2019	67,447,934	59,795,543	12,854,197	140,097,674
Accumulated depreciation				
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
Balance at 1 January 2019	7,304,036	30,464,094	–	37,768,130
Depreciation for the year	752,447	3,970,716	–	4,723,163
Disposals	–	(306,434)	–	(306,434)
Balance at 31 December 2019	8,056,483	34,128,376	–	42,184,859
Carrying amounts				
At 1 January 2018	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
At 31 December 2019	59,391,451	25,667,167	12,854,197	97,912,815

(13) INTANGIBLE ASSETS

In thousands of Lebanese Pound	2019	2018
Cost		
Balance at 1 January	4,154,315	4,016,328
Additions	23,929	134,654
Transfers from property and equipment WIP	130,449	3,333
Balance at 31 December	4,308,693	4,154,315
Amortisation		
Balance at 1 January	3,518,581	3,326,219
Amortisation expense	235,685	192,362
Balance at 31 December	3,754,266	3,518,581
Carrying amounts		
At 1 January	635,734	690,109
At 31 December	554,427	635,734

(14) OTHER ASSETS

In thousands of Lebanese Pound	Note	2019	2018
Financial assets with BDL at amortised cost *	29	183,337,516	–
Prepayments and other debtors		16,552,570	13,935,596
Other receivables		11,324,628	4,938,079
Expected credit loss	5 (b)	(3,809,951)	(2,160,389)
Other assets		223,225	214,950
		207,627,988	16,928,236

* In accordance with BDL intermediary circular 519, the Bank has generated gains on agreement with the Central Bank of Lebanon recognised during the year ending 31 December 2019 and amounting to LBP 183,337,516 thousands net of loss on operations and amortisation. The Day-One profit will be amortised over period varying between 5 to 10 years.

The agreement with the Central Bank consists of LBP facility at an annual interest rate of 2% deposited in the Central Bank at 10.5%.

(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	Note	2019	2018
Debtors by acceptances		53,617,531	15,970,833
Expected credit loss	5 (b)	(962,820)	(60,273)
		52,654,711	15,910,560

(16) NON-CURRENT ASSETS HELD FOR SALE

In thousands of Lebanese Pound	2019	2018
Balance at 1 January	7,270,246	4,405,996
Additions	22,612,500	2,864,250
Balance at 31 December	29,882,746	7,270,246

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, groups 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	2019	2018
Subsidised loans	154,041,521	164,922,077
Term borrowings	293,587,081	285,983,581
Accrued interest	3,708,969	2,860,652
	451,337,571	453,766,310

Subsidised loans
As at 31 December 2019, subsidised loans consist of utilised amounts on facilities granted by the Central Bank of Lebanon for the purpose of lending to customers at subsidised rates in accordance with decision No. 6116 dated 7 March 1996. Principals are repayable on monthly basis and based on the amounts withdrawn by the customers.

Term borrowings
Term borrowings from The Central Bank of Lebanon amounting to LBP 105,149,581 thousand bare an interest rate of 2% and maturing between 2022 and 2033 and LBP 188,437,500 thousand bare an interest rate of 20% and maturing within 1 month.

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

In thousands of Lebanese Pound	2019
Lebanese treasury bills at amortised cost	108,970,600
Certificates of deposit with Central Bank of Lebanon at amortised cost	190,198
	109,160,798

(18) DUE TO BANKS AND FINANCIAL INSTITUTIONS

In thousands of Lebanese Pound	2019	2018
Current accounts	22,694,295	6,343,578
Term loans	216,344,017	200,339,557
Accrued interest	1,038,575	1,281,960
	240,076,887	207,965,095

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

(19) DEPOSITS FROM CUSTOMERS AND RELATED PARTIES

In thousands of Lebanese Pound	Note	2019	2018
Savings		834,492,728	1,027,169,282
Term deposits		3,283,911,826	3,392,319,773
Current deposits		364,348,996	262,658,706
Deposits under fiduciary contracts		25,708,852	42,577,904
Net creditor and cash collateral against debtor accounts		200,101,843	242,460,416
Margins on letters of credit		3,779,916	5,802,936
Interest payable		60,699,418	51,076,029
Deposits from related parties	36	6,336,968	7,513,305
Interest payable to related parties		737	832
		4,779,381,284	5,031,579,183

(20) OTHER LIABILITIES

In thousands of Lebanese Pound	2019	2018
Other creditors and accruals	72,757,544	17,817,616
Cheques for collection	12,936,601	15,177,521
Operational taxes and social security payables	13,931,664	10,153,188
Accrued expenses	23,766,252	4,008,589
Commissions received in advance	2,484,303	3,690,999
Other liabilities	16,426	173,854
	125,892,790	51,021,767

(21) OTHER PROVISIONS

In thousands of Lebanese Pound	Note	2019	2018
Provision for employee benefits obligations (a)		9,274,715	9,564,106
Provision for various matters		19,867	20,313
Provision for loss on structural exchange position		12,925	12,925
Provision for fluctuations in foreign exchange rates (b)		12,636,109	89,738
Expected credit loss - Off balance sheet	5 (b)	1,479,766	1,167,181
		23,423,382	10,854,263

(a) Provision for employee benefits obligations
The movement in the provision for employee benefits obligations during the year was as follows.

In thousands of Lebanese Pound	Note	2019	2018
Balance at 1 January		9,564,106	9,271,344
Net provision raised during the year	30	1,558,468	2,237,339
Indemnity paid during the year		(1,847,859)	(1,944,577)
Balance at 31 December		9,274,715	9,564,106

(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:

	2019		2018	
	Number of shares	Value in 000 LBP	Number of shares	Value in 000 LBP
Common shares	3,046,000	152,300,000	3,046,000	152,300,000
Preferred shares	1,250,000	62,500,000	1,250,000	62,500,000
	4,296,000	214,800,000	4,296,000	214,800,000

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.

Below is summary of dividends paid on preferred shares.

In thousands of Lebanese Pound	2019	2018
Series 2	–	2,185,875
Series 3	3,278,813	3,278,812
Series 4	2,185,875	2,185,875
Series 5	2,638,125	2,638,125
Series 6	3,391,875	167,271
Series 7	558,807	–
	12,053,495	10,455,958

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 2, 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	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	20,149,999	25,187,500	30,225,000	20,150,000	125,937,499
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; and
- No interest is paid on these contributions.

(25) RESERVES

In thousands of Lebanese Pound	2019	2018
Legal reserve (a)	41,116,803	37,733,417
Reserve appropriated to capital increase (b)	40,539,577	40,539,577
General reserves (f)	135,702,170	118,846,718
Other reserves	11,036,530	6,412,879
Capital reserves	228,395,080	203,532,591
Non-current assets held for sale reserve (c)	3,541,694	3,369,079
Fair value reserve (d)	3,250,369	2,306,186
Real estate revaluation reserve (e)	3,821,359	3,821,359
	239,008,502	213,029,215

(a) 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.

(b) 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".

(c) 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.

(d) 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.

(e) 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.

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

(26) NET INTEREST INCOME

In thousands of Lebanese Pound	2019	2018
Interest income, net of tax		
Balances with the Central Bank of Lebanon	218,624,397	166,980,780
Banks and financial institutions	3,395,065	2,279,832
Loans and advances to customers and related parties	294,679,463	256,212,181
Investment securities	19,927,156	18,703,246
Total interest income	536,626,081	444,176,039
Interest expense		
Due to banks and financial institutions	(29,610,090)	(10,963,852)
Deposits from customers and related parties	(413,863,190)	(310,025,770)
Total interest expense	(443,473,280)	(320,989,622)
Net interest income	93,152,801	123,186,417

(27) NET FEES AND COMMISSION INCOME

In thousands of Lebanese Pound	2019	2018
Fees and commission income		
Fees on letters of credit and acceptances	2,669,976	1,350,229
Fees on transactions with customers	20,846,313	22,717,966
Fees on letters of guarantee	2,743,119	3,260,238
Fees on various banking transactions	1,304,557	729,620
Brokerage and other fees	2,907,096	4,620,945
Total fees and commission income	30,471,061	32,678,998
Fees and commission expense		
Fees on banks and financial institutions accounts	(501,643)	(428,307)
Fees on various banking transactions	(20,583,504)	(4,726,717)
Brokerage and other fees	(1,003,229)	(1,993,087)
Total fees and commission expense	(22,088,376)	(7,148,111)
Net fees and commission income	8,382,685	25,530,887

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

In thousands of Lebanese Pound	2019	2018
Unrealised gain from investment securities at fair value through profit or loss	448,507	16,855,454
Unrealised loss from investment securities at fair value through profit or loss	(19,663,198)	(500,776)
Realised gain from sale investment securities at fair value through profit or loss	–	62,786
	(19,214,691)	16,417,464

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

In thousands of Lebanese Pound	Note	2019	2018
Gain on financial operations "Day-one gains"*	14	183,337,516	–
Loss from early redemption of term deposits with the Central Bank of Lebanon		(11,965,350)	(5,124,859)
Other income		6,967,241	–
		178,339,407	(5,124,859)

* During 2019, the Bank has entered with the Central Bank of Lebanon into several financial operations that were structured for the purpose of attracting USD from the market as part of the monetary policy to lower the pressure on the local currency.

The Bank entered into several agreements with the Central Bank by depositing term placements with the Central Bank of Lebanon in foreign currencies at 6.5% per annum and in LBP at 10.5% per annum (originated from the sale of foreign currencies to the Central Bank of Lebanon).

In return, the Central Bank provided leverage agreements representing term borrowings denominated in LBP amounting to LBP 416,298,000,000 bearing an interest rate of 2% per annum and having maturities ranging between 2024 and 2029.

At initial recognition and as a result of the above leverage agreement with the Central Bank of Lebanon, the Bank generated a net present value gain from financial operations amounting to LBP 199,815 million. The generated net present value gain from financial operations will be amortised over the period. As a result, the carrying amount as at 31 December 2019 amount to LBP 183,337,516 thousand.

The Bank has recorded the net present value gains from the aforementioned transactions in the statement of profit or loss and other comprehensive income, in accordance with the Central Bank of Lebanon's Intermediary Circular No. 519 dated 1 July 2019 which allows banks operating in Lebanon to record "Day-One Gains" on prevailing financial engineering operations executed after 1 January 2019, on the condition that the source of funds in the financial operations be from outside the Bank's reserves already deposited at the Central Bank of Lebanon, and those gains be transferred to general non distributable reserves at the end of year.

(30) PERSONNEL CHARGES

In thousands of Lebanese Pound	Note	2019	2018
Wages and salaries		32,563,735	30,250,229
Exceptional indemnities		4,146,655	4,677,375
Social security contributions		5,117,034	4,945,920
Provision for employee benefits obligations	21	1,558,468	2,237,339
Restructuring expenses		4,500,000	–
Representation fees		1,595,681	1,443,850
Transportation		1,364,571	1,441,356
Insurance and medical expenses		1,302,987	1,339,748
Scholarships		1,420,023	1,336,698
Other benefits		3,850,708	4,018,479
		57,419,862	51,690,994

(31) ADMINISTRATIVE EXPENSES

In thousands of Lebanese Pound	Note	2019	2018
Professional fees		6,201,406	7,925,331
Marketing and advertising		1,362,503	3,783,527
Taxes		1,832,926	2,134,720
Maintenance and repair		2,820,907	3,121,393
Expenses related to Anelik Russia liquidation	36	958,895	1,744,660
Rental expenses	38	12,913	3,200,478
Premium of the guarantee of deposits		2,535,968	2,403,320
Board of Directors attendance allowance	36	1,266,200	1,178,100
Telecommunication and postage		846,018	938,168
Utilities		736,367	743,048
Stationary and printings		415,576	530,181
Transportation expense		149,376	185,763
Other expenses		7,055,188	8,489,385
		26,194,243	36,378,074

(32) INCOME TAX EXPENSE

In thousands of Lebanese Pound	2019	2019	2018	2018
(Loss) / profit before tax		(36,618,832)		36,116,314
Income tax using the enacted tax rate	-0.23%	83,388	16.53%	5,971,348
Effect of revenues not subject to tax or subject to other tax rates and other non-deductible expenses	-0.41%	148,438	-13.53%	(4,885,764)
Capital gain tax	0.00%	–	2.75%	991,857
Provision for income tax expense	0.64%	231,826	5.75%	2,077,441

The corporate income tax rate is 17% as required by the Ministry of Finance.

In addition, the Ministry of Finance published a new Decision no. 1504/1 dated 22 December 2017 regarding the implementation of Article 51 of Law no. 497/2003 which states that interest income is subject to a tax rate of 7% and Banks can no longer benefit from deducting the tax on interest received when calculating the income tax.

The books and records of the bank have not been reviewed by the tax authorities for the years 2016 through 2019. The ultimate outcome of any review cannot be currently determined.

(33) NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

In thousands of Lebanese Pound	2019	2018
New and increased impairment allowances		
Balances with Cental Bank of Lebanon	–	1,071,559
Balances with banks and financial institutions	1,291,675	55,434
Loans and advances to customers at amortised cost	194,098,159	29,420,923
Investment securities	3,196,529	–
Other debtors	1,649,562	95,693
Acceptance	902,548	–
Off balance sheet	312,585	631,134
	201,451,058	31,274,743
Recoveries		
Investment securities	–	(109,518)
Balances with Central Bank of Lebanon	(2,984,863)	–
Loans and advances to customers at amortised cost	(3,466,498)	(1,122,951)
Other	(8,163)	–
	(6,459,524)	(1,232,469)
(Write back) / write off	(789,785)	249,366
	194,201,749	30,291,640

(34) IMPAIRMENT CHARGES ON INVESTMENTS IN SUBSIDIARY / ASSOCIATE

In thousands of Lebanese Pound	Note	2019	2018
Impairment charges on de-consolidated entity under liquidation	36 c	–	7,930,314
Impairment charges on loan to entity under liquidation	36 c	–	3,768,750
Impairment charges on investment in an associate	36 c	3,262,631	2,787,009
		3,262,631	14,486,073

(35) CASH AND CASH EQUIVALENTS

In thousands of Lebanese Pound	Note	2019	2018
Cash on hand	7	24,245,335	44,776,253
Unrestricted accounts with the Central Bank of Lebanon	7	52,573,190	36,634,200
Banks and financial institutions	8	95,486,870	132,105,804
		172,305,395	213,516,257

(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	2019	2018
Short term benefits	8,773,350	9,243,748
Board of Directors attendance allowance	1,266,200	1,178,100

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 Bank 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	2019	2018
Loans and advances	4,360,091	6,741,106
Deposits	(6,337,705)	(7,514,137)

(b) Transactions and balances with key management personnel

Related parties	Transaction value for the year ended 31 December	
In thousands of Lebanese Pound	2019	2018
Interest income	19,749	14,785
Interest expense	(269,599)	(270,246)

(c) Investments in an associate

In thousands of Lebanese Pound	31 December 2019	31 December 2018
Equity investments in unlisted associate (i)	72,339,436	71,399,817

(i) Equity investments in unlisted associate

			31 December 2019	31 December 2018
In thousands of Lebanese Pound	Country of incorporation	Number of shares	Ownership interest	Ownership interest
ID Bank CJSC	Armenia	273,926	72,339,436	71,399,817
			40.32%	40.32%

The Bank's share of the investment in associate profit for the year ended 31 December 2019 amounts to LBP 3,262,631 thousand (2018: LBP 2,787,009 thousand) that the Bank has fully provided for during the same year.

Equity investment in ID Bank CJSC was only increased by the percentage of ownership in the associate other comprehensive income.

(ii) CB Anelik RU LLC (de-consolidated)*

	Country of incorporation	Number of shares	2019 Ownership interest	2018 Ownership interest
CB Anelik RU LLC*	Russia	–	0.00%	0.00%
Opening balance			–	7,930,314
Impairment on investment in subsidiaries			–	(7,930,314)
			–	–
(iii) Subordinated loan to subsidiary				
Subordinated loan			–	3,768,750
Provision against subordinated loans			–	(3,768,750)
			–	–

* CB Anelik RU L.L.C. is de-consolidated subsidiary 100% owned by Credit Bank. CB Anelik RU L.L.C. was under liquidation since July 2017 based on the decision of the Central Bank of Russia who withdrew the banking license of this entity, in order to cease off all their operations and designated a liquidator to proceed with the liquidation. Accordingly, the Group lost control over “CB Anelik RU L.L.C.”. During 2017 and 2018, the Group has fully provided for the amount of investment in CB Anelik RU L.L.C. amounting to LBP 15,166,314 thousands. The Group incurred expenses equivalent to LBP 958,895 thousands during 2019 (2018: LBP 1,744,660 thousands) due to the liquidation of CB Anelik RU L.L.C. (refer to note 31).

(37) CONTINGENT LIABILITIES AND COMMITMENTS

In thousands of Lebanese Pound	2019	2018
Financing Commitments		
Financing commitments given to customers		
Guarantees		
Guarantees given to banks and financial institutions	45,244,038	58,528,903
Guarantees received from banks and financial institutions	1,673,680	16,749,026
Guarantees given to customers	147,522,455	186,516,418
Guarantees received from customers	5,281,249,442	5,689,993,540
Lending commitments	158,140,345	187,659,156
Operations in foreign currencies		
Foreign currencies to receive	57,071,666	48,183,129
Foreign currencies to deliver	57,088,093	48,356,988
Contingencies on legal disputes (a)	356,379,809	53,694,445
Fiduciary deposits	10,090,258	11,989,708
Bad loans fully provided for	240,030	557,384

(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) LEASES

A- Lease as lessee (IFRS 16)

(i) Right-of-use assets

In millions of Lebanese Pound	**Amount**
2019	
Balance at 1 January	35,537,041
Depreciation charge for the year	(3,300,836)
Balance at 31 December	32,236,205

(ii) Amounts recognised in profit or loss

In millions of Lebanese Pound	**2019**
2019 - Leases under IFRS 16	
Interest on lease liabilities	2,473,185
Expense relating to short-term leases	12,913
2018 - Operating leases under IAS 17	
Lease expense	3,200,478

(iii) Amounts recognised in statement of cash flows

In millions of Lebanese Pound	**2019**
Total cash outflows for leases	3,962,284

(iv) Lease liability

In millions of Lebanese Pound	**Amount**
Balance at 1 January (including prepayment)	33,270,122
Interest on lease liabilities	2,473,185
Total cash outflows for leases	(3,962,284)
Balance at 31 December	31,781,023

(39) SUBSEQUENT EVENTS

1. Subsequent to the balance sheet date, and as a result of the social unrest and demonstrations prevailing in the country, the banking community as a whole, has been exposed to business disruption and bank run to which in conjunction with the further downgrade of sovereign credit risk, have raised risks and uncertainties associated with economic and political conditions in the Republic of Lebanon, including but not limited to, access to foreign currency, capital flows and free out-flow of movement of funds, and other adverse factors contributing to disruption of operations. On 9 March 2020, Lebanon announced its default to settle the Eurobond debt payment. The Bank expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

2. The Coronavirus outbreak since early 2020 has brought about additional uncertainties in the Bank's operating environment and has impacted the Bank's operations in Lebanon and its financial position subsequent to the financial year-end. The Bank considers this event to be a non-adjusting event after the reporting period. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

3. On the 4th of August 2020, a massive explosion happened at Beirut port causing casualties, injuries and property damage with the full range of possible effects unknown.

(40) 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
   H.E. Mr. Dimyanos Kattar resigned on January 22, 2020, upon his appointment as Minister of Environment and Administrative Reform.
5. **Me. Michel Tueni**
   representing Financial Trust Participation Holding s.a.l. (FTP) - Board Member
6. **Me. Paul Harb**
   representing Holfiban s.a.l. Holding - Board Member
7. **Dr. Henri Chaoul**
   Independent Board Member
   Dr. Henri Chaoul submitted his resignation on May 17, 2020.
8. **Mr. Albert Letayf**
   Independent Board Member
   Mr. Albert Letayf submitted his resignation on May 4, 2020.

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CREDEX S.A.L.

Board of Directors:

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

General Manager:
Mr. Selim Beshara

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BEIRUT & SUBURBS

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