IBL BANK S.A.L

2019 AUDIT REPORT

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CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2019

Deloitte.

DFK FIDUCIAIRE DU MOYEN-ORIENT
A member firm of DFK International

INDEPENDENTT AUDITORS' REPORT

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

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of IBL. Bank S.A,L. (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 for the year ended December 31, 2019. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

1. We draw attention to Note 4 to the accompanying consolidated financial statements, concerning the Group's ability to continue as a going concern. There is currently a high degree of uncertainty surrounding the Lebanese banking industry and Lebanese economy as a whole which has been triggered by the following events:

- business disruption since the last quarter of 2019;
- a series of Lebanese sovereign credit risk downgrades which started to deteriorate since the last quarter of 2019 and reached a default credit risk rating (to category "RI") by all major rating agencies in March 2020, after years of a stable credit risk rating at "B" category;
- restrictions on the movement and withdrawal of funds in foreign currencies;
- the inability to transfer foreign currency funds outside Lebanon;
- the sharp fluctuation in the foreign currency exchange rates and creation of parallel markets with a wide range of price variances;
- subsequent to the reporting date, on March 7, 2020, the Lebanese Government announced its decision to default on 6.375% US$1,200,000,000 bonds due March 9, 2020 and on all remaining outstanding maturities in foreign currencies;
- an announcement on March 23, 2020 by the Lebanese Government to discontinue payments on all of its U.S. Dollars denominated Eurobonds;
- further deterioration in the market value of Lebanese Government bonds to junk status, resulting in the majority of the valuation of financial assets being adversely impacted in Lebanon;
- prolonged severe inactivity in capital markets rendering markets illiquid; and
- a devastating deadly blast occurred on August 4, 2020 at the Beirut seaport causing severe property damages across a wide area of the capital along with a large number of casualties, aggravating the financial crisis prevailing in the country.

As the situation is rapidly evolving, the effect of the default of the Lebanese Government along with the published Lebanese Government 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 Group, currently unknown.

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

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

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

2. We draw attention to Note 3 to the accompanying consolidated financial statements which states that these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Included in the consolidated statement of financial position at December 31, 2019, are financial assets measured at amortized cost amounting to LBP5,469billion (Expected credit losses amounting to LBP804billion), which have significant exposure to sovereign debt in both Lebanese Pounds and foreign currencies; foreign currency deposits with and certificates of deposit issued by the Central Bank of Lebanon and deposits held with other Lebanese banks which are credit impaired as at December 31, 2019 due to the current uncertainty in the Lebanese banking industry and the Lebanese economy as a whole. Furthermore, the Group has not performed an appropriate credit assessment of the loans and advances to customers portfolio, amounting to LBP1,030billion, taking into account the circumstances and available information that have led to additional impairment considerations as at December 31, 2019 to reflect the appropriate credit staging. Consequently, the Group has not recognized the appropriate level of impairment losses under the expected credit loss model in relation to these financial assets, which constitutes a significant departure from IFRS 9 Financial Instruments. It is not possible to determine with reasonable certainty the exact value of the impairment losses as the Group has not performed an updated expected credit loss assessment considering the factors noted above. In these circumstances, we are unable to quantify the effect of the departure from the accounting standard and in our opinion the effects would be both material and pervasive to the financial statements as a whole.
3. Management has not disclosed in the consolidated financial statements the fair value of its financial assets and financial liabilities measured at amortized cost and the valuation techniques as required by IFRS 13 Fair Value Measurement, which constitutes a departure from IFRSs. We were unable to determine the fair value or the details which should be disclosed in the financial statements.

Other Matter

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

Responsibilities of the Board of Directors and Those Charged with Governance for the 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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group'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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Code of Ethics of the Lebanese Association of Certified Public Accountants that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Beirut, Lebanon July 9, 2021	Deloitte & Touche Deloitte & Touche	DFK Fiduciaire du Moyen Orient

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31, 2019 LBP'000	December 31, 2018 LBP'000
Cash and deposits with central banks	5	4,881,658,753	3,773,511,376
Deposits with banks and financial institutions	6	284,895,336	534,754,349
Loans to banks and financial institutions	7	27,630,538	39,303,120
Loans and advances to customers	8	1,005,341,741	1,239,021,593
Loans and advances to related parties	9	24,164,069	77,362,600
Investment securities at fair value through profit or loss	10	108,837,955	249,844,136
Investment securities at amortized cost	11	2,665,605,005	4,285,700,201
Customers' liability under acceptances	12	1,135,791	18,490,206
Assets acquired in satisfaction of loans	14	50,773,562	25,321,535
Property and equipment	15	64,432,820	61,190,159
Intangible assets	16	687,199	751,216
Right of use of assets	17	3,914,426	-
Other assets	18	8,871,208	10,402,371
Total Assets		**9,127,948,403**	**10,315,652,862**
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:	38		
Documentary and commercial letters of credit		897,863	43,469,179
Guarantees and standby letters of credit		98,205,048	109,658,017
Forward exchange contracts		10,169,592	51,289,121

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

LIABILITIES	Notes	December 31, 2019 LBP'000	December 31, 2018 LBP'000
Deposits from banks and financial institutions	19	123,809,980	115,483,423
Customers' accounts	20	7,672,946,548	8,506,808,637
Related parties' accounts	20	235,365,256	327,702,881
Liability under acceptance	12	1,363,415	18,526,912
Lease liability	17	3,549,342	-
Other borrowings	21	205,153,349	217,387,662
Other liabilities	22	86,635,983	70,334,654
Provisions	23	57,750,419	41,072,904
		8,386,574,292	**9,297,317,073**
Subordinated bonds	24	60,676,875	60,676,875
Total liabilities		**8,447,251,167**	**9,357,993,948**

EQUITY	Notes	December 31, 2019 LBP'000	December 31, 2018 LBP'000
Capital	25	150,000,000	150,000,000
Non-cumulative convertible preferred shares	26	113,034,375	113,034,375
Common shares premium		6,514,784	6,514,784
Reserves	27	180,763,238	163,566,451
Asset revaluation surplus		2,752,680	2,752,680
Regulatory reserve for assets acquired in satisfaction of loans	14	16,808,725	13,749,438
Retained earnings	27	380,347,948	335,123,316
(Loss)/profit for the year		(171,837,902)	170,587,157
Equity attributable to equity holders of the Bank		678,383,848	955,328,201
Non-controlling interests	29	2,313,388	2,330,713
Total equity		680,697,236	957,658,914
Total Liabilities and Equity		**9,127,948,403**	**10,315,652,862**

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	December 31, 2019 LBP'000	December 31, 2018 LBP'000
Interest income		1,044,295,465	913,977,318
Withholding tax		(69,148,638)	(46,102,277)
Interest income, net of tax	30	(975,146,827	867,875,041
Interest expense	31	(749,046,021)	(593,872,034)
Net interest income		**226,100,806**	**274,003,007**
Fee and commission income	32	9,920,518	9,912,567
Fee and commission expense	33	(2,608,913)	(1,477,330)
Net fee and commission income		**7,311,605**	**8,435,237**
Other operating (expense)/income	34	(28,140,079)	1,064,951
Net interest and other gain on investment securities at fair value through profit or loss	35	68,244,461	41,377,536
Net financial revenues		**273,516,793**	**324,880,731**
Allowance for expected credit losses	43	(337,350,786)	(31,460,200)
Write-off of loans and advances		(325,819)	-
Net financial (loss)/revenues after impairment charge for credit losses		**(64,159,812)**	**293,420,531**
Allowance for risk and charges (net)	23	(829,125)	(5,486,366)
Staff costs	36	(44,520,204)	(52,534,171)
General and administrative expenses	37	(21,852,225)	(26,930,181)
Depreciation and amortization	15, 16	(3,532,176)	(3,934,923)
Amortization of right-of-use	17	(1,030,099)	-
Other expenses	15, 22	(487,641)	(133,404)
(Loss)/profit before income tax		**(136,411,282)**	**204,401,486**
Income tax expense	22	(35,443,945)	(33,688,000)
(Loss)/profit for the year		(171,855,227)	170,713,486
Other comprehensive income		-	
Total comprehensive income for the year		**(171,855,227)**	**170,713,486**
Attributable to:			
Equity holders of the Bank		(171,837,902)	170,587,157
Non-controlling interests	29	(17,325)	126,329
		(171,855,227)	**170,713,486**

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Bank				Attributable to Equity Holders of the Bank						
	Capital	Non-Cumulative Convertible Preferred Shares	Common Shares Premium	Reserves	Asset Revaluation Surplus	Regulatory Reserve for Assets Acquired Satisfaction of Loans	Retained Earnings	(Loss)/ Profit for the Year	Total Attributable to the Equity Holders of the Bank	Non-Controlling Interests	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance as at January 1, 2018	150,000,000	113,034,375	6,514,784	142,649,602	2,752,680	11,917,515	288,752,947	152,765,520	868,387,423	2,204,384	870,591,807
First time adoption impact of IFRS 9	-	-	-	(89,139,000)	-	-	-	-	(89,139,000)	-	(89,139,000)
Transfer from regulatory deferred liability (Note 22)	-		-	89,139,000	-	-	-	-	89,139,000	-	89,139,000
Allocation of 2017 profit	-	-	-	20,782,066	-	-	131,983,454	(152,765,520)	-	-	-
Regulatory reserve for assets acquired in satisfaction of loans	-	-	-	-	-	1,831,923	(1,831,923)	-	-	-	-
Other movement	-	-	-	43,783	-	-	(43,783)	-	-	-	-
Dividends paid (Note 28)	-	-	-	-		-	(83,879,693)	-	(83,879,693)	-	(83,879,693)
Difference in exchange	-	-	-	91,000	-	-	142,314	-	233,314	-	233,314
Total comprehensive income for the year 2018	-	-	-	-	-	-	-	170,587,157	170,587,157	126,329	170,713,486
Balance as at December 31, 2018	150,000,000	113,034,375	6,514,784	163,566,451	2,752,680	13,749,438	335,123,316	170,587,157	955,328,201	2,330,713	957,658,914
Allocation of 2018 profit	-	-		17,281,782		-	153,305,375	(170,587,157)	-	-	-
Regulatory reserve for assets acquired in satisfaction of loans	-		-	-		3,059,287	(3,059,287)	-	-	-	-
Other movement	-	-		(84,995)		-	84,995	-	-	-	-
Dividends paid (Note 28)	-	-		-	-	-	(104,959,692)	-	(104,959,692)	-	(104,959,692)
Difference in exchange	-	-		-	-	-	(146,759)	-	(146,759)		(146,759)
Total comprehensive loss for the year 2019	-	-		-	-	-	-	(171,837,902)	(171,837,902)	(17,325)	(171,855,227)
Balance as at December 31, 2019	**150,000,000**	**113,034,375**	**6,514,784**	**180,763,238**	**2,752,680**	**16,808,725**	**380,347,948**	**(171,837,902)**	**678,383,848**	**2,313,388**	**680,697,236**

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31, 2019	Year Ended December 31, 2018
		LBP'000	LBP'000
Cash flows from operating activities:			
Net (loss)/profit for the year		(171,855,227)	170,713,486
Adjustments for:			
Depreciation and amortization	15, 16	3,532,176	3,934,923
Amortization of right-of-use	17	1,030,099	
Unrealized loss on investment securities at fair value through profit or loss	35	291,684	19,935,719
Allowance for expected credit losses	43	337,350,786	31,460,200
Write-off of loans and advances		325,819	-
Allowance for risk and charges	23	829,125	5,486,366
Provision for loss in foreign currency	23	6,611,969	-
Other adjustments and effect of exchange difference		(143,886)	(128,026)
Provision for employees' end-of-service indemnities	23	100,520	3,300,656
Gain on disposal of property and equipment		-	(7,781)
Write-off of property and equipment	15	562	3,750
Interest expense	31	749,046,021	593,872,034
Interest income	30, 35	(1,011,970,016)	(913,942,688)
Income tax expense	22	35,443,945	33,688,000
		(49,406,423)	**(51,683,361)**
Net decrease in loans and advances to customers		190,507,463	24,360,097
Net decrease/(increase) in loans and advances to related parties		46,329,410	(3,075,689)
Net decrease/(increase) in investment securities		1,598,083,585	(1,093,610,629)
Net (increase)/decrease in compulsory reserves and deposits with central banks		(1,160,999,649)	353,228,885
Net decrease in loans to banks and financial institutions		10,600,000	10,600,000
Net increase in borrowings from banks and financial institutions		8,823,552	81,038,830
Net (decrease)/increase in customers' deposits		(839,510,934)	157,462,336
Net (decrease)/increase in related parties' deposits		(81,204,777)	30,645,936
Net decrease/(increase) in other assets		1,531,163	(1,247,336)
Net increase/(decrease) in other liabilities		14,550,390	(91,099,972)
Settlements made from provisions (net)	23	(1,321,252)	(1,053,240)
		(262,017,472)	**(584,434,143)**
Interest paid		(754,703,673)	(578,838,022)
Interest received		1,012,369,129	869,814,451
Income tax paid		(33,693,006)	(38,020,589)
Net cash used in operating activities		**(38,045,022)**	**(331,478,303)**
Cash flows from investing activities:			
Acquisition of property and equipment	15	(6,499,384)	(10,935,311)
Proceeds from disposal of property and equipment		-	7,781
Acquisition of intangible assets	16	(214,964)	(227,861)
Net cash used in investing activities		**(6,714,348)**	**(11,155,391)**
Cash flows from financing activities:			
Dividends paid	28	(104,959,692)	(83,879,693)
(Decrease)/increase in other borrowings		(12,234,313)	7,525,741
Settlement of lease liability	17	(1,718,529)	-
Net cash used in financing activities		**(118,912,534)**	**(76,353,952)**
Net decrease in cash and cash equivalents		(163,671,904)	(418,987,646)
Cash and cash equivalents - Beginning of year		**768,044,439**	**1,187,032,085**
Cash and cash equivalents - End of year	40	**604,372,535**	**768,044,439**

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

1. GENERAL INFORMATION

IBL Bank S.A.L. (the "Bank") is a Lebanese joint-stock company registered in the Lebanese commercial register under No. 10472 and in the Central Bank of Lebanon under No. 52. The consolidated financial statements of the Bank comprise the financial statements of the Bank and those of its subsidiaries (the "Group"). The Group is primarily involved in investment, corporate and retail banking.

The Group operates through a network consisting of 20 branches in Lebanon, 3 branches in Iraq and one branch in Limassol, Cyprus.

In its meeting held on July 6, 2020, the Board of Directors resolved to close and liquidate its branches in Baghdad, Al Basra and Erbil and withdraw from the Iraqi market.

The Bank's headquarters are located in Beirut, Lebanon.

The consolidated subsidiaries consist of the following as at December 31:

Name of Subsidiary	Inception Date	Ownership 2019 %	Ownership 2018 %	Country of Incorporation	Business Activity
Al-Itihadiah Real Estate S.A.L.	May 31, 1979	99.97	99.97	Lebanon	Real Estate Properties
IBL Holding S.A.L.	November 11, 2008	99.70	99.70	Lebanon	Holding
IBL Brokerage S.A.L.	March 14, 2006	99.80	99.80	Lebanon	Insurance Brokerage
IBL Investment Bank S.A.L.	January 8, 2011	97.99	97.99	Lebanon	Investment Bank

The Macro Economic Environment

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

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

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

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

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

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

The Group's Financial particulars

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

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

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

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

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

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

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

As disclosed in Note 41 to these consolidated financial statements, the Group's capital adequacy ratio as at December 31, 2019, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties reflected above once these uncertainties become reasonably quantifiable.

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

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

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

2.1.1 IFRS 16 Leases

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

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

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

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

Impact of the New Definition of a Lease

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

Impact on Lessee Accounting

Former operating leases

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

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term. The Group does not have leases of low-value assets.

Significant judgement in determining the lease term of contracts with renewal options

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

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Applying IFRS 16, for all leases (except as noted below), the Group:

a) recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;

b) recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and

c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Financial impact of initial application of IFRS 16

The requirements of IFRS 16 was applied to these leases from January 1, 2019. The effect of adoption IFRS 16 as at January 1, 2019 (increase/(decrease)) is as follows:

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

- Right-of-use assets of LBP4.9billion were recognized and presented within right-of-use assets.
- Lease liabilities of LBP4.9billion were recognized and presented within lease liability.
- Other assets of LBP233million related to prepayments of previous operating leases were derecognized.

For more details regarding the movements of right-of-use assets and lease liabilities, refer to Note 17.

Moreover, depreciation charge for right-of-use assets presented within “Depreciation - right-of-use assets” in the statement of profit or loss. The interest charge on lease liabilities is presented within “interest expense” in the statement of profit or loss.

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

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

- Annual Improvements to IFRS Standards 2015-2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.
- Amendments to IFRS 9 Financial Instruments: Related to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
- Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- IFRIC 23 Uncertainty over Income Tax Treatments
    - o The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
    - o Whether tax treatments should be considered collectively;
    - o Assumptions for taxation authorities’ examinations;
    - o The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
    - o The effect of changes in facts and circumstances

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

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

New and revised IFRSs	*Effective for Annual Periods Beginning on or After*
Definition of Material - Amendments to IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'	January 1, 2020
Amendments to IAS 1 Presentation of Financial Statements Amendments regarding the classification of liabilities	January 1, 2023
Definition of a Business - Amendments to IFRS 3 *Business Combination* The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	January 1, 2020
Amendments to *References to the Conceptual Framework in IFRS Standards* Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
IFRS 7 Financial Instruments: Disclosures and IFRS 9 - Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform	January 1, 2020
IFRS 9 - Financial Instruments Amendments resulting from annual improvements to IFRS standards 2018 -2020 (fees in the '10 per cent' test for derecognition of financial liabilities)	January 1, 2022
IFRS 16 Leases Amendments to provide lessees with an exemption from assessing whether a COVID -19 related rent concession is a lease modification	June 1, 2020
AS 37 Provisions, Contingent Liabilities and Contingent Assets Amendments regarding the cost to include when assessing whether a contract is onerous	January 1, 202
IFRS 17 Insurance Contracts IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as at January 1, 2023.	January 1, 2023
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011): Relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture	Effective date deferred indefinitely. Adoption is still permitted.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following measured at fair value:

- Financial instruments designated at fair value through profit or loss.
- Financial instruments designated at fair value through other comprehensive income.
- Investments in equities.
- Other financial assets not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest.
- Derivative financial instruments.

Assets and liabilities are grouped according to their nature and presented in the consolidated statement of financial position in an approximate order that reflects their relative liquidity.

Comparative balances were reclassified to conform with current year presentation for the following main captions:

- Loans and advances to customers against loans and advances to related parties.
- Offsetting assets under leverage arrangement versus borrowings from the Central Bank of Lebanon.
- Customers' accounts against related parties' accounts.
- Representing staff cost.
- Interest income/expense on customers' account against related parties' accounts.

Summary of significant accounting policies

Following is a summary of the most significant accounting policies applied in the preparation of these consolidated financial statements:

A. Basis of Consolidation

The consolidated financial statements of IBL Group S.A.L. incorporate the financial statements of the Group and enterprises controlled by the Group (its subsidiaries) as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where applicable, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses (except for foreign currency transaction gains or loss) are eliminated on consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

B. Foreign Currencies

The consolidated financial statements are presented in Lebanese Pound (LBP) which is the reporting currency of the Group. The primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar.

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Lebanese Pound using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period when this is a reasonable approximation. Exchange differences arising are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

C. Financial Instruments

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

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

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

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

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

D. Financial Assets

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

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

Specifically:

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

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

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

Debt instruments at amortised cost or at FVTOCI

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

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

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

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

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

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

Reclassifications

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

Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

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

Credit-impaired financial assets

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

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

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

Purchased or originated credit-impaired (POCI) financial assets

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

Definition of default

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

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

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

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

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

Significant increase in credit risk

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

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

Modification and derecognition of financial assets

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

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

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

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

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

Exchange of securities

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

Write-off

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

Presentation of allowance for ECL in the statement of financial position

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

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

E. Financial Liabilities and Equity

Classification as debt or equity:

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

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

The component parts of compound instruments (convertible notes) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments is an equity instrument.

Financial Liabilities:

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

F. Offsetting

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

G. Fair Value Measurement of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured by taking into account the characteristics of the asset or liability that if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

For financial reporting purposes, fair value measurement are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and
- Level 3 - Inputs are unobservable inputs for the asset or liability.

H. Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts with embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract:

- is not measured at fair value with changes in fair value recognized in profit or loss.
- is not an asset within the scope of IFRS 9.

I. Financial Guarantee Contracts

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

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

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

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

J. Hedge Accounting

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

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

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

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

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

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

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

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

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

K. Repurchase and Reverse Repurchase Agreements

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

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

L. Property and Equipment

Property and equipment except for buildings acquired prior to 1999 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1999 are stated at their revalued amounts, based on market prices prevailing during 1999 less accumulated depreciation and impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of property and equipment, other than land and advance payments on capital expenditures less their residual values, if any, using the straight-line method over the useful lives estimated as follows:

	Rates %		Rates %
Buildings	2	Computer equipment	20
Freehold improvements	20	Vehicles	20
Furniture and equipment	8		

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

M. Intangible Assets

Intangible assets consisting of computer software are amortized on a straight-line basis over 5 years. Intangible assets are subject to impairment testing.

N. Impairment of Non-Financial Assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial, asset other than investment properties and deferred taxes, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

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

An impairment loss in respect of goodwill is not reversed.

O. Leasing

Accounting policy applicable before January 1, 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Accounting policy applied effective January 1, 2019

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

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

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

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

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

The right-of-use assets are presented as a separate line in the statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment of non-financial assets' policy.

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

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

P. Assets acquired in satisfaction of loans

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main circular 78, are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from the Banking Control Commission approval date. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized as a separate line item in the statement of profit or loss. Gains resulting from the sale of repossessed assets are transferred to reserves to be used for capital increase starting in the following financial year.

Q. Provision for Employees' End-of-Service Indemnity

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

R. Provisions

Provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted where the impact is material.

S. Deferred Restricted Contributions

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

T. Net Interest Income

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

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

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

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities.

U. Net fee and Commission Income

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

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

V. Net (Loss)/Income From Financial Assets At Fair Value Through Profit Or Loss

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

W. Dividend income

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

X. Income Tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of the items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Y. Cash and Cash Equivalents

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

A. Critical accounting judgments in applying the Group's accounting policies:

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Going concern:

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

Provision for credit losses:

Management is required to use significant judgments and estimates to estimate the amounts and timing of future cash flows and assess the risks of a significant increase in credit risks for financial assets after initial recognition and future measurement information for the expected credit losses. The most important policies and estimates used by the Group's management are detailed in note 43.

Business model assessment:

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

Significant increase of credit risk:

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 43 for more details.

Establish groups of assets with similar credit risk characteristics:

When the expected credit losses are measured on a collective basis, the financial instruments are grouped on the basis of common risk characteristics (e.g. instrument type, credit risk, collateral type, initial recognition date, remaining maturity period, industry, borrower's geographic location, etc.). The Bank monitors the appropriateness of credit risk characteristics on an ongoing basis to assess whether they are still similar.

Re-division of portfolios and movements between portfolios:

The re-division of portfolios and movements between portfolios is more common when credit risk increases significantly (or when such a large increase is reflected). Therefore, assets are transferred from expected credit losses of between (12) months to another portfolio or vice versa. However, this may happen within the portfolios that continue to be measured on the same basis as expected credit losses for a 12-month period or a lifetime, but the amount of the expected credit loss changes due to the varying credit risk of portfolios.

B. Key Sources of Estimation Uncertainty:

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Determining Fair Values:

When the fair values of financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow (DCF) model, as described in Note 44.

The inputs in these models are taken from observable markets where possible. Where practical, the discount rate used in the mark-to-model approach included observable data collected from market participants, including risk free interest rates and credit default swap rates for pricing of credit risk (both own and counter party), and a liquidity risk factor which is added to the applied discount rate. Changes in assumptions about any of these factors could affect the reported fair value of the sovereign bonds including Central Bank of Lebanon certificates of deposit.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Significant unobservable inputs consist of discount factor for illiquidity applied for the investment securities portfolio classified at fair value through profit or loss and amortized cost in accordance with the Group's internal policy.

Determining the number and relative weight of scenarios, the outlook for each type of product / market, and the identification of future information relevant to each scenario:

When measuring the expected credit loss, the Group uses reasonable and supported future information based on the assumptions of the future movement of the various economic drivers and the manner in which they affect each other.

Probability of default:

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

Loss Given Default:

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

5. CASH AND DEPOSITS WITH CENTRAL BANKS

	December 31,	
	2019	2018
	LBP'000	LBP'000
Cash on hand	28,072,506	43,914,631
Current accounts with central banks	169,021,641	348,312,638
Term placements with central banks	3,330,427,366	2,850,767,092
Term placements with Central Bank of Lebanon under leverage arrangements (Note 13)	1,521,548,312	539,274,313
Unamortized discounts (Note 11)	(65,369,833)	(45,833,418)
Allowance for expected credit losses - credit impaired	(3,781,238)	(4,801,238)
Accrued interest receivable	106,035,308	58,179,721
	5,085,954,062	3,789,813,739
Expected credit losses (Note 43)	**(204,295,309)**	**(16,302,363)**
	4,881,658,753	**3,773,511,376**

Current accounts with central banks include compulsory deposits in Lebanese Pounds with Central Bank of Lebanon not available for use in the Group's day-to-day operations in the amount of LBP93billion (LBP263.3billion in 2018). These compulsory reserves are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with prevailing banking regulations.

Term placements with central banks include the equivalent in foreign currencies of LBP851billion (LBP783billion in 2018) deposited with Central Bank of Lebanon in accordance with the prevailing banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, in accordance with the prevailing Central Bank of Lebanon regulations.

Unamortized discounts amounting to LBP65billion (LBP45.8billion as of December 31, 2018) represents the surplus of specific swap deals on debt securities, whereby, discounts were deferred as yield enhancement on a time proportionate basis, over the period of the extended maturities (Note 11).

The movement of allowance for impairment on term placements with the Central Bank of Iraq - Kurdistan is summarized as follows:

	2019 LBP'000	2018 LBP'000
Balance, January 1	4,801,238	20,062,238
Transfer to provision of risk and charges (Note 23)	(1,020,000)	-
Transfer to expected credit losses as at January 1, 2018	-	(15,261,000)
	3,781,238	**4,801,238**

Term placements with the Central Bank of Lebanon have the following contractual maturities:

	December 31, 2019			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity (Year)	Amount	Average Interest Rate	Counter Value of Amount in LBP	Average Interest Rate
2020	-	-	619,573,175	4.47
2021	600,000,000	8.60	581,605,480	11.79
2022	15,000,000	8.60	648,225,000	7.58
2023	-	-	191,955,790	4.20
2024	-	-	203,899,670	3.57
2025	-	-	37,687,500	7.00
2027	248,000,000	10.50	186,138,563	6.90
2028	10,598,000	10.50	271,350,000	7.10
2029	215,559,000	10.81	339,187,500	9.23
2034	31,071,000	10.92	-	-
2047	589,652,000	11.93	-	-
2049	62,473,000	13.68	-	-
	1,772,353,000		**3,079,622,678**	

	December 31, 2018			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity (Year)	Amount LBP'000	Average Interest Rate %	Counter Value of Amount in LBP	Average Interest Rate %
2019	-	-	234,967,890	1.45
2020	-	-	436,028,940	5.72
2021	600,000,000	8.60	55,191,360	6.25
2022	15,000,000	8.60	45,225,000	3.35
2023	-	-	195,210,030	4.20
2024	-	-	236,986,500	7.25
2025			37,687,500	7.00
2027	248,000,000	10.50	186,152,185	6.90
2028	72,590,000	10.50	271,350,000	7.10
2032	30,000,000	10.92	-	-
2037	75,000,000	11.36	-	-
2047	650,652,000	12.10	-	-
	1,691,242,000		**1,698,799,405**	

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31,	
	2019 LBP'000	2018 LBP'000
Checks for collection	17,261,159	10,056,502
Current accounts with banks and financial institutions	214,920,477	332,155,918
Term placements with banks and financial institutions	52,762,500	192,772,440
Accrued interest receivable	17,589	88,012
	284,961,725	535,072,872
Expected credit losses (Note 43)	**(66,389)**	**(318,523)**
	284,895,336	**534,754,349**

Term placements with banks and financial institutions have contractual maturities less than one year.

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

	December 31,	
	2019 LBP'000	2018 LBP'000
Resident	17,154,193	27,647,026
Non-resident	267,807,532	507,425,846
	284,961,725	**535,072,872**

7. LOANS TO BANKS AND FINANCIAL INSTITUTIONS

Loans to banks and financial institutions are reflected at amortized cost and consist of the following:

	December 31,	
	2019 LBP'000	2018 LBP'000
Regular performing loans	28,900,000	39,500,000
Accrued interest receivable	239,989	315,546
Doubtful bank accounts	75,342	74,696
Less: Allowance for impairment	(75,342)	(74,696)
	29,139,989	39,815,546
Expected credit losses (Note 43)	**(1,509,451)**	**(512,426)**
	27,630,538	**39,303,120**

Loans to banks have the following contractual maturities:

	December 31,			
	2019		2018	
	LBP LBP'000	Interest Rate %	LBP LBP'000	Interest Rate %
Up to 3 months	400,000	4.35	400,000	4.35
3 months to 1 year	10,000,000	3.31	10,200,000	3.45
1 to 3 years	13,000,000	3.19	19,400,000	3.31
3 to 5 years	5,500,000	3.72	8,000,000	3.43
Above 5 years	-	-	1,500,000	4.30
	28,900,000		**39,500,000**	

8. LOANS AND ADVANCES TO CUSTOMERS

This caption consists of the following as at December 31:

	2019			2018 (represented)		
	Gross Amount Net of Unrealized Interest	Expected Credit Losses	Carrying Amount	Gross Amount Net of Unrealized Interest	Impairment Allowance	Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing loans - stages 1 and 2:						
Mortgage loans	176,542,970	(6,689,882)	169,853,088	194,028,293	(6,317,446)	187,710,847
Personal loans	33,444,867	(112,760)	33,332,107	43,429,981	(63,408)	43,366,573
Credit card	7,876,377	(75,238)	7,801,139	7,384,621	(90,436)	7,294,185
Overdrafts	12,096,147	(228,679)	11,867,468	29,569,205	(120,724)	29,448,481
Large enterprises	549,166,288	(34,498,647)	514,667,641	635,772,613	(51,896,443)	583,876,170
Small and medium enterprises	271,051,784	(24,432,171)	246,619,613	351,560,671	(6,260,506)	345,300,165
	1,050,178,433	(66,037,377)	984,141,056	1,261,745,384	(64,748,963)	1,196,996,421
Non-Performing loans - stages 3:						
Substandard loans	38,144,449	(22,748,299)	15,396,150	12,399,205	(4,563,511)	7,835,694
Doubtful loans	38,575,578	(33,231,317)	5,344,261	63,840,284	(30,231,590)	33,608,694
	76,720,027	(55,979,616)	20,740,411	76,239,489	(34,795,101)	41,444,388
Accrued interest receivable						
	460,274	-	460,274	580,784	-	580,784
	1,127,358,734	(122,016,993)	1,005,341,741	1,338,565,657	(99,544,064)	1,239,021,593

Performing corporate loans to large enterprises, outstanding at year end 2019 and 2018, include an amount of LBP219billion related to a non-resident customer which is covered by LBP234billion cash collateral. Related interest income and expense amounted to LBP33.8billion and LBP27.9billion respectively in 2019 (LBP37.6billion and LBP28.3billion respectively in 2018).

9. LOANS AND ADVANCES TO RELATED PARTIES

This caption includes loans and advances granted by the Bank to its shareholders and its related companies in the amount of LBP24billion (LBP77billion in 2018) covered to the extent of LBP3.6billion by real estate guarantees and LBP15billion by cash collateral (LBP4.3billion by real estate guarantees and LBP66.5billion by cash collateral as of December 31, 2018).

10. INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31,	
	2019	2018
	LBP'000	LBP'000
Quoted equity securities	5,987,939	7,046,124
Unquoted equity securities	2,951,873	2,835,412
Lebanese Government bonds	4,178,795	130,665,761
Foreign Eurobonds	19,572,925	-
Certificates of deposit issued by Central Bank of Lebanon	73,975,090	102,929,667
Accrued interest receivable	2,171,333	6,367,172
	108,837,955	**249,844,136**

Unquoted equity securities in the amount of LBP2.9billion as at December 31, 2019 (LBP2.8billion as at December 31, 2018) represents mainly the Group's share in startup/incubators established based on co-sharing agreements with the regulator providing the funding.

	December 31, 2019						
	LBP			C/V of F/Cy			
	Cost	Fair Value	Cumulative Change in Fair Value	Cost	Fair Value	Cumulative Change in Fair Value	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted securities	-	-	-	6,109,226	5,987,939	(121,287)	5,987,939
Unquoted securities	179,222	179,222	-	3,631,482	2,772,651	(858,831)	2,951,873
Lebanese government bonds	-	-	-	4,228,706	4,178,795	(49,911)	4,178,795
Foreign Eurobonds	-	-	-	19,572,925	19,572,925	-	19,572,925
Certificates of deposit issued by theCentral Bank of Lebanon	73,975,090	73,975,090	-	-	-	-	73,975,090
	74,154,312	74,154,312	-	33,542,339	32,512,310	(1,030,029)	106,666,622

	December 31, 2018						
	LBP			C/V of F/Cy			
	Cost	Fair Value	Cumulative Change in Fair Value	Cost	Fair Value	Cumulative Change in Fair Value	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted securities	-	-	-	7,179,584	7,046,124	(133,460)	7,046,124
Unquoted securities	179,222	179,222	-	3,261,090	2,656,190	(604,900)	2,835,412
Lebanese government bonds	-	-	-	132,539,055	130,665,763	(1,873,292)	130,665,763
Certificates of deposit issued by theCentral Bank of Lebanon	120,889,090	102,929,665	(17,959,425)	-	-	-	102,929,665
	121,068,312	**103,108,887**	**(17,959,425)**	**142,979,729**	**140,368,077**	**(2,611,652)**	**243,476,964**

11. INVESTMENT SECURITIES AT AMORTIZED COST

	December 31,	
	2019	2018
	LBP'000	LBP'000
Debt securities classified at amortized cost	3,205,405,558	4,264,334,138
Accrued interest receivable	60,252,420	104,042,219
	3,265,657,978	4,368,376,357
Expected credit losses (Note 43)	**(600,052,973)**	**(82,676,156)**
	2,665,605,005	**4,285,700,201**

The movement of investment securities, exclusive of the related accrued interest, for the years 2019 and 2018 are summarized as follows:

	2019	2018
	LBP'000	LBP'000
Balance January 1	4,264,334,138	2,653,071,461
Additions	686,451,000	1,337,537,668
Transfer from investment securities at fair value through profit or loss (Note 10)	41,421,577	728,473,750
Swaps, net	(108,553,693)	(155,003,363)
Sales	(2,166,990,892)	(113,491,563)
Matured	(8,520)	(170,848,917)
Transfer of deferred regulatory liability to expected credit losses	403,171,666	-
Effect of amortized premium and discount	(95,083,051)	(84,941,337)
Effect of unamortized premium and discount	180,663,333	69,536,439
Balance December 31	**3,205,405,558**	**4,264,334,138**

During 2019, the Group entered into a swap transaction of certificates of deposit issued by the Central Bank of Lebanon of nominal value of LBP206billion in conjunction with the acquisition of placement with Central Bank of Lebanon of LBP163billion, the premium resulting from the above transaction amounting to LBP24.8billion was deferred as yield enhancement on the new placements with Central Bank of Lebanon with maturity falling between 2027 and 2028.

During 2019, the Group entered into a swap transaction of certificates of deposit in U.S. Dollar and Lebanese Government bonds in U.S. Dollar of aggregate nominal value of USD4million and USD18million respectively to a foreign financial institution, and sale of Lebanese Government bonds in U.S. Dollar for the nominal value of USD41.4million to the Central Bank of Lebanon, concluded in conjunction with the acquisition of Lebanese Government bonds for the amount of USD128million. The premium resulting from the above transaction amounting to USD4.4million was deferred as yield enhancement on the new securities maturing in 2031 and yielding 11.11% per annum.

In addition, during 2019, the Group sold certificates of deposit in LBP and USD and Lebanese Government bonds in U.S. Dollar of aggregate nominal value of LBP984billion, USD69million and USD380million respectively. The above transaction resulted in a loss of LBP28billion recorded under "Other operating income/expense" in the statement of profit or loss and other comprehensive income (Note 34).

The Group's business model for debt securities was amended during 2019 and 2018. As a result, the Group transferred Government bonds with carrying value in the equivalent of LBP41billion (LBP728billion in 2018) from FVTPL to amortized cost portfolio.

During 2018, the Group entered into a swap transaction of Lebanese treasury bills, certificates of deposit in Lebanese Pound and Lebanese Government bonds in U.S. Dollar of aggregate nominal values of LBP228billion and LBP184billion and LBP38billion respectively, concluded in conjunction with the acquisition of Lebanon Government bonds and certificates of deposit in Lebanese Pound with longer maturities for the amount of LBP38billion and LBP694billion respectively, out of which LBP286billion were classified at fair value through profit or loss. The premium resulting from the above transaction amounting to LBP60billion was deferred as yield enhancement on the new securities maturing between 2020 and 2030 and yielding 10.23% per annum.

In addition, during 2018, the Group entered into a swap transaction of certificates of deposit issued by the Central Bank of Lebanon of nominal value of LBP151billion in conjunction with the acquisition of term placements with Central Bank of Lebanon amounting to LBP151billion. The premium resulting from the above transaction amounting to LBP30billion was deferred as yield enhancement on the new placements with Central Bank of Lebanon with maturities falling between 2023 and 2028.

Debt securities consist of the following:

	December 31, 2019						
	Nominal Amount	Net Premium/ (Discounts)	Amortized Cost	Interest Receivable	Deferred Contribution Designated to Expected Credit Losses	Expected Credit Losses	Net Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	428,926,435	(30,467,426)	398,459,009	5,986,091	-	(11,178,447)	393,266,653
Lebanese Government bonds	1,298,641,905	(255,417,032)	1,043,224,873	32,720,196	(403,171,666)	(132,404,801)	540,368,602
Certificates of deposit issued by Central Bank of Lebanon in LBP	970,000,000	1,051,849	971,051,849	7,797,232	-	-	978,849,081
Certificate for deposit issued by Central Bank of Lebanon in U.S. Dollar	846,159,750	(53,489,923)	792,669,827	13,748,901	-	(53,298,059)	753,120,669
	3,543,728,090	(338,322,532)	3,205,405,558	60,252,420	(403,171,666)	(196,881,307)	2,665,605,005

	December 31, 2018						
	Nominal Amount	Net Premium/ (Discounts)	Amortized Cost	Interest Receivable	Deferred Contribution Designated to Expected Credit Losses	Expected Credit Losses	Net Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	426,591,700	(39,805,753)	-	386,785,947	6,002,584	(16,152,260)	376,636,271
Lebanese Government bonds	1,448,195,809	(211,749,469)	(142,509,454)	1,093,936,886	28,600,275	(54,902,222)	1,067,634,939
Certificates of deposit issued by Central Bank of Lebanon in LBP	2,202,000,000	(75,108,292)	-	2,126,891,708	52,348,388	(5,609,364)	2,173,630,732
Certificate for deposit issued by Central Bank of Lebanon in U.S. Dollar	1,012,286,250	(94,904,441)	(260,662,212)	656,719,597	17,090,972	(6,012,310)	667,798,259
	5,089,073,759	(421,567,955)	(403,171,666)	4,264,334,138	104,042,219	(82,676,156)	4,285,700,201

Lebanese Government bonds include LBP967billion as at December 31, 2019 (LBP641billion as at December 31, 2018) representing assets resulted from leverage arrangements with the Central Bank of Lebanon (Note 13).

During 2019, the Bank designated fully the deferred contribution amounting to LBP403billion to expected credit losses on the Lebanese Government bonds in foreign currency.

	December 31, 2019					
	LBP			C/V of F/Cy		
	Nominal Value	Amortized Cost	Average Yield to Maturity	Nominal Value	Amortized Cost	Average Yield to Maturity
	LBP'000	LBP'000	%	LBP'000	LBP'000	%
Lebanese treasury bills:						
1 year to 3 years	339,124,760	313,718,040	9.48	-	-	-
3 years to 5 years	87,466,940	84,680,461	8.99	-	-	-
Above 10 years	2,334,735	60,508	10.92	-	-	-
	428,926,435	398,459,009		-	-	
Lebanese Government bonds:						
Up to one year	-	-	-	25,077,263	24,584,475	10.50
1 year to 3 years	-	-	-	118,304,078	116,241,724	7.44
3 years to 5 years	-	-	-	81,344,700	71,494,536	9.75
5 years to 10 years	-	-	-	204,088,364	169,497,505	9.97
Above 10 years	-	-	-	869,827,500	661,406,633	10.95
	-	-		1,298,641,905	1,043,224,873	
Certificates of deposit issued by Central Bank of Lebanon:						
Up to one year	9,000,000	8,934,723	9.98	-	-	-
1 year to 3 years	-	-	-	165,372,750	153,096,089	9.37
3 years to 5 years	11,000,000	10,892,659	8.56	535,162,500	511,779,999	7.87
5 years to 10 years	479,000,000	480,228,899	10.84	145,624,500	127,793,739	8.59
Above 10 years	471,000,000	470,995,568	11.80	-	-	-
	970,000,000	971,051,849		846,159,750	792,669,827	
	1,398,926,435	1,369,510,858		2,144,801,655	1,835,894,700	

	December 31, 2018					
	LBP			C/V of F/Cy		
	Nominal Value	Amortized Cost	Average Yield to Maturity	Nominal Value	Amortized Cost	Average Yield to Maturity
	LBP'000	LBP'000	%	LBP'000	LBP'000	%
Lebanese treasury bills:						
1 year to 3 years	133,124,760	119,832,213	9.47	-	-	-
3 years to 5 years	237,420,000	213,304,874	9.42	-	-	-
Above 10 years	56,046,940	53,648,860	8.98	-	-	-
	426,591,700	**386,785,947**		-	-	
Lebanese Government bonds:						
Up to one year	4,782	4,771	14.23	3,739	3,722	10.21
1 year to 3 years	2,261,250	2,173,434	10.02	259,998,525	246,006,177	10.38
3 years to 5 years	-	-	-	140,411,565	134,917,613	7.45
5 years to 10 years	-	-	-	437,995,080	355,727,004	10.22
Above 10 years	6,030,000	4,135,653	11.78	601,490,868	493,477,966	9.75
	8,296,032	**6,313,858**		**1,439,899,777**	**1,230,132,482**	
Deferred contribution in LBP	-	-		-	(142,509,454)	
	8,296,032	**6,313,858**		**1,439,899,777**	**1,087,623,028**	
Certificates of deposit issued by Central Bank of Lebanon:						
1 year to 3 years	14,000,000	13,600,227	9.98	-	-	-
3 years to 5 years	41,000,000	39,303,944	9.47	617,622,750	575,722,098	8.23
5 years to 10 years	1,676,000,000	1,602,987,537	10.58	206,226,000	187,429,305	8.44
Above 10 years	471,000,000	471,000,000	11.80	188,437,500	154,230,406	9.57
	2,202,000,000	**2,126,891,708**		**1,012,286,250**	**917,381,809**	
Deferred contribution in LBP	-	-		-	(260,662,212)	
	2,202,000,000	**2,126,891,708**		**1,012,286,250**	**656,719,597**	
	2,636,887,732	**2,519,991,513**		**2,452,186,027**	**1,744,342,625**	

12. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

Acceptances represent documentary credits which the Bank has committed to settle on behalf of its customers against commitments by those customers (acceptances), net of their related expected credit loss allowance amounting to LBP227.6milion as at December 31, 2019 (LBP36.7million as at December 31, 2018). The commitments resulting from these acceptances are stated as a liability in the balance sheet for the same amount.

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

	December 31,	
	2019	(represented) 2018
	LBP'000	LBP'000
Term placements with Central Bank of Lebanon	2,783,568,620	1,078,132,620
Lebanese treasury bills at amortized cost	396,587,195	396,587,195
	3,180,155,815	1,474,719,815
Borrowings from Central Bank of Lebanon	(3,180,155,815)	(1,474,719,815)
	-	-

Assets under leverage arrangement consist of term placements with the Central Bank of Lebanon and Lebanese Treasury bills in LBP subject to interest rate between 6.74% and 10.5% originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP subject to 2% interest, with the purpose of providing yield adjustment on certain transactions related to either fresh deposits in foreign currency at the Central Bank of Lebanon or purchased Lebanese Government bonds in foreign currency. The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Term placements with Central Bank of Lebanon in U.S. Dollar (Note 5)	1,521,548,312	539,274,313
Lebanese Government bonds (Note 11)	967,471,246	641,133,812
	2,489,019,558	**1,180,408,125**

During 2019, the Bank signed with Central Bank of Lebanon a netting agreement allowing to offset the "assets under leverage arrangement" versus the borrowing from the Central Bank. The agreement covered financial assets and liabilities resulting from transactions that took place before the netting agreement date that have not yet matured. As such the Bank has presented "Assets under leverage arrangement" and "term borrowing from Central Bank of Lebanon" on a net basis for the years ended December 31, 2019 and 2018 for comparative purpose.

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through enforcement of security over loans and advances.

The movement of assets acquired in satisfaction of loans during 2019 and 2018 was as follows:

	Real Estate
	LBP'000
Cost:	
Balance, January 1, 2018	24,843,179
Additions	709,521
Balance, December 31, 2018	**25,552,700**
Additions	25,769,386
Disposal	(317,359)
Balance, December 31, 2019	**51,004,727**
Allowance for Impairment:	
Balance, December 31, 2019 and 2018	**(231,165)**
Carrying Amount:	
December 31, 2019	**50,773,562**
December 31, 2018	**25,321,535**

The acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation within 2 years from the date of approval, the Group allocates a regulatory reserve for assets acquired in satisfaction of loans from retained earnings. During 2019, the Group allocated LBP3.06billion from retained earnings (LBP1.83billion during 2018).

The fair values of the assets acquired in satisfaction of loans exceed their carrying values as at December 31, 2019 and 2018.

15. PROPERTY AND EQUIPMENT

	Buildings	Freehold Improvements	Furniture and Equipment	Computer Equipment	Vehicles	Advances on Capital Expenditure	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost / Revaluation:							
Balance, January 1, 2018	42,459,097	25,249,719	6,686,602	6,408,461	778,569	5,605,464	87,187,912
Additions	1,134,408	1,031,386	246,384	533,802	5,878	7,983,453	10,935,311
Disposals	-	-	(37,353)	(29,850)	(6,128)	-	(73,331)
Transfers between categories	-	115,743	-	-	-	(115,743)	-
Transfer to intangible assets (Note 16)	-	-	-	-	-	(36,663)	(36,663)
Write off	-	(8,065)	(15,351)	(218,738)	-	-	(242,154)
Effect of exchange rates	-	78,820	4,431	8,925	(3,561)	-	88,615
Balance, December 31, 2018	43,593,505	26,467,603	6,884,713	6,702,600	774,758	13,436,511	97,859,690
Additions	404,212	2,155,981	439,127	277,108	-	3,222,956	6,499,384
Disposals	-	-	(71,762)	-	-	-	(71,762)
Transfers between categories	3,539,920	-	58,017	-	-	(3,597,937)	-
Write off	-	(59,310)	(2,759)	(98,072)	-	-	(160,141)
Effect of exchange rates	-	(4,153)	(2,998)	(3,682)	(1,646)	-	(12,479)
Balance, December 31, 2019	47,537,637	28,560,121	7,304,338	6,877,954	773,112	13,061,530	104,114,692
Accumulated Depreciation:							
Balance, January 1, 2018	2,192,894	20,937,118	4,460,101	5,095,285	624,182	-	33,309,580
Additions	315,106	2,185,273	502,191	520,957	82,110	-	3,605,637
Disposals	-	-	(37,351)	(29,850)	(6,128)	-	(73,329)
Write-off	-	(8,065)	(14,699)	(215,642)	-	-	(238,406)
Exchange difference	-	60,927	3,820	4,863	(3,561)	-	66,049
Balance, December 31, 2018	2,508,000	23,175,253	4,914,062	5,375,613	696,603	-	36,669,531
Additions	354,400	1,834,465	507,623	485,198	72,596	-	3,254,282
Disposals	-	-	(71,762)	-	-	-	(71,762)
Write-off	-	(59,310)	(2,688)	(97,581)	-	-	(159,579)
Exchange difference	-	(3,916)	(2,775)	(2,265)	(1,644)		(10,600)
Balance, December 31, 2019	2,862,400	24,946,492	5,344,460	5,760,965	767,555	-	39,681,872
Carrying Amount:							
Balance, December 31, 2019	**44,675,237**	**3,613,629**	**1,959,878**	**1,116,989**	**5,557**	**13,061,530**	**64,432,820**
Balance, December 31, 2018	**41,085,505**	**3,292,350**	**1,970,651**	**1,326,987**	**78,155**	**13,436,511**	**61,190,159**

Advances on capital expenditure represent mainly the renovation for several branches namely Jbeil, Jnah, Achrafieh, Sin el fil and Basra in Iraq which was mainly allocated in years 2018 and 2019 to buildings, furniture and equipment and freehold improvements, in addition to the advance payment on the purchase of a plot for the new branches in Hamra, Mar Mikhael and Sin El-Fil.

16. INTANGIBLE ASSETS

	Purchased Software
	LBP'000
Cost:	
Balance, January 1, 2018	4,901,089
Acquisitions	227,861
Disposals	(31,231)
Transfer from property and equipment (note 15)	36,663
Translation adjustment	(4,983)
Balance, December 31, 2018	5,129,399
Acquisitions	214,964
Translation adjustment	(7,243)
Balance, December 31, 2019	**5,337,120**
Amortization:	
Balance, January 1, 2018	4,085,040
Amortization for the year	329,286
Disposals	(31,231)
Translation adjustment	(4,912)
Balance, December 31, 2018	4,378,183
Amortization for the year	277,894
Translation adjustment	(6,156)
Balance, December 31, 2019	**4,649,921**
Carrying Amounts:	
December 31, 2019	**687,199**
December 31, 2018	**751,216**

17. LEASES

The Bank leases several assets including branches and offices. The lease terms range between 2 to 11 years:

The first time adoption impact and the movement of the right of use of assets and lease liabilities is shown below:

	LBP'000
Right of use of Assets:	
Beginning balance, January 1, 2019	4,944,525
Amortization expense	(1,030,099)
Ending balance, December 31, 2019	**3,914,426**
Lease Liabilities:	
Beginning balance, January 1, 2019	4,944,525
Interest expense	323,346
Settlement	(1,718,529)
Ending balance, December 31, 2019	**3,549,342**

18. OTHER ASSETS

	December 31,	
	2019	2018
	LBP'000	LBP'000
Accounts receivable - credit cards	1,745,612	1,466,553
Prepaid expenses	1,030,760	2,312,669
Regulatory blocked fund	4,500,000	4,500,000
Sundry accounts receivable	1,594,836	2,123,149
	8,871,208	**10,402,371**

Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese treasury upon establishment of "IBL Investment Bank S.A.L.". This deposit is refundable in case of cease of operations according to Article 132 of the Code of Money and Credit.

19. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

Deposits from banks and financial institutions are reflected at amortized cost and consist of the following:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Current deposits of banks and financial institutions	13,133,915	10,861,907
Short term borrowings	110,181,944	103,630,400
Accrued interest payable	494,121	991,116
	123,809,980	**115,483,423**

Short term borrowings mature within one year.

Deposits from banks and financial institutions are segregated between resident and non-resident as follows:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Resident	84,660,989	75,342,763
Non-resident	39,148,991	40,140,660
	123,809,980	**115,483,423**

20. CUSTOMERS' ACCOUNTS

	December 31, 2019	December 31, (represented) 2018
	LBP'000	LBP'000
Deposits:		
Current/demand deposits	887,900,310	403,586,275
Term deposits	6,365,022,130	7,343,670,729
Fiduciary deposits	21,840,146	83,116,840
Collateral against speculation accounts	9,136,249	13,474,068
Cash collateral	316,660,225	578,925,749
Margins and other accounts:		
Margins for irrevocable import letters of credit	385,732	7,327,746
Margins on letters of guarantee	9,294,838	8,837,204
Accrued interest payable	62,706,918	67,870,026
	7,672,946,548	**8,506,808,637**

Related parties accounts at amortized cost are detailed as follows:

	December 31, 2019	December 31, (represented) 2018
	LBP'000	LBP'000
Deposits:		
Demand deposits	5,875,188	2,871,010
Term deposits	204,552,486	208,690,789
Collateral against speculation account	9,053,338	14,313,828
Cash collateral	15,034,088	100,657,635
Margins against letters of credit	1,434	-
Accrued interest payable	848,722	1,169,619
	235,365,256	**327,702,881**

Deposits from customers are allocated by brackets of deposits excluding accrued interest payable as follows:

	December 31, 2019					
	LBP			Counter Value of F/Cy		
Bracket	Total Deposits	Percentage to Total Deposits	Percentage to Total No. of Accounts	Total Deposits	Percentage to Total Deposits	Percentage to Total No. of Accounts
	LBP'000	%	%	LBP'000	%	%
Less than LBP50million	146,566,507	7	85	129,420,363	2	76
From LBP50 million to LBP250 million	393,271,624	18	10	520,121,505	10	14
From LBP250 million to LBP750 million	396,834,508	18	3	811,460,698	15	6
From LBP750 million to LBP1.5 billion	228,052,590	11	1	591,935,185	11	2
More than LBP1.5 billion	999,837,023	46	1	3,392,739,627	62	2
	2,164,562,252	**100**	**100**	**5,445,677,378**	**100**	**100**

	December 31, 2018					
	LBP			Counter Value of F/Cy		
Bracket	Total Deposits	Percentage to Total Deposits	Percentage to Total No. of Accounts	Total Deposits	Percentage to Total Deposits	Percentage to Total No. of Accounts
	LBP'000	%	%	LBP'000	%	%
Less than LBP50 million	179,103,261	5	81	150,506,516	3	80
From LBP50million to LBP250 million	489,639,795	14	13	454,369,416	9	11
From LBP250 million to LBP750 million	563,910,623	17	4	665,625,788	13	5
From LBP75 0million to LBP1.5 billion	445,864,039	13	1	558,741,169	11	2
More than LBP1.5 billion	1,698,041,009	51	1	3,233,136,995	64	2
	3,376,558,727	**100**	**100**	**5,062,379,884**	**100**	**100**

Deposits from customers at amortized cost include coded deposit accounts in the aggregate amount of LBP89billion (LBP107billion in 2018). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Fiduciary deposits amounting to LBP21billion were fully received from resident banks in 2019 (LBP26billion and LBP57billion from resident and non-resident banks respectively in 2018).

The average balance of customers' deposits (including related party deposits) and related cost of funds over the last three years were as follows:

	Average Balance of Deposits			
Year	LBP Base Accounts	F/Cy Base Accounts	Cost of Funds	Average Interest Rate
	LBP'000	LBP'000	LBP'000	%
2019	3,146,492,239	5,236,045,416	725,864,237	8.66
2018	3,684,051,229	4,921,989,176	582,274,870	6.77
2017	3,818,608,816	4,671,171,223	485,498,517	5.72

21. OTHER BORROWINGS

Other borrowings represent facilities granted by Central Bank of Lebanon which are made in connection with Central Bank of Lebanon intermediate Circular 313 relating to basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans the Bank has granted responsibility, to its customers, pursuant to certain conditions, rules and mechanism.

22. OTHER LIABILITIES

This caption consists of the following:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Withheld taxes and property taxes	8,785,064	6,822,310
Income tax payable (a)	35,333,113	33,582,174
Due to the National Social Security Fund	302,335	377,056
Checks and incoming payment orders in course of settlement	27,974,704	16,719,162
Blocked capital subscriptions for companies under incorporation	836,265	1,057,750
Accrued expenses	3,367,270	3,415,513
Payable to the National Institute for the Guarantee of Deposits	4,100,000	-
Dividends payable	174,557	1,456,966
Payable to personnel and directors	887,972	931,258
Unearned revenues	977,319	1,347,329
Regulatory deferred liability (b)	-	-
Fair value of forward exchange contracts	-	290,037
Sundry accounts payable	3,897,384	4,335,099
	86,635,983	**70,334,654**

(a) Income tax payable is computed as follows:

	2019	2018
	LBP'000	LBP'000
(Loss)/profit before income tax	(136,411,282)	204,401,486
Non-deductible expense	355,530,373	43,980,457
Non-taxable income	(9,460,551)	(48,266,107)
Taxable income	209,658,540	200,115,836
Income tax expense	35,443,945	33,688,000
Less: Tax paid on resident subsidiaries	(110,832)	(96,452)
Taxes related to non-resident branch paid subsequently	-	(9,374)
Income tax payable	**35,333,113**	**33,582,174**

The Bank's tax returns for the years 2018 and 2019 are still subject to review by the tax authorities and any additional tax liability depends on the outcome of such review.

During 2019, the Bank was subject to tax examination for the fiscal years 2013 to 2017 inclusive which resulted in additional taxes and penalties in the amount of LBP3.2billion.

(b) In accordance with the Central Bank of Lebanon Intermediary Circular number 446, deferred liability which is regulated in nature shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted credit risks, and that in anticipation of implementation of IFRS 9 for impairment, as and when quantified effective on January 1, 2018.

The movement of regulatory deferred liability is as follows:

	LBP'000
Balance, January 1, 2017	671,068,825
Settlement of related tax	(100,661,000)
Appropriated to reserves to comply with IFRS 9 and regulatory requirements	(89,139,000)
Amortization for the year against interest income	(36,354,888)
Balance, December 31, 2017	444,913,937
Amortization for the year against interest income	(41,742,271)
	403,171,666
Reclassification of balance to investment securities at amortized cost (Note 11)	(403,171,666)
Balance, December 31, 2018	-

23. PROVISIONS

Provisions consist of the following:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Provision for staff end-of-service indemnity	14,004,921	15,225,653
Provision for risk and charges	26,444,062	24,595,030
Provision for expected credit losses on unutilized limits and off-balance sheet commitments (Note 43)	10,544,436	1,107,221
Provision for loss in foreign currency	6,757,000	145,000
	57,750,419	**41,072,904**

The movement of provision for staff end-of-service indemnity is as follows:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Balance, January 1	15,225,653	12,978,237
Additions (Note 36)	100,520	3,300,656
Settlements	(1,321,252)	(1,053,240)
Balance, December 31	**14,004,921**	**15,225,653**

The movement of provision for risk and charges is as follows:

	December 31,	
	2019	2018
	LBP'000	LBP'000
Balance, January 1	24,595,030	48,931,955
Additions	829,125	5,486,366
Transfer from allowance for impairment on term placements (Note 5)	1,020,000	-
Transfer to expected credit losses	-	(29,575,446)
Effect of exchange rates changes	(93)	(247,845)
Balance, December 31	**26,444,062**	**24,595,030**

24. SUBORDINATED BONDS

	December 31, 2019 LBP'000	December 31, 2018 LBP'000
Subordinated bonds	60,300,000	60,300,000
Accrued interest payable	376,875	376,875
	60,676,875	60,676,875

The Extraordinary General Assembly of shareholders held on August 24, 2015, authorize the issuance of non-convertible, non-callable, cumulative subordinated bonds in the amount of USD40million comprising 400,000 bonds issued in denominations of USD100 each. These bonds were issued on December 10, 2015 and mature on December 10, 2025 and are subject to an annual interest rate of 7.5% per annum subject to certain terms and conditions.

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purpose of computation of Risk Based Capital Ratio to be decreased by 20% in a yearly basis.

In this connection, interest expense on subordinated bonds for the year ended December 31, 2019 amounted to LBP4.5billion recorded under "Interest expense" in the consolidated statement of profit or loss (LBP4.6million in 2018) (Note 31).

25. CAPITAL

As at December 31, 2019 and 2018, Group's share capital consisted of 20,000,000 ordinary shares and 750,000 preferred shares for a par value of LBP7,500 each and fully paid.

The Bank hedged part of its capital against fluctuations in the Lebanese currency through a fixed currency position of USD6,300,000.

26. NON-CUMULATIVE CONVERTIBLE PREFERRED SHARES

Non-cumulative convertible preferred shares amounted to LBP113billion at December 31, 2019 and 2018 representing 750,000 non-cumulative preferred shares LBP7,500 each, in addition to a premium of USD95 each.

Subject to certain terms and conditions, distribution to holders of series 3 preferred shares shall be paid annually a fixed amount of USD7.5 representing a dividend yield of 7.5 percent per series 3 preferred share.

27.RESERVES

Reserves consist of the following:

	December 31, 2019 LBP'000	December 31, 2018 LBP'000
Legal reserves (a)	94,342,436	77,329,453
General reserves	5,763,000	5,763,001
Non-distributable reserve (b)	80,657,802	80,473,997
	180,763,238	163,566,451

(a) The legal reserve is constituted in conformity with the requirements of the Lebanese Code of Money and Credit on the basis of 10% of net profit. This reserve is not available for distribution.

(b) In compliance with article 16 of the basic circular no. 143 issued by the Central Bank of Lebanon, the bank transferred the reserve for general banking risk and the general reserve for performing loans to a non-distributable reserve accounts. As at January 1, 2018, balances under "Reserve for general banking risks" and "General reserve for performing loans" amounting to LBP79.5billion and LBP866million respectively, were transferred to "Non-distributable reserve".

(c) Retained earnings include non-distributable profits amounting to LBP78billion as at December 31, 2019 (LBP36billion as at December 31, 2018).

28. DIVIDENDS PAID

The following dividends were declared and paid by the Bank:

	December 31, 2019 LBP'000	December 31, 2018 LBP'000
Ordinary shares	96,480,000	75,400,000
Preferred shares	8,479,692	8,479,693
	104,959,692	83,879,693

29.NON-CONTROLLING INTERESTS

	December 31, 2019 LBP'000	December 31, 2018 LBP'000
Capital	600,300	600,300
Retained earnings	1,516,532	1,402,836
Reserves	213,881	201,248
(Loss)/profit for the year	(17,325)	126,329
	2,313,388	2,330,713

30. INTEREST INCOME

This caption consists of the following:

	2019 Interest Income LBP'000	2019 Withheld Tax LBP'000	2019 Net Interest Income LBP'000
Interest income on:			
Deposits with Central Bank of Lebanon	427,319,691	(44,780,543)	382,539,148
Deposits with banks and financial institutions	13,952,015	-	13,952,015
Investment securities at amortized cost	487,126,621	(24,275,998)	462,850,623
Loans to banks and financial institutions	1,144,869	(92,097)	1,052,772
Loans and advances to customers	111,826,457	-	111,826,457
Loans and advances to related parties	2,925,812	-	2,925,812
	1,044,295,465	(69,148,638)	975,146,827

	2018 (represented)		
	Interest Income	Withheld Tax	Net Interest Income
	LBP'000	LBP'000	LBP'000
Interest income on:			
Deposits with Central Bank of Lebanon	360,591,390	(26,330,856)	334,260,534
Deposits with banks and financial institutions	11,187,250	(77,927)	11,109,323
Investment securities at amortized cost	426,081,225	(19,492,890)	406,588,335
Loans to banks and financial institutions	2,841,888	(200,604)	2,641,284
Loans and advances to customers	109,876,159	-	109,876,159
Loans and advances to related parties	3,399,406	-	3,399,406
	913,977,318	**46,102,277)**	**867,875,041**

31. INTEREST EXPENSE

	2019	(represented) 2018
	LBP'000	LBP'000
Interest expense on:		
Deposits and borrowings from banks and financial institutions	16,070,860	3,894,840
Customers' accounts at amortized cost	700,782,359	556,688,618
Related parties' accounts at amortized cost	25,081,878	25,586,252
Subordinated bonds (Note 24)	4,522,500	4,639,176
Lease liabilities (Note 17)	323,346	-
Other borrowings	2,265,078	3,063,148
	749,046,021	**593,872,034**

32. FEE AND COMMISSION INCOME

	2019	2018
	LBP'000	LBP'000
Commission on documentary credits	708,707	742,612
Commission on letters of guarantee	1,897,179	1,870,014
Service fees on customers' transactions	6,336,727	6,230,235
Asset management fees	95,046	95,367
Commission earned on insurance policies	229,281	297,401
Other	653,578	676,938
	9,920,518	**9,912,567**

33. FEE AND COMMISSION EXPENSE

	2019	2018
	LBP'000	LBP'000
Commission on transactions with banks	2,079,415	828,583
Other	529,498	648,747
	2,608,913	**1,477,330**

34. OTHER OPERATING (EXPENSES)/INCOME

	2019	2018
	LBP'000	LBP'000
Net foreign exchange (loss)/gain	(1,233,980)	3,604,468
Loss on sale of investment securities at amortized cost (Note 11)	(28,476,515)	(3,467,608)
Other	1,570,416	928,091
	(28,140,079)	**1,064,951**

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

	2019	2018
	LBP'000	LBP'000
Interest income	36,823,189	46,067,647
Net unrealized loss	(291,684)	(19,935,719)
Net realized gain	32,087,046	17,515,066
Dividend income	432,622	297,581
Withheld tax on interest	(806,712)	(2,567,039)
	68,244,461	**41,377,536**

36. STAFF COSTS

	2019	(represented) 2018
	LBP'000	LBP'000
Salaries and related charges	27,811,330	30,045,312
Executive management remunerations	13,518,763	15,931,803
Social security contributions	3,089,591	3,256,400
Provision for end-of-service indemnities (Note 23)	100,520	3,300,656
	44,520,204	**52,534,171**

Executive management renumerations for the year 2019 includes LBP3.7billion paid based on year 2018 Bank's results in accordance with decision number 7 of the General Assembly resolution dated July 5, 2019 (LBP5.96billion for the year 2018 paid based on year 2017 Bank's results in accordance with decision number 9 of the General Assembly resolution dated June 25, 2018).

37. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
	LBP'000	LBP'000
Professional fees (Note 39)	3,528,362	3,432,238
Rent	290,823	1,888,185
Advertising	5,968,293	10,528,177
Post and telephone	1,224,762	1,289,769
Repairs and maintenance	1,702,949	1,586,823
Travel	522,420	529,779
Printing and stationery	771,159	906,169
Water and electricity	614,825	612,017
Insurance	453,470	408,606
Gifts and donations	159,441	58,367
Subscription fees	839,471	786,877
Municipality and other accrued taxes and penalties	2,509,185	1,419,840
Training and seminars	184,990	233,815
Cleaning	382,887	387,331
Licenses	82,628	79,845
Credit card expenses	872,509	769,079
Transportation	432,408	412,498
Miscellaneous expenses	1,311,643	1,600,766
	21,852,225	**26,930,181**

38. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

39. RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, and other key management. Balances with related parties consist of the following:

	December 31,	
	2019	(represented) 2018
	LBP'000	LBP'000
Direct facilities and credit balances:		
Loans and advances (net of expected credit losses)	24,164,069	77,362,600
Deposits (Note 20)	235,365,256	327,702,881
Indirect facilities:		
Letters of guarantee	212,539	91,525

Loans and advances to related parties covered by real estate mortgage and cash collateral to the extent of LBP3.6billion and LBP15billion respectively for 2019 (real state mortgage of LBP4.3billion and cash collateral of LBP66.5billion for 2018).

The executive management remunerations amounted to LBP13.5billion during 2019 (LBP15.9billion in 2018).

Professional fees rendered to two Board members amounted to LBP177million (LBP137million in 2018) (Note 37).

In addition, professional fees includes LBP643million paid to related parties (LBP559million in 2018) (Note 37).

40. CASH AND CASH EQUIVALENTS

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

	December 31,	
	2019	2018
	LBP'000	LBP'000
Cash on hand	28,072,506	43,914,631
Current accounts with central banks (excluding compulsory reserves)	72,016,203	95,578,698
Term placements with Central Bank of Lebanon	219,339,690	93,566,250
Checks for collection	17,261,159	10,056,502
Current accounts with banks and financial institutions	214,920,477	332,155,918
Term placements with banks and financial institutions	52,762,500	192,772,440
	604,372,535	**768,044,439**

Term deposits with the Central Bank of Lebanon and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

The following non-cash items were excluded from the statement of cash flows:

- LBP1billion representing the increase in provision for risk and charges for the year ended December 31, 2019 against the decrease in allowance for impairment on term placements for the same amount.
- LBP41billion representing the decrease in investment securities at fair value through profit or loss for the year ended December 31, 2019 against the increase in investment securities at amortized cost for the same amount.
- LBP25billion representing the increase in assets acquired in satisfaction of loans for the year ended December 31, 2019 against decrease in loans and advances to customers for the same amount (LBP709million in 2018).
- LBP89billion representing the decrease in regulatory deferred liabilities under "other liabilities" against increase in expected credit losses in 2018.
- LBP29.57billion representing the decrease in provision for risk and charges for the year ended December 31, 2018 against increase in expected credit losses for the same amount.
- LBP36.6million representing the increase in intangible assets for the year ended December 31. 2018 against decrease in property and equipment for the same amount.

41. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of Lebanon.

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regularly capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad (in addition to the amount imposed by the relevant authorities abroad).

The Group's capital is split as follows:

Tier I capital: Comprises share capital, non-cumulative perpetual preferred shares including its share premium after deductions for intangible assets and percentage of provision on the Bank's financial assets and off balance sheet financial commitments excluding provision on Lebanese Treasury bills and term deposits with Central Bank of Lebanon (including certificates of deposit) , share premium, reserves from appropriation of profits and retained earnings (exclusive of expected dividends distribution).

Tier II capital: Comprises qualifying subordinated bonds and non-controlling interests.

The Group's consolidated capital adequacy ratio according to Central Bank of Lebanon directions and Based III as of December 31, 2019 and 2018 was as follows:

	December 31,	
	2019	2018
	LBP Million	LBP Million
Common equity Tier 1	536,420	734,626
Additional Tier I capital	113,047	113,055
	649,467	**847,681**
Tier II capital	155,767	510,996
Total regulatory capital	**805,234**	**1,358,677**
Credit risk	7,547,467	3,712,183
Market risk	216,834	228,329
Operational risk	668,797	575,143
Risk-weighted assets and risk-weighted off-balance sheet items	**8,433,098**	**4,515,655**
Equity Tier I ratio	**6.36%**	**16.27%**
Tier I capital ratio	**7.70%**	**18.77%**
Risk based capital ratio-Tier I and Tier II capital	**9.55%**	**30.09%**

The capital adequacy ratios as at December 31, 2019 were calculated based on the recorded figures and do not take into consideration the adjustments that will result from the resolution of the uncertainties reflected in Note 1.

The Central Bank of Lebanon issued an intermediary circular # 527 dated September 18, 2019, amending the risk weights in the capital adequacy ratio computation. Moreover, subsequent to the financial position date, the Central Bank of Lebanon issued another intermediary circular # 543 dated February 3, 2020 related to Capital Adequacy Framework. Main changes are summarized as follows:

- Risk weight applied on Central Bank of Lebanon exposure in foreign currencies (including certificates of deposit) is set at 150% instead of 50% (excluding short term placements and certificates of deposit with original maturity less than one year).
- Capital conservation buffer is set at 2.5%. In case this buffer falls below 2.5%, banks are required to reconstitute common equity Tier I ratio in a maximum period of three years according to an approved plan by the Banking Control Commission.
- The new minimum capital ratios are as follows:

	%
Common Equity Tier I ratio	7.0
Tier I ratio	8.5
Total Capital ratio	**10.5**

- Banks are prohibited from distributing any dividends in case their Capital Ratios are below the following:

	%
Common Equity Tier I ratio	7.0
Tier I ratio	10.0
Total Capital ratio	**12.0**

- Increasing regulatory expected credit losses for all resident financial assets including Bank's exposure with Central Bank of Lebanon in foreign currencies.

On August 26, 2020 the Central Bank of Lebanon issued intermediate circular no. 567 in which, among other things, it amends the regulatory ECL on Lebanese Government bonds in foreign currency to 45% and allows the constitution of the regulatory ECL progressively over a period of five years, noting that the BDL central council may accept to extend the term to ten years for banks that manage to complete the requested 20% cash contribution to capital requirement before December 31, 2020.

42. SEGMENT INFORMATION

The following is the financial position and the financial performance by Group entity allocated by geographical location:

Financial Position 2019

	December 31, 2019			
	Lebanon Operations	Cyprus	Iraq	Total
	LBP'000	LBP'000	BP'000	LBP'000
ASSETS				
Cash and deposits with central banks	4,854,782,260	5,363,173	21,513,320	4,881,658,753
Deposits with banks and financial institutions	284,887,154	5,707	2,475	284,895,336
Loans to banks and financial institutions	27,630,538	-	-	27,630,538
Loans and advances to customers	995,501,024	4,168	9,836,549	1,005,341,741
Loans and advances to related parties	24,163,579	490	-	24,164,069
Investment securities at fair value through profit or loss	108,837,955	-	-	108,837,955
Investment securities at amortized cost	2,665,605,005	-	-	2,665,605,005
Customers' liability under acceptances	1,135,791	-	-	1,135,791
Assets acquired in satisfaction of loans	50,773,562	-	-	50,773,562
Property and equipment	64,156,546	96,351	179,923	64,432,820
Intangible assets	607,111	40,400	39,688	687,199
Right of use of assets	2,310,743	121,905	1,481,778	3,914,426
Other assets	7,680,914	34,897	1,155,397	8,871,208
Total Assets	**9,088,072,182**	**5,667,091**	**34,209,130**	**9,127,948,403**

Financial Position 2019 *(Continued)*

	December 31, 2019			
	Lebanon Operations	Cyprus	Iraq	Total
	LBP'000	LBP'000	BP'000	LBP'000
LIABILITIES				
Deposits from banks and financial institutions	123,713,695	-	96,285	123,809,980
Customers' accounts	7,463,971,700	140,272,653	68,702,195	7,672,946,548
Related parties' accounts	234,922,145	441,138	1,973	235,365,256
Liability under acceptance	1,363,415	-	-	1,363,415
Lease liability	2,197,625	130,314	1,221,403	3,549,342
Other borrowings	205,153,349	-	-	205,153,349
Other liabilities	85,849,202	312,383	474,398	86,635,983
Provisions	57,405,657	-	344,762	57,750,419
Subordinated bonds	60,676,875	-	-	60,676,875
Total liabilities	**8,235,253,663**	**141,156,488**	**70,841,016**	**8,447,251,167**

Financial Position 2018

	December 31, 2018			
	Lebanon Operations	Cyprus	Iraq	Total
	LBP'000	LBP'000	BP'000	LBP'000
ASSETS				
Cash and deposits with central banks	3,742,554,465	1,104,479	29,852,432	3,773,511,376
Deposits with banks and financial institutions	534,738,459	9,250	6,640	534,754,349
Loans to banks and financial institutions	39,303,120	-	-	39,303,120
Loans and advances to customers	1,224,599,925	1,764	14,419,905	1,239,021,594
Loans and advances to related parties	77,362,600	-	-	77,362,600
Investment securities at fair value through profit or loss	249,844,136	-	-	249,844,136
Investment securities at amortized cost	4,285,700,201	-	-	4,285,700,201
Customers' liability under acceptances	18,490,206	-	-	18,490,206
Assets acquired in satisfaction of loans	25,321,535	-	-	25,321,535
Property and equipment	60,525,054	106,457	558,648	61,190,159
Intangible assets	656,864	49,529	44,823	751,216
Other assets	8,752,795	45,877	1,603,699	10,402,371
Total Assets	**10,267,849,359**	**1,317,356**	**46,486,147**	**10,315,652,862**

	December 31, 2018			
	Lebanon Operations	Cyprus	Iraq	Total
	LBP'000	LBP'000	BP'000	LBP'000
LIABILITIES				
Deposits from banks and financial institutions	115,387,138	-	96,285	115,483,423
Customers' accounts	8,349,477,775	88,384,894	68,945,968	8,506,808,637
Related parties' accounts	327,700,894	-	1,987	327,702,881
Liability under acceptance	18,526,912	-	-	18,526,912
Other borrowings	217,387,662	-	-	217,387,662
Other liabilities	68,874,833	686,974	772,847	70,334,654
Provisions	40,787,920	-	284,984	41,072,904
Subordinated bonds	60,676,875	-	-	60,676,875
Total liabilities	**9,198,820,009**	**89,071,868**	**70,102,071**	**9,357,993,948**

Statement of Profit or Loss and Other Comprehensive Income

	Year Ended December 31, 2019			
	Lebanon Operations	Cyprus	Iraq	Total
	LBP'000	LBP'000	BP'000	LBP'000
Interest income	1,041,520,668	840,334	1,934,463	1,044,295,465
Withholding tax on interest	(69,148,638)	-	-	(69,148,638)
	972,372,030	**840,334**	**1,934,463**	**975,146,827**
Interest expense	(743,285,403)	(5,446,445)	(314,173)	(749,046,021)
Net interest income	**229,086,627**	**(4,606,111)**	**1,620,290**	**226,100,806**
Fee and commission income	8,005,365	36,290	1,878,863	9,920,518
Fee and commission expense	(1,946,042)	(190,435)	(472,436)	(2,608,913)
Net fee and commission income	**6,059,323**	**(154,145)**	**1,406,427**	**7,311,605**
Other operating income	(28,252,119)	18,856	93,184	(28,140,079)
Net interest and other gain/(loss) on investment securities at fair value through profit or loss	61,509,122	6,735,339	-	68,244,461
Net financial revenues	**268,402,953**	**1,993,939**	**3,119,901**	**273,516,793**
Provision for expected credit losses	(337,267,062)	(69,642)	(14,082)	(337,350,786)
Write-off of loans and advances	(325,819)	-	-	(325,819)
Net financial loss after provision for expected credit losses	**(69,189,928)**	**1,924,297**	**3,105,819**	**(64,159,812)**
Allowance for risk and charges (net)	(829,125)	-	-	(829,125)
Staff costs	(43,243,572)	(483,969)	(792,663)	(44,520,204)
Administrative expenses	(20,273,117)	(410,067)	(1,169,041)	(21,852,225)
Depreciation and amortization	(3,044,479)	(38,524)	(449,173)	(3,532,176)
Amortization of right of use	(543,159)	(60,953)	(425,987)	(1,030,099)
Other expenses	(178,022)	(1,585)	(308,034)	(487,641)
Loss before income tax	**(137,301,402)**	**929,199**	**(39,079)**	**(136,411,282)**
Income tax expense	(35,338,165)	-	(105,780)	(35,443,945)
Loss for the year	(172,639,567)	929,199	(144,859)	(171,855,227)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**(172,639,567)**	**929,199**	**(144,859)**	**(171,855,227)**

	Year Ended December 31, 2018			
	Lebanon Operations	Cyprus	Iraq	Total
	LBP'000	LBP'000	BP'000	LBP'000
Interest income	912,505,507	15	1,471,796	913,977,318
Withholding tax on interest	(46,102,277)	-	-	(46,102,277)
	866,403,230	**15**	**1,471,796**	**867,875,041**
Interest expense	(590,461,432)	(3,200,492)	(210,110)	(593,872,034)
Net interest income	**275,941,798**	**(3,200,477)**	**1,261,686**	**274,003,007**
Fee and commission income	7,764,929	14,308	2,133,330	9,912,567
Fee and commission expense	(1,260,200)	(85,436)	(131,694)	(1,477,330)
Net fee and commission income	**6,504,729**	**(71,128)**	**2,001,636**	**8,435,237**
Other operating income	1,015,098	-	49,853	1,064,951
Net interest and other gain/(loss) on investment securities at fair value through profit or loss	37,385,962	3,991,574	-	41,377,536
Net financial revenues	**320,847,587**	**719,969**	**3,313,175**	**324,880,731**
Provision for expected credit losses	(31,139,671)	-	(320,529)	(31,460,200)
Net financial loss after provision for expected credit losses	289,707,916	719,969	2,992,646	293,420,531
Allowance for risk and charges (net)	(5,486,366)	-	-	(5,486,366)
Staff costs	(51,228,620)	(467,255)	(838,296)	(52,534,171)
Administrative expenses	(25,002,784)	(353,064)	(1,574,333)	(26,930,181)
Depreciation and amortization	(3,389,294)	(20,502)	(525,127)	(3,934,923)
Other expenses	(120,504)	-	(12,900)	(133,404)
Profit before income tax	**204,480,348**	**(120,852)**	**41,990**	**204,401,486**
Income tax expense	(33,522,880)	-	(165,120)	(33,688,000)
Profit for the year	170,957,468	(120,852)	(123,130)	170,713,486
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	**170,957,468**	**(120,852)**	**(123,130)**	**170,713,486**

43. FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk
  - Interest rate risk
  - Foreign exchange risk

The Credit Committee, Assets and Liabilities Committee work under the mandate of the board to set up risk limits and manage the overall risk in the Group. Risk committee was established whose role is to supervise the proper implementation of risk management procedures at the Bank and all its branches aboard and subsidiaries, in compliance with the regulations issued or will be issued by the Central Bank of Lebanon and Banking Control Commission.

A. Credit Risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in Government debt securities and certificates of deposit issued by the Central Bank of Lebanon. At year end 2019, the Bank exceeded the maximum limit on sovereign risk in foreign currency, reaching 67.65% of total assets exceeding the 60% approved limit by ALCO committee, knowing that this excess was approved by the relevant risk committee in its meeting held on June 26, 2020.

The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Credit risk management

The Group's credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categories exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and 4specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Netting arrangements

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

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

Significant increase in credit risk

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

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categories exposures according to their degree of risk of default. The Group's credit risk grading framework comprises ten categories.

The S&P module is used by the Group to compute the probability of Default (PD) and the Loss Given Default (LGD) of corporate portfolio.

In order to calculate the PD, the S&P module will estimate the likelihood that a borrower will be unable to meet his debt obligations based on the following criteria:

- Country risk: the country in which the client operates along with the percentage of EBIDTA or sales turnover generated from each country (if the client operates in multiple regions).
- Industry: the industry nature and the percentage of EBITDA or sales turnover generated from each industry the client operates in (if the client operates in multiple sectors).
- Competitive advantage
- Diversification
- Operating efficiency
- Financial risk based on 1 year financials or on 3 or 5 year average financial figures. The main financial ratios to be considered are: FFO to Debt, Debt to EBITDA, EBITDA Interest coverage, Total Debt to Total Liabilities (Debt + Equity), FFO, Debt, EBIDTA, Total Equity, Revenues.

The resulting PD will be subject to a list of modifiers which are a list of questions to which the credit officer will answer and will grant the client a grade. These questions are related to the client's portfolio diversification, to his capital structure, to his financial and liquidity policy, to his risk management and financial management, to his organizational effectiveness and finally to his governance policy.

To get the final rating, the module adds the effect of sovereign currency rating as well as the sensitivity of the client to the country risk in addition to the impact of the any support whether coming from a guarantor, a government related entity or a holding company.

As for the LGD, the module allows to estimate a percentage representing the share of the Group's loss on a defaulting loan prior to its default based on the following measures:

- The economic sector to which the client belongs in addition to the percentage of revenues generated from each economic sector in which the client operates.
- The country in which the client operates in addition to the percentage of revenues generated from each country region.
- The earning measure estimates the current economic value of the obligor based on his total adjusted assets. The Group defines this as simply total reported assets less intangibles and goodwill.
- Adjusted Total Assets = Total Assets – (Intangibles + Goodwill)

LGD estimates under three distinct scenarios, reflecting expectations of general economic conditions:

Positive: The organization has positive economic expectations over the short-term (1 to 3 years) for the country/region to which the corporate is exposed.

Neutral: This selection is appropriate in cases where the expectations are of little or no GDP growth. Stagnating growth in other relevant factors are also expected. This phase is typically between a trough and peak of a credit cycle.

Negative: This selection signals the expectation of an impending economic downturn.

After determining the client's economic value, the calculation will follow a waterfall approach deducting from this economic value the debt and other liabilities (i.e. debt granted at other banks, recovery cost) and adding the collaterals and recovery enhancements.

All these criteria combined will allow the module to generate the percentage of loss on a facility.

Usage of PD and LGD

As a first step, the PD will allow us to classify the commercial loans portfolio into 3 stages based on the following:

IFRS 9 Stages	PD/Rating Brackets	BCC Internal Rating	Past due in Days	BDL Classification
Stage 1	0 ≤ PD ≤ 4.29 AAA < Rating < B	1 Excellent	Less than 30	1-Current
	4.30 ≤ PD ≤ 8.48 Rating = B-	2 Strong		
	8.49 ≤ PD ≤ 12.79 Rating = CCC+	3 Good	Between 31 and 60 days	2-Watch List
	12.80 ≤ PD ≤ 15.71 Rating = CCC+	4 Satisfactory		
	15.72 ≤ PD ≤ 23.71 Rating = CCC+	5 Adequate		
Stage 2	23.72 ≤ PD ≤ 29.12 Rating = CCC	6 Marginal	Between 61 and 90	3-Watch and Regularization
	29.13 ≤ PD 46.25 Rating = CCC	7 Vulnerable		
Stage 3	46.76 ≤ PD ≤ 53.36 Rating = CCC	8 Substandard	Between 91 and 180	4-Substandard
	PD ≤ 53.97 Rating = CCC	9 Doubtful	Above 180 (classification to be determined by the bank)	5-Doubtful
	PD ≥ 53.97 Rating = CCC-	10 Loss		6-Loss

Then based on the stage, and on the LGD obtained for each facility, the Group will be able to generate the ECL which is : ECL = PD x LGD x EAD for stage 1 clients, the PD will be point in time and for stage 2 and 3 clients, the PD will be converted to a lifetime PD.

For retail exposures: the simplified approach is used by the Group by which internally generated data of customer behavior, affordability metrics etc. has been used, adjusted by Forward-looking information.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

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

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL which is also integrated in the S&P module used by the Group.

With respect to investments in Lebanese Government debt securities and as a result of the current situation, the Bank classified these securities in foreign currency within stage 3, while it kept term placements and certificates of deposit issued by the Central Bank of Lebanon that are classified at amortized cost, under stage 1.

Risk mitigation policies

Collateral:

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

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

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally updated every 3 years and when a loan is individually assessed as impaired.

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

Credit Risk monitoring and review

During 2019, the severe and unprecedented economic situation in Lebanon exerted significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types.

The above deterioration in the credit quality of the loans' portfolio in Lebanon was intensified in the subsequent period as a result of the massive and devastating explosion that occurred on August 4, 2020 and which resulted in the destruction of thousands of residential units and businesses in downtown Beirut as well as the eastern side of the capital leaving thousands of citizens homeless and/or jobless.

Write-off policy

The Group writes-off a loan or security (and any related allowances for impairment losses) when the Group's management and credit business unit determine that the loans/securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

1. Maximum exposure to credit risk

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

	December 31, 2019		
	Gross Carrying Amount (Including Accrued Interest)	Expected Credit Losses	Net Carrying Amount
	LBP'000	LBP'000	LBP'000
Cash with central banks	5,061,662,794	(204,295,309)	4,857,367,485
Deposits with banks and financial institutions	267,700,566	(66,389)	267,634,177
Loans to banks	29,139,989	(1,509,451)	27,630,538
Loans and advances to customers	1,127,358,734	(122,016,993)	1,005,341,741
Loans and advances to related parties	25,389,331	(1,225,262)	24,164,069
Amortized cost investment securities	3,265,657,978	(600,052,973)	2,665,605,005
Customers' liability under acceptances	1,363,415	(227,624)	1,135,791
	9,778,272,807	**(929,394,001)**	**8,848,878,806**
Unutilized limits and off-balance sheet commitments	**196,888,536**	**(10,544,436)**	**186,344,100**

	December 31, 2018		
	Gross Carrying Amount (Including Accrued Interest)	Expected Credit Losses	Net Carrying Amount
	LBP'000	LBP'000	LBP'000
Cash with central banks	3,750,700,346	(16,302,363)	3,734,397,983
Deposits with banks and financial institutions	525,016,370	(318,523)	524,697,847
Loans to banks	39,815,546	(512,426)	39,303,120
Loans and advances to customers	1,338,565,657	(99,544,064)	1,239,021,593
Loans and advances to related parties	77,524,832	(162,232)	77,362,600
Amortized cost investment securities	4,368,376,357	(82,676,156)	4,285,700,201
Customers' liability under acceptances	18,526,913	(36,707)	18,490,206
	10,118,526,021	**(199,552,471)**	**9,918,973,550**
Unutilized limits and off-balance sheet commitments	**394,591,166**	**(1,107,220)**	**393,483,946**

The following represents the movement of expected loss allowance during 2019 and 2018:

	Balance as at January 1, 2019	Additional ECL for the Year	Transfer from Deferred Liability	Exchange Difference and Other Movements	Balance as at December 31, 2019
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cash with central banks	16,302,363	188,095,076	-	(102,130)	204,295,309
Deposits with banks and financial institutions	318,523	(250,531)	-	(1,603)	66,389
Loans to banks	512,426	997,025	-	-	1,509,451
Loans and advances to customers	99,544,064	23,077,552	-	(604,623)	122,016,993
Loans and advances to related parties	162,232	1,063,030	-	-	1,225,262
Amortized cost investment securities	82,676,156	114,740,470	403,171,666	(535,319)	600,052,973
Customers' liability under acceptances	36,706	190,918	-	-	227,624
Unutilized limits and off-balance sheet commitments	1,107,220	9,437,246	-	(30)	10,544,436
	200,659,690	**337,350,786**	**403,171,666**	**(1,243,705)**	**939,938,437**

	Balance as at January 1, 2018	Additional ECL for the Year	Other Movements	Balance as at December 31, 2018
	LBP'000	LBP'000	LBP'000	LBP'000
Cash with central banks	17,746,769	(1,444,406)	-	16,302,363
Deposits with banks and financial institutions	345,003	(26,480)	-	318,523
Loans to banks	649,740	(137,314)	-	512,426
Loans and advances to customers	76,235,228	23,557,108	(248,272)	99,544,064
Loans and advances to related parties	14,817	147,415	-	162,232
Amortized cost investment securities	72,560,771	10,115,385	-	82,676,156
Customers' liability under acceptances	693,216	(656,509)	-	36,707
Unutilized limits and off-balance sheet commitments	1,202,219	(94,999)	-	1,107,220
	169,447,763	**31,460,200**	**(248,272)**	**200,659,691**

1.1) Balances with central banks

Balances with central banks are classified under stage 1.

Changes in carrying amounts of balances with central banks that contributed to changes in loss allowance are detailed as follows

	Stage 1 12-month ECL	
	2019	2018
	LBP'000	LBP'000
Gross carrying amount as at January 1,	3,692,520,625	4,402,750,685
New financial assets originated or purchased	5,131,900,358	1,708,986,748
Financial assets that have been derecognised	(3,868,793,497)	(2,419,216,808)
Gross carrying amount as at December 31,	4,955,627,486	3,692,520,625
Accrued interest receivable	106,035,308	58,179,721
	5,061,662,794	**3,750,700,346**

Movement of loss allowance on balances with central banks is detailed as follows:

	Stage 1 12-month ECL	
	2019	2018
	LBP'000	LBP'000
Loss allowance as at January 1,	16,302,363	17,746,769
Changes to increase in credit risk	169,528,233	-
New financial assets originated or purchased	26,082,708	2,633,601
Financial assets that have been derecognised	(7,515,865)	(4,078,007)
Effect of foreign exchange	(102,130)	-
Loss allowance as at December 31,	**204,295,309**	**16,302,363**

1.2) Deposits with banks and financial institutions

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

Changes in carrying amounts of deposits with banks and financial institutions that contributed to changes in loss allowance is detailed as follows:

	Stage 1 12-month ECL	
	2019	2018
	LBP'000	LBP'000
Gross carrying amount as at January 1,	524,928,358	585,562,878
New financial assets originated or purchased	52,762,508	225,790,480
Financial assets that have been derecognised	(310,007,889)	(286,425,000)
Gross carrying amount as at December 31,	267,682,977	524,928,358
Accrued interest receivable	17,589	88,012
	267,700,566	**525,016,370**

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

	Stage 1 12-month ECL	
	2019	2018
	LBP'000	LBP'000
Loss allowance as at January 1,	318,523	345,003
Increase in credit risk	2,844,476	-
New financial assets originated or purchased	2,877,095	223,399
Financial assets that have been derecognised	(5,972,102)	(249,879)
Effect of exchange rate	(1,603)	-
Loss allowance as at December 31,	**66,389**	**318,523**

1.3) Loans to banks

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

	Stage 1 12-month ECL	
	2019	2018
	LBP'000	LBP'000
Gross carrying amount as at January 1,	39,500,000	50,100,000
Financial assets that have been derecognised	(10,600,000)	(10,600,000)
Gross carrying amount as at December 31,	28,900,000	39,500,000
Accrued interest receivable	239,989	315,546
	29,139,989	**39,815,546**

The movement of expected credit loss allowance on loans to a banks is detailed as follows:

	Stage 1 12-month ECL	
	2019	2018
	LBP'000	LBP'000
Loss allowance as at January 1,	512,426	649,740
Increase in credit risk	1,240,399	-
Financial assets that have been derecognised	(243,374)	(137,314)
Loss allowance as at December 31,	**1,509,451**	**512,426**

1.4) Loans and advances to customers:

The allocation of loans and advances to customers by grade to their respective stage is presented as follows:

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Grades 1-3: low to fair risk	1,022,722,250	-	-	1,022,722,250
Grades 4-6: Monitoring	-	27,436,243	-	27,436,243
Grades 7-8: Substandard	-	-	38,477,667	38,477,667
Grade 9: Doubtful	-	-	34,429,459	34,429,459
Grade 10: Impaired	-	-	3,832,841	3,832,841
Total gross carrying amount	**1,022,722,250**	**27,436,243**	**76,739,967**	**1,126,898,460**
Loss allowance	(63,924,448)	(2,112,928)	(55,979,617)	(122,016,993)
Carrying Amount	**958,797,802**	**25,323,315**	**20,760,350**	**1,004,881,467**
Accrued interest receivable				460,274
				1,005,341,741

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Grades 1-3: low to fair risk	1,234,466,871	-	-	1,234,466,871
Grades 4-6: Monitoring	-	27,278,513	-	27,278,513
Grades 7-8: Substandard	-	-	12,399,205	12,399,205
Grade 9: Doubtful	-	-	60,588,612	60,588,612
Grade 10: Impaired	-	-	3,251,672	3,251,672
Total gross carrying amount	**1,234,466,871**	**27,278,513**	**76,239,489**	**1,337,984,873**
Loss allowance	(63,175,087)	(1,573,876)	(34,795,101)	(99,544,064)
Carrying Amount	**1,171,291,784**	**25,704,637**	**41,444,388**	**1,238,440,809**
Accrued interest receivable				580,784
				1,239,021,593

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

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Gross carrying amount as at January 1, 2019	1,234,466,871	27,278,513	76,239,489	1,337,984,873
Changes in the loss allowance:				
- Transfer to Stage 1	(813)	-	813	-
- Transfer to Stage 2	(15,159,062)	15,159,062	-	-
- Transfer to Stage 3	(118,581)	(5,036,994)	5,155,575	-
- Write-offs	-	-	-	-
- Changes due to modifications that did not result in derecognition	(79,079,956)	(4,674,122)	(2,701,684)	(86,455,762)
New financial assets originated or purchased	54,491,442	42,264	-	54,533,706
Financial assets that have been settled	(172,053,820)	(5,332,047)	(1,953,764)	(179,339,631)
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	176,169	(433)	(462)	175,274
Gross carrying amount as at December 31, 2019	**1,022,722,250**	**27,436,243**	**76,739,967**	**1,126,898,460**

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Gross carrying amount as at January 1, 2018	1,247,754,452	44,533,319	71,077,784	1,363,365,555
Changes in the loss allowance:				
- Transfer to Stage 1	184,908	(184,908)	-	-
- Transfer to Stage 2	(7,067,803)	7,067,803	-	-
- Transfer to Stage 3	(6,943,057)	(71,160)	7,014,217	-
- Write-offs	-	-	-	-
- Changes due to modifications that did not result in derecognition	(44,740,931)	(10,871,759)	(589,786)	(56,202,476)
New financial assets originated or purchased	104,063,496	-	-	104,063,496
Financial assets that have been settled	(59,913,154)	(13,193,784)	(1,262,726)	(74,369,664)
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	1,128,960	(998)	-	1,127,962
Gross carrying amount as at December 31, 2018	**1,234,466,871**	**27,278,513**	**76,239,489**	**1,337,984,873**

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Loss allowance as at January 1, 2019	63,175,087	1,573,876	34,795,101	99,544,064
Changes in the loss allowance:				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(294,702)	294,702	-	-
- Transfer to Stage 3	(299)	(2,451)	2,750	-
- Increases due to change in credit risk	-	1,517,641	21,795,808	23,313,449
- Changes due to modifications that did not result in derecognition	1,525,345	(990,140)	(24,589)	510,616
New financial assets originated or purchased	1,083,609	309	-	1,083,918
Financial assets that have been settled	(1,564,592)	(281,009)	(589,453)	(2,435,054)
Loss allowance as at December 31, 2019	**63,924,448**	**2,112,928**	**55,979,617**	**122,016,993**

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Loss allowance as at January 1, 2018	42,384,264	2,078,612	31,772,352	76,235,228
Changes in the loss allowance:				
- Transfer to Stage 1	73	(73)	-	-
- Transfer to Stage 2	(242)	242	-	-
- Transfer to Stage 3	(431,285)	(1,475)	432,760	-
- Increases due to change in credit risk	-	2,319	1,790,039	1,792,358
- Decreases due to change in credit risk	(59)	-	-	(59)
- Changes due to modifications that did not result in derecognition	23,850,230	(505,577)	1,739,261	25,083,914
New financial assets originated or purchased	147,281	-	-	147,281
Financial assets that have been settled	(21,225,262)	(172)	(939,311)	(3,714,658)
Loss allowance as at December 31, 2018	**63,175,087**	**1,573,876**	**34,795,101**	**99,544,064**

The allocation of loans and advances to related parties by grade to their respective stage is presented as follows:

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Grades 1-3: low to fair risk	25,384,542	-	-	25,384,542
Total gross carrying amount	**25,384,542**	-	-	**25,384,542**
Loss allowance	(1,225,262)	-	-	(1,225,262)
Carrying Amount	**24,159,286**	-	-	**24,159,286**
Accrued interest receivable				4,789
				24,164,069

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Grades 1-3: low to fair risk	77,516,989	-	-	77,516,989
Total gross carrying amount	**77,516,989**	-	-	**77,516,989**
Loss allowance	(162,232)	-	-	(162,232)
Carrying Amount	**77,354,757**	-	-	**77,354,757**
Accrued interest receivable				7,843
				77,362,600

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

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Gross carrying amount as at January 1, 2019	77,516,989	-	-	77,516,989
Changes in the loss allowance:				
Changes due to modifications that did not result in derecognition	(50,940,882)	-	-	(50,940,882)
New financial assets originated or purchased	566	-	-	566
Financial assets that have been settled	(1,192,500)	-	-	(1,192,500)
Foreign exchange and other movements	369	-	-	369
Gross carrying amount as at December 31, 2019	**25,384,542**	**-**	**-**	**25,384,542**

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Gross carrying amount as at January 1, 2018	74,372,269	-	-	74,372,269
Changes in the loss allowance:				
Changes due to modifications that did not result in derecognition	3,144,804	-	-	3,144,804
New financial assets originated or purchased	30	-	-	30
Financial assets that have been settled	(186)	-	-	(186)
Foreign exchange and other movements	72	-	-	72
Gross carrying amount as at December 31, 2018	**77,516,989**	**-**	**-**	**77,516,989**

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Loss allowance as at January 1, 2019	162,232	-	-	162,232
Changes in the loss allowance:				
Changes due to modifications that did not result in derecognition	1,063,650	-	-	1,063,650
New financial assets originated or purchased	70	-	-	70
Financial assets that have been settled	(690)	-	-	(690)
Loss allowance as at December 31, 2019	**1,225,262**	**-**	**-**	**1,225,262**

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Loss allowance as at January 1, 2018	14,817	-	-	14,817
Changes in the loss allowance:				
Changes due to modifications that did not result in derecognition	147,418	-	-	147,418
New financial assets originated or purchased	1	-	-	1
Financial assets that have been settled	(4)	-	-	(4)
Loss allowance as at December 31, 2018	**162,232**	**-**	**-**	**162,232**

1.5) Investment securities

The movement of investment securities that contributed to changes in expected credit losses for the years 2019 and 2018 are summarized as follows:

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance as at January 1,	4,264,334,138	-	-	4,264,334,138
Changes in gross carrying amount:				
Transfer to stage 3	(1,043,224,873)	-	1,043,224,873	-
Additions	686,451,000	-	-	686,451,000
Transfer (to)/from investment -securities at fair value through profit or loss	41,421,577	-	-	41,421,577
Sales	(2,166,990,892)	-	-	(2,166,990,892)
Swaps, net	(108,553,693)	-	-	(108,553,693)
Matured	(8,520)	-	-	(8,520)
Effect of amortized premium and discount	(95,083,051)	-	-	(95,083,051)
Effect of unamortized premium and discount	180,663,333	-	-	180,663,333
Transfer of deferred regulatory liability	403,171,666	-	-	403,171,666
Accrued interest receivable	60,252,420	-	-	60,252,420
Balance as at December 31,	**2,222,433,105**	**-**	**1,043,224,873**	**3,265,657,978**

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance as at January 1,	2,653,071,461	-	-	2,653,071,461
Changes in gross carrying amount: Additions	1,337,537,668	-	-	1,337,537,668
Transfer (to)/from investment -securities at fair value through profit or loss	728,473,750	-	-	728,473,750
Sales	(113,491,563)	-	-	(113,491,563)
Swaps, net	(155,003,363)	-	-	(155,003,363)
Matured	(170,848,917)	-	-	(170,848,917)
Effect of amortized premium and discount	(84,941,337)	-	-	(84,941,337)
Effect of unamortized premium and discount	69,536,439	-	-	69,536,439
Transfer of deferred regulatory liability	-	-	-	-
Accrued interest receivable	104,042,219	-	-	104,042,219
Balance as at December 31,	**4,368,376,357**	**-**	**-**	**4,368,376,357**

The movement of expected credit loss allowance for investments at amortized cost is as follows:

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance as at January 1,	82,676,156	-	-	82,676,156
Changes due to modifications that did not result in derecognition	166,809,617	-	-	166,809,617
Financial assets that have been derecognised	(52,069,146)	-	-	(52,069,146)
Transfer from deferred contribution	-	-	403,171,666	403,171,666
Transfer to stage 3	(132,404,801)	-	132,404,801	-
Foreign exchange and other movements	(535,320)	-	-	(535,320)
Loss allowance as at December 31,	**64,476,506**	**-**	**535,576,467**	**600,052,973**

	Stage 1 12-month ECL
	2018
	LBP'000
Loss allowance as at January 1,	72,560,771
New financial assets originated or purchased	10,687,785
Financial assets that have been derecognised	(572,400)
Loss allowance as at December 31,	**82,676,156**

1.6) Customer's liability under acceptances

Customers' liability under acceptances represents facilities granted only for resident customers and are classified as follows:

	Stage 1 12-month ECL	
	2019	2018
	LBP'000	LBP'000
Grades 1-3: low to fair risk	1,363,415	18,526,913
Total gross carrying amount	**1,363,415**	**18,526,913**
Loss allowance	(227,624)	(36,707)
Carrying Amount	**1,135,791**	**18,490,206**

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

	Stage 1 12-month ECL	
	2019	2018
	LBP'000	LBP'000
Gross carrying amount as at January 1,	18,526,913	38,665,861
Changes in the loss allowance:		
Changes due to modifications that did not result in derecognition	(2,244,661)	286,100
New financial assets originated or purchased	599,102	4,282,299
Financial assets that have been settled	(15,517,939)	(24,101,840)
Foreign exchange and other movements	-	(605,507)
Gross carrying amount as at December 31,	**1,363,415**	**18,526,913**

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

	Stage 1 12-month ECL	
	2019	2018
	LBP'000	LBP'000
Loss allowance as at January 1,	36,707	693,216
Changes due to modifications that did not result in derecognition	102,216	(4,448)
New financial assets originated or purchased	125,186	17,880
Financial assets that have been derecognised	(36,485)	(669,941)
Loss allowance as at December 31,	**227,624**	**36,707**

Loan commitments and financial guarantees are classified as follows:

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Grades 1-3: low to fair risk	190,839,021	-	-	190,839,021
Grades 4-6: Monitoring	-	28,607	-	28,607
Grades 7-8: Substandard	-	-	7,320,908	7,320,908
Total gross carrying amount	**190,839,021**	**28,607**	**7,320,908**	**198,188,536**
Loss allowance	(9,779,281)	(274)	(764,881)	(10,544,436)
Carrying Amount	**181,059,740**	**28,333**	**6,556,027**	**187,644,100**

	December 31, 2018		
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Total
	LBP'000	LBP'000	LBP'000
Grades 1-3: low to fair risk	386,630,618	-	386,630,618
Grades 4-6: Monitoring	-	7,960,548	7,960,548
Total gross carrying amount	**386,630,618**	**7,960,548**	**394,591,166**
Loss allowance	(1,038,050)	(69,170)	(1,107,220)
Carrying Amount	**385,592,568**	**7,891,378**	**393,483,946**

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

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Total amount committed as at January 1, 2019	386,630,619	7,960,547	-	394,591,166
Transfer to Stage 3	(13,411,341)	-	13,411,341	-
Changes in the amounts committed:				
Changes due to modifications	(102,833,875)	(4,519,782)	(6,090,433)	(113,444,090)
New loan commitments originated or purchased	20,161,867	-	-	20,161,867
Financial assets that have been settled	(99,708,248)	(3,412,159)	-	(103,120,407)
Gross carrying amount as at December 31, 2019	**190,839,022**	**28,606**	**7,320,908**	**198,188,536**

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Total amount committed as at January 1, 2018	412,504,969	2,958,576	904,500	416,368,045
Changes in the amounts committed:				
Changes due to modifications	5,657,156	5,004,646	-	10,661,802
New loan commitments originated or purchased	44,062,607	-	-	44,062,607
Financial assets that have been settled	(75,594,113)	(2,675)	(904,500)	(76,501,288)
Gross carrying amount as at December 31, 2018	**386,630,619**	**7,960,547**	**-**	**394,591,166**

	December 31, 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Loss allowance as at January 1, 2019	1,038,050	69,170	-	1,107,220
Transfer to Stage 3	(232,198)	-	232,198	-
Changes in the amounts committed:				
Changes due to modifications	8,608,361	(61,977)	532,683	9,079,067
New loan commitments originated or purchased	695,343	-	-	695,343
Financial assets that have been settled	(330,275)	(6,919)	-	(337,194)
Loss allowance as at December 31, 2019	**9,779,281**	**274**	**764,881**	**10,544,436**

	December 31, 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 LifetimeECL	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Loss allowance as at January 1, 2018	1,161,817	39,190	1,212	1,202,219
Changes in the amounts committed:				
Changes due to modifications	(13,103)	29,980	-	16,877
New loan commitments originated or purchased	57,491	-	-	57,491
Financial assets that have been settled	(168,155)	-	(1,212)	(169,367)
Loss allowance as at December 31, 2018	**1,038,050**	**69,170**	**-**	**1,107,220**

Concentration of major financial assets by industry or sector:

	December 31, 2019								
	Sovereign	Financial Services	Real Estate Development	Manufacturing	Trading	Services	Individuals	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cash and deposits with central banks	4,881,658,753	-	-	-	-	-	-	-	4,881,658,753
Deposits with banks and financial institutions	-	284,895,336	-	-	-	-	-	-	284,895,336
Loans to banks and financial institutions	-	27,630,538	-	-	-	-	-	-	27,630,538
Loans and advances to customers	107,626	5,696,488	197,779,603	44,174,221	52,935,871	419,567,104	279,323,864	5,756,964	1,005,341,741
Loans and advances to related parties	-	13,236,296	7,873,245	-	1,623,957	421	1,425,361	4,789	24,164,069
Investment securities at fair value through profit or loss	99,898,143	8,939,812	-	-	-	-	-	-	108,837,955
Investment securities at amortized cost	2,665,605,005	-	-	-	-	-	-	-	2,665,605,005
	7,647,269,527	**340,398,470**	**205,652,848**	**44,174,221**	**54,559,828**	**419,567,525**	**280,749,225**	**5,761,753**	**8,998,133,397**

	December 31, 2018								
	Sovereign	Financial Services	Real Estate Development	Manufacturing	Trading	Services	Individuals	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cash and deposits with central banks	3,773,511,376	-	-	-	-	-	-	-	3,773,511,376
Deposits with banks and financial institutions	-	534,754,349	-	-	-	-	-	-	534,754,349
Loans to banks and financial institutions	-	39,303,120	-	-	-	-	-	-	39,303,120
Loans and advances to customers	-	29,524,175	218,818,105	52,102,777	170,613,979	427,085,330	331,510,464	9,366,763	1,239,021,593
Loans and advances to related parties	-	63,957,421	8,276,540	-	1,534,698	-	3,586,093	7,848	77,362,600
Investment securities at fair value through profile or loss	239,962,600	9,881,536	-	-	-	-	-	-	249,844,136
Investment securities at amortized cost	4,285,700,201	-	-	-	-	-	-	-	4,285,700,201
	8,299,174,177	**677,420,601**	**227,094,645**	**52,102,777**	**172,148,677**	**427,085,330**	**335,096,557**	**9,374,611**	**10,199,497,375**

Concentration of major financial assets and liabilities by geographical area:

	December 31, 2019					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with Central Banks	4,840,125,569	20,113,967	-	21,419,217	-	4,881,658,753
Deposits with banks and financial institutions	17,154,193	-	195,062,944	70,477,804	2,200,395	284,895,336
Loans to banks and financial institutions	27,630,538	-	-	-	-	27,630,538
Loans and advances to customers	715,964,959	284,193,513	-	3,814,477	1,368,792	1,005,341,741
Loans and advances to related parties	24,146,094	17,554	-	421	-	24,164,069
Investment securities at fair value through profit or loss	108,837,955	-	-	-	-	108,837,955
Investment securities at amortized cost	2,665,605,005	-	-	-	-	2,665,605,005
	8,399,464,313	**304,325,034**	**195,062,944**	**95,711,919**	**3,569,187**	**8,998,133,397**
LIABILITIES						
Deposits from banks and financial institutions	84,660,989	-	-	39,148,991	-	123,809,980
Customers' accounts	5,975,008,778	1,272,168,569	134,612,454	228,953,836	62,202,911	7,672,946,548
Related parties' accounts	235,365,256	-	-	-	-	235,365,256
Other borrowings	205,153,349	-	-	-	-	205,153,349
Subordinated bonds	60,676,875	-	-	-	-	60,676,875
	6,560,865,247	**1,272,168,569**	**134,612,454**	**268,102,827**	**62,202,911**	**8,297,952,008**

	December 31, 2018					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and deposits with central banks	3,755,399,485	17,061,062	-	1,050,829	-	3,773,511,376
Deposits with banks and financial institutions	17,443,513	24,581,172	304,837,318	187,800,275	92,071	534,754,349
Loans to banks and financial institutions	39,303,120	-	-	-	-	39,303,120
Loans and advances to customers	829,160,786	384,284,624	-	11,259,929	14,316,254	1,239,021,593
Loans and advances to related parties	77,362,600	-	-	-	-	77,362,600
Investment securities at fair value through profile or loss	249,844,136	-	-	-	-	249,844,136
Investment securities at amortized cost	4,285,700,201	-	-	-	-	4,285,700,201
	9,254,213,841	**425,926,858**	**304,837,318**	**200,111,033**	**14,408,325**	**10,199,497,375**
LIABILITIES						
Deposits from banks and financial institutions	74,147,059	40,146,156	-	1,190,208	-	115,483,423
Customers' accounts	6,534,098,160	1,341,794,870	174,646,946	369,813,435	86,455,226	8,506,808,637
Related parties' accounts	327,702,881	-	-	-	-	327,702,881
Other borrowings	217,387,662	-	-	-	-	217,387,662
Subordinated bonds	60,676,875	-	-	-	-	60,676,875
	7,214,012,637	**1,381,941,026**	**174,646,946**	**371,003,643**	**86,455,226**	**9,228,059,478**

B. Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. That being said, Lebanon is facing adverse conditions and high level of uncertainty since October 2019 and up to the date of the financial statements, as a result of deterioration of the economic environment following the social unrest which lead to disruption of normal operations of most business sectors and closure of the banking sector for a period of time during the last quarter of 2019, resulting in a de-facto capital control, leading to incremental credit risks and restricted access to foreign currency among other adverse factors.

The table below shows the allocation of major monetary liabilities based on the earliest possible contractual maturity (undiscounted values).

	December 31, 2019						
	Accounts with no Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	4,814	118,996	-	-	-	-	123,810
Customers' accounts	12,873	5,498,508	1,429,168	659,784	72,614	-	7,672,947
Related parties' accounts	-	234,271	1,094	-	-	-	235,365
Other borrowings	520	3,073	13,271	43,226	42,602	102,461	205,153
Subordinated bonds	377	-	-	-	-	60,300	60,677
	18,584	**5,854,848**	**1,443,533**	**703,010**	**115,216**	**162,761**	**8,297,952**

	December 31, 2018						
	Accounts with no Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	4,504	110,979	-	-	-	-	115,483
Customers' accounts	55,675	6,550,305	1,513,015	349,750	37,962	101	8,506,808
Related parties' accounts	-	291,608	36,095	-	-	-	327,703
Other borrowings	9,569	3,818	6,830	148,187	3,917	45,067	217,388
Subordinated bonds	377	-	-	-	-	60,300	60,677
	70,125	**6,956,710**	**1,555,940**	**497,937**	**41,879**	**105,468**	**9,228,059**

The maturity of the financial liabilities presented above is based on the contractual maturities and not the forecasted maturity that might diverge from the contractual.

C. Market Risks

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and loan diversification.

The Group manages market risks through a framework that defines the global activity and individual limits and sensitivity analysis.

1. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or expected cash flows from income generating financial assets and liabilities. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities.

Large amounts of the Group's financial assets, primarily investments in certificates of deposit and Lebanese government bonds in Lebanese pounds and foreign currencies, carry fixed interest rates, whereas customers' accounts and loans and advances to customers are re-priced on a regular basis which, consequently, leads to major risks from the mismatch between the sources and uses of funds, and in its turn increases interest rate risk which was intensified after the Lebanese Government announced its discontinuation of payments on all of its U.S. Dollar denominated Eurobonds.

Income sensitivity is the effect of the assumed changes in the interest rate on the net interest revenues for a specific year on the non-trading assets and liabilities. Analysis of various banking currency positions is made through concentrations by currencies and, resulting sensitivity is disclosed in thousands of Lebanese pounds and segregated between financial assets and liabilities subject to variable and fixed interest rates.

Exposure to interest rate risk

Below is a summary of the Group's interest rate gap position on major financial assets and liabilities reflected at carrying amounts at year end by repricing time bands:

	December 31, 2019						
	Accounts with no Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Assets							
Cash and deposits with central banks	171,996	506,978	429,659	1,694,668	378,987	1,699,371	4,881,659
Deposits with banks and financial institutions	252	284,643	-	-	-	-	284,895
Loans to banks and financial institutions	-	203	10,000	13,000	4,428	-	27,631
Loans and advances to customers	233,855	272,186	64,293	160,117	101,122	173,769	1,005,342
Loans and advances to related parties	-	18,085	6,079	-	-	-	24,164
Investment securities at fair value through profit or loss	2,171	20,130	754	754	754	84,275	108,838
Investment securities at amortized cost	-	6,415	20,340	483,299	564,583	1,590,968	2,665,605
	408,274	**1,108,640**	**531,125**	**2,351,838**	**1,049,874**	**3,548,383**	**8,998,134**
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	4,814	118,996	-	-	-	-	123,810
Customers' accounts	12,873	5,498,508	1,429,168	659,784	72,614	-	7,672,947
Related parties' accounts	-	234,271	1,094	-	-	-	235,365
Other borrowings	520	3,073	13,271	43,226	42,602	102,461	205,153
Subordinated bonds	377	-	-	-	-	60,300	60,677
	18,584	**5,854,848**	**1,443,532**	**703,010**	**115,216**	**162,761**	**8,297,952**

	December 31, 2018						
	Accounts with no Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Financial Assets							
Cash and deposits with central banks	21,366	492,270	162,489	1,095,090	255,435	1,746,861	3,773,511
Deposits with banks and financial institutions	-	534,754	-	-	-	-	534,754
Loans to banks and financial institutions	-	203	10,200	19,400	8,000	1,500	39,303
Loans and advances to customers	446,589	222,022	112,587	162,102	121,293	174,428	1,239,021
Loans and advances to related parties	-	71,460	5,903	-	-	-	77,363
Investment securities at fair value through profit or loss	3,824	637	72,177	44,022	4,496	124,688	249,844
Investment securities at amortized cost	7,587	9	1,458	377,175	1,123,341	2,776,130	4,285,700
	479,366	**1,321,355**	**364,814**	**1,697,789**	**1,512,565**	**4,823,607**	**10,199,496**
Financial Liabilities							
Deposits from banks and financial institutions	4,504	110,979	-	-	-	-	115,483
Customers' accounts	55,677	6,550,305	1,513,013	349,750	37,962	101	8,506,808
Related parties' accounts	-	291,608	36,095	-	-	-	327,703
Other borrowings	9,569	3,818	6,830	148,187	3,917	45,067	217,388
Subordinated bonds	377	-	-	-	-	60,300	60,677
	70,127	**6,956,710**	**1,555,938**	**497,937**	**41,879**	**105,468**	**9,228,059**

2. Foreign Exchange risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates.
Below is the carrying value of assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end:

	December 31, 2019					
	LBP	USD C/V in LBP	Euro C/V in LBP	GBP C/V in LBP	Other Currencies C/V in LBP	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets:						
Cash and deposits with central banks	1,729,832,752	2,622,629,398	520,605,788	287,065	8,303,750	4,881,658,753
Deposits with banks and financial institutions	6,085,314	258,515,279	3,488,333	9,212,420	7,593,990	284,895,336
Loans to banks and financial institutions	27,630,538	-	-	-	-	27,630,538
Loans and advances to customers	331,635,588	656,775,110	16,426,434	504,609	-	1,005,341,741
Loans and advances to related parties	2,779,707	21,367,742	16,620	-	-	24,164,069
Investment securities at fair value through profit or loss	76,303,168	32,534,787	-	-	-	108,837,955
Investment securities at amortized cost	1,280,874,892	1,384,730,113	-	-	-	2,665,605,005
Customers' liability under acceptances	-	1,135,791	-	-	-	1,135,791
Assets acquired in satisfaction of loans	6,398,833	44,374,729	-	-	-	50,773,562
Property and equipment	56,915,407	7,173,161	176,541	-	167,711	64,432,820
Intangible assets	607,113	-	40,399	-	39,687	687,199
Right of use of assets	518,564	3,273,957	121,905	-	-	3,914,426
Other assets	7,414,216	231,863	107,661	926	1,116,542	8,871,208
Total Assets	**3,526,996,092**	**5,032,741,930**	**540,983,681**	**10,005,020**	**17,221,680**	**9,127,948,403**
Liabilities						
Deposits from banks	80,506,768	36,567,170	5,714,965	1,011,649	9,428	123,809,980
Customers' accounts	2,184,758,889	4,959,730,575	486,556,979	18,994,008	22,906,097	7,672,946,548
Related parties accounts	37,118,518	173,671,713	24,565,714	9,003	308	235,365,256
Liability under acceptance	-	1,363,415	-	-	-	1,363,415
Lease liability	554,909	2,994,433	-	-	-	3,549,342
Other borrowings	196,018,213	9,135,136	-	-	-	205,153,349
Other liabilities	61,430,628	20,577,514	(6,006,356)	10,214,746	461,082	86,677,614
Provisions	21,095,942	36,654,477	-	-	-	57,750,419
Subordinated bonds	-	60,676,875	-	-	-	60,676,875
Total Liabilities	**2,581,483,867**	**5,301,371,308**	**510,831,302**	**30,229,406**	**23,376,915**	**8,447,292,798**
Currencies to be delivered	-	2	-	10,169,590	-	10,169,592
Currencies to be receives	5,141	(2)	(10,131,249)	(1,851)	-	(10,127,961)
	5,141	**-**	**(10,131,249)**	**10,167,739**	**-**	**41,631**
Net on-balance sheet financial position	**945,517,366**	**(268,629,378)**	**20,021,130**	**(10,056,647)**	**(6,155,235)**	**680,697,236**

	December 31, 2018					
	LBP	USD C/V in LBP	Euro C/V in LBP	GBP C/V in LBP	Other Currencies C/V in LBP	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Assets:						
Cash and deposits with central banks	3,133,569,249	78,103,205	551,386,019	265,049	10,187,854	3,773,511,376
Deposits with banks and financial institutions	2,446,522	465,784,248	22,999,259	26,945,852	16,578,468	534,754,349
Loans to banks and financial institutions	39,303,120	-	-	-	-	39,303,120
Loans and advances to customers	346,675,893	868,954,690	23,130,925	260,085	-	1,239,021,593
Loans and advances to related parties	5,457,831	70,996,777	16,800	-	891,192	77,362,600
Investment securities at fair value through profit or loss	107,699,207	142,144,929	-	-	-	249,844,136
Investment securities at amortized cost	2,523,134,913	1,762,565,288	-	-	-	4,285,700,201
Customers' liability under acceptances	-	3,976,397	14,513,809	-	-	18,490,206
Assets acquired in satisfaction of loans	6,295,820	19,025,715	-	-	-	25,321,535
Property and equipment	46,884,978	13,656,357	102,387	-	546,437	61,190,159
Intangible assets	640,130	16,734	49,530	-	44,822	751,216
Other assets	7,657,500	1,052,176	120,253	-	1,572,442	10,402,371
Total Assets	**6,219,765,163**	**3,426,276,516**	**612,318,982**	**27,470,986**	**29,821,215**	**10,315,652,862**
Liabilities						
Deposits from banks	58,502,386	54,465,721	353,254	2,155,277	6,785	115,483,423
Customers' accounts	3,421,068,045	4,514,380,119	517,555,557	25,321,671	28,483,251	8,506,808,637
Related parties accounts	193,283,134	98,000,841	36,188,508	77,340	153,058	327,702,881
Liability under acceptance	-	4,013,104	14,513,808	-	-	18,526,912
Other borrowings	208,341,253	9,046,409	-	-	-	217,387,662
Other liabilities	46,999,480	(17,205,983)	41,440,835	21,429	(1,211,144)	70,044,617
Provisions	14,583,354	26,489,550	-	-	-	41,072,904
Subordinated bonds	-	60,676,875	-	-	-	60,676,875
Total Liabilities	**3,942,777,652**	**4,749,866,630**	**610,051,962**	**27,575,717**	**27,431,950**	**9,357,703,911**
Currencies to be delivered	-	44,495,729	1,724,730	-	5,068,662	51,289,121
Currencies to be received	-	(6,941,201)	(41,307,284)	-	(3,330,673)	(51,579,158)
	-	**37,554,528**	**(39,582,554)**	**-**	**1,737,989**	**(290,037)**
Net on-balance sheet financial position	**2,276,987,511**	**(1,286,035,586)**	**(37,315,534)**	**(104,731)**	**4,127,254**	**957,658,914**

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

Other Operational Risks

Litigation Risk

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

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

44. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

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

As a result of the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector in Lebanon, is experiencing, as described in Note 1, management is unable to produce reasonable estimation of the fair value of financial assets and liabilities concentrated in Lebanon as the measurement of their fair value is either (i) dependent on prices quoted in a market that is severely inactive and illiquid; or (ii) determined using cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

45. EVENTS AFTER THE END OF THE REPORTING PERIOD

(i) The existence of Novel Coronavirus (Covid-19) was confirmed in January 2020 in mainland China and has subsequently spread to many other countries around the world. This event has caused widespread disruptions to the business, with a consequential negative impact on economic activity. The Bank considers this event to be a non-adjusting event after the reporting period and therefore has not made any adjustments to the financial statements as a result of this matter. The effect of Covid-19 on the Bank will be incorporated in the determination of the Bank's estimates in 2020, knowing that the uncertainties caused by COVID-19, will require the Bank to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") and revise the forecast used as part of the assessment for the going concern as well.

(ii) Subsequent to the financial position date, on the March 7, 2020, the Lebanese Government has announced its decision to default on its 6.375% US$1,200,000,000 bonds due March 9, 2020 and on all the remaining outstanding maturities in foreign currencies (refer to Note 1).

(iii) On August 4, 2020, a devastating and deadly explosion occurred in the seaport of Beirut which resulted in, in addition to loss of lives, severe widespread property damage in a large area of Beirut, aggravating the economic, financial and social crises prevailing in the country.

(iv) Based on the International Monetary Fund (IMF) published inflation forecasts and the indicators laid out in International Accounting Standards (IAS 29) - Financial Reporting in Hyperinflationary Economies, Lebanese Republic should be considered hyperinflationary economy for the purposes of applying IAS 29 and for the retranslation of foreign operations in accordance with IAS 21 The effect of Changes in Foreign Exchange Rates in financial statements for the year ending December 31, 2020.

46. COMPARATIVE BALANCES

Where necessary, comparative balances were reclassified to conform with current year presentation.

47. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December s31, 2019 were approved for issuance by the Board of Directors in its meeting held on July 9, 2021.