# ANNUAL REPORT 2018

بنك بيروت ش.م.ل.
Bank of Beirut s.a.l.


# CONNECTING CUSTOMERS TO OPPORTUNITIES

Bank of Beirut aims to be where the opportunities are, providing better environments for businesses to succeed and economies to prosper, and ultimately helping people to fulfill their ambitions.

## COVER IMAGE

Our global 2018 Annual Report explores the Lebanon of tomorrow, the Lebanon we want to offer to our Community. Through our lens, we look at our country and nature, showing how we can assist our economy, individuals, businesses and communities by growing and flourishing.

This includes our commitment to sustainable development, and to environmentally and socially responsible corporate practices, showing the path to a more resilient and attractive corporate and green Lebanon.

## INSIDE FRONT COVER IMAGE

We are investing in digital technology to improve the services we provide to our customers. DIGI, our new digital experience is available to help them manage their money faster, more conveniently and safely.
Photo Credit

All the photos in this report, with the exception of Board and executive profiles, are a contribution from Pierre Nehman, our Senior HRIS & Payroll Officer as part of our ongoing internal community projects.

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None of the websites referred to in this Annual Report and Accounts (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this report.

**OUR VALUES**
Our values define who we are as an organization and make us distinctive.

**SHAREHOLDERS' FULFILLMENT**
Unceasingly endeavoring to provide our shareholders with a respectable return on their investments while minimizing risks.

**CUSTOMER SATISFACTION**
Continuously striving to anticipate and satisfy our customers' needs and to develop long-lasting relationships with them.

**EMPLOYEE SATISFACTION**
Offering our staff members an agreeable working environment along with professional development opportunities.

**INTEGRITY AND TRUST**
Conducting the transactions of our shareholders in the strictest confidence through utilizing the highest ethical standards.

**AS A REMINDER**
Reporting currency
We use LB Pounds.

**ADJUSTED MEASURES**
We supplement our IFRS figures with alternative performance measures used by management internally. These measures are highlighted with the following symbol*


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# STRATEGIC REPORT

# STRATEGIC REPORT

## *1. Chairman's Letter*

As in previous years, I address you with a sense of pride about our institution.

Throughout 2018 we continued to make great headway by reinforcing the solid foundations needed to progress in this challenging economic climate. Our results reflect the growth we have made to date both locally We continuously endeavor to build shareholder value and this can only be done in conjunction with the strong support of our employees, customers and the communities we serve.

Bank of Beirut Group is in a strong position. Our performance in 2018 demonstrated the potential of our strategy established years ago. Total Assets as at 31st December 2018 reached USD 18.8 billion, growing by %2.78 year-on-year. The growth in size was mainly funded by the increase in deposits and equity. Total Shareholders' equity reached around USD2.35 billion, while profits amounted to USD 206.7 million. Bank of Beirut ROAA reflecting its assets profitability and how these latter figures are efficiently employed, is sound and healthy at %1.11 in 2018, compared to %1.15 in 2017. The dividend yield per common share remains stable at %4.06, which reflects an explicit sign of clear financial health and confidence in Bank of Beirut to disburse dividends. Therefore, I am pleased to report that 2018 was a year of both positive progress and continuity for the Group. All our local and international business units have confidently driven the Bank forward by creating value for our shareholders and fortifying our capital adequacy ratios at Group level.

Our strategy is to invariably provide customers with better, faster and more efficient product offering. We strive to continuously improve our products and services, and for the most part this is done with enhancements in technology and through continued training of our staff. With our digital approach we observe that the onboarding experience for new customers has been simplified; customers may open an account digitally in less than five minutes. We anticipate this to remarkably increase our customer base.

With regards to our digital transformation program launched three years ago, extensive measures were taken in an effort to gear our customers towards our digital products and services. Over 60 percent of our customers are currently active on our various digital channels.

In 2018 we launched Bank of Beirut rewards, the most comprehensive reward program in the market place. The rewards are applied on all Bank of Beirut card transactions covering a wide range of incentives through earning points.

We intend to expand our footprint to capture more opportunities in both Lebanon and beyond. Our profitable growth and performance are powered by our strong governance, strategy, leadership and methodical executions. Technology once again played a significant role in the year's achievements. During 2018, we continued shifting our technology focus from the underlying architecture that supports our operations to new capabilities that will drive customer growth.

# STRATEGIC REPORT

We focused on the training and development of our staff at our "Academy" Training and Development Center, in an effort to build their capabilities and enhance their performance. Thousands of training hours were invested in coaching and guiding our staff.

In 2018 Bank of Beirut was recognized by Bankers M.E. as Fastest Growing Bank, Best Retail Bank, Best Commercial Bank, Best Transaction Bank and Chairman Lifetime award.

Furthermore, the Bank and its employees reflected their commitment to many vital initiatives, including our Futsal team having been crowned Champion of Lebanon, along with the 2018 Indonesian Bronze Medal in the Asian Futsal Championship, which was presented to the Lebanese President H.E. General Michel Aoun.

As part of its commitment to governance principles, the Board has placed Corporate Governance at the forefront of its priorities, working diligently with strong supervisory committees to enable more efficient and informed decision-making. With regards to transparency and adequate disclosure of financial and non-financial information, Bank of Beirut achieved an Excellence Grade (A-) in the range of Governance & Integrity Rating (GIR), which was performed by a recognized Regional Corporate Governance Advisory firm, 'Capital Concepts SAL'. The Bank scored the highest in the categories of Shareholders rights (90%), Financial Transparency (86%), and Board Management Structure and Policies (81%).

Equal Treatment of Shareholders and protection of minority: Bank of Beirut signed in February 2019 the "Investors for Governance and Integrity" (IGI) declaration as a commitment to promote sound corporate governance and to preserve shareholders' rights, including minority shareholders. Per the declaration, signatories acknowledge their duty to act in the long-term interest of their beneficiaries.

Responsibility is not only about following the rules; it is about keeping the system rational and responsible while leading by example. As and when we seize an opportunity, we are driven by a clear resolution and a confident objective. We are truly proud of the contribution we make to the banking sector in both Lebanon and beyond.

As a Lebanese Bank at the heart of the community, we look forward to building upon these achievements over the coming years in the interest of our shareholders and the Lebanese economy.

We will continue to strengthen our leadership in Lebanon and to increase our market positioning across the primary countries of our operations.

I wish to extend my thanks and gratitude to our customers for the trust they have vested in us and to you dear shareholders for the support and encouragement you have provided. I wish to also express my sincere appreciation to the invaluable support of the host communities.

On behalf of our shareholders, we convey our appreciation to the Bank's management and employees for their dedication as they represent the pillar of our success.

Salim G. Sfeir

Group Chairman - CEO

# STRATEGIC REPORT

## 2. Conducting Business

### Maintaining Sustainable Growth

With our stakeholders' continuous success in mind, we are resolved to conduct our business with nothing short of our best.

### Overview

It is our duty to create new opportunities for our customers who aim to grow, and to help them achieve this growth along the way. We create the pathways for businesses to prosper and economies to strive; pushing people forward towards realizing their dreams and to fulfilling their ambitions.
To reach the targets we have set, it is necessary for us to maintain and develop our relationships with each and every stakeholder, especially with ourcustomers, staff, and the communities we are part of.
By doing so, we will have the ability to properly implement our business plans and yearly strategies, and consequently achieve sustainability.
In this section, we will showcase our approach towards creating a sustainability strategy, developing our business culture, and the progress we have made towards reaching our sustainable financial commitments.

### Customers

Locating tailored solutions, products, and Locating tailored solutions, products, and services for our customers is what we strive to provide. This has helped us build timeless relationships with our customers, as we take into consideration every aspect of their

Year over year, additional measures to protect our customers' privacy are introduced, ensuring to obtain the best possible outcome. We are also available 24/7 to address any issue our customers might encounter, and take the necessary action to resolve it promptly.

### Digital Breakthrough

At Bank of Beirut, we are well positioned to deliver value and to strengthen our customer relationship with a history of breakthrough ideas and a strong reputation for delivering those ideas to our customers. Through dynamism and professionalism, and with our continuing digital omnipresence strategy, further investment and effort in enhancing our digital and mobile banking services were implemented.

To remain profitable and to develope within the new digital era, we have adopted business models based on customer centricity and diversified our online portfolio and services channels in order to remain on top of competition. Our newest additions to our mobile banking app and the launching of DIGI, our new digital experience has eliminated the need for our customers to visit the branch, as they now possess the entire freedom to access banking services and to conduct any form of transactions they may wish at their own comfort and convenience through mobile devices whether phones, computers or tablets. Customer-centric Omni-channel design is currently key for innovation in the financial industry and we offer them the best user experience across our entire channels.

### Our Employees

Our success stems from our people. We are committed to improving the quality of our staff's professional and personal lives through our ongoing community, training, and well-being programs.

It is of utmost importance to have employees who believe in their capabilities and feel that they are empowered and encouraged to reach their goals and full potential.

### Listening to Our People

The importance of our people and the value The importance of our people and the value they add to our business has consistently been our main concern and the motivation behind our initiatives. As a sound committed banking institution, we believe in the importance of our workforce, and thus, hiring more talented and qualified people, developing potentials, and enabling their performance.

The added-value our work force creates is reflected in our customers' satisfaction and the turnover revealed in our business. We accordingly give rise a significant portion of our organic growth by expanding sound relationships with clients and the communities where we operate.

All ideas are welcome at Bank of Beirut. If it weren't for our employees' contribution, many of our products, services, improvements and activities would not have seen the light.

### Encouraging Diversity

Since the very beginnings, we believed, and in fact encouraged diversity at all levels. By having a diverse internal community, we guarantee there is no discrimination of any sort, as all genders and backgrounds are fairly represented at the core of our institution, as we are a bank created for all.

### Community and Activities

Our focal point of strength is our community itself, which is why we believe that having active and loyal members in the community will reflect positively on our outcome and puts us on the forefront of employee happiness and retention rates.

Activities are conducted periodically, where we try to involve as much of our community as possible, as we cover all types of activities throughout the year such as hiking, team building events, rally papers, snowshoeing, etc. Moreover, in order to smoothly accompany the Bank's aggressive moves in the market and effectively channel the internal growth, the HR Department has established a wellness program aimed at building motivation and belongingness, enhancing one to one relationships, and encouraging effective teamwork.

## Training & Development

With the conviction that people ultimately determine the Bank's success, the Human Resources Department at Bank of Beirut dedicated its efforts to ensuring the continuous professional development of the Bank's team. This is being achieved through involving the staff in training activities aiming at developing skillful and knowledgeable professionals who are competent and ready to serve our clients in a distinctivemanner. The Bank provides training as an opportunity for the development of our human resources in addition to helping our staff in attaining personal growth. In addition, we continuously seek to offer them the appropriate learning opportunities by developing a full range of training activities and efforts for delivering value to our clients.

## Whistleblowing

Everyone should be encouraged to speak up, especially when something is going wrong. We encourage our staff members to highlight any unethical conduct they witness or hear of, and report these through our safe and anonymous whistleblowing channels.

Disturbances will be investigated by the concerned internal entities, independently and fairly from any external and unrelated factors, where a remedial solution will be discussed and implemented as and when appropriate

## A Responsible Business Culture (Compliance)

Bank of Beirut's purpose is to connect people with opportunities. With this purpose comes the responsibility to protect our customers, our communities and the integrity of the financial system.

## Cybersecurity

Cybersecurity continues to be a focus area for Bank of Beirut and is routinely reported at the Board level to ensure appropriate visibility, governance and executive support for our ongoing cybersecurity activities. We continue to strengthen and invest significantly in both business and technical controls in order to prevent, detect and respond to an increasingly hostile cyber threat environment. These include enhancing controls to protect against advanced malware, data leakage and infiltration of payments systems as well as denial of service attacks.

In today's increasingly complex and fast moving regulatory environment, Bank of Beirut continues its commitment to compliance with local and international laws, regulations, and standards. Compliance is part of the Bank's culture and the principal responsibility for it rests not only with the Compliance function, but with each and every person in the Bank. All employees are responsible for protecting the reputation of the Bank by (i) understanding and adhering to the compliance requirements applicable to their day-to-day activities, and (ii) seeking advice from Compliance whose responsibility is to provide compliance service that effectively supports business areas in their duty to comply with relevant laws, regulations, and the Bank's internal policies and procedures.

To achieve its mission, Compliance seeks to (i) understand the regulatory environment, requirements and expectations to which the Bank's activities are subject, (ii) assess the compliance risks of business activities and set mitigating controls, (iii) detect, report on, escalate and remediate key compliance risks and control issues, and (iv) advise and train the Bank's personnel across businesses, functions, and affiliates in what manner to comply with laws, regulations and other standards of conduct.

# STRATEGIC REPORT

## AML/CFT Compliance

The Bank continues to maintain a global AML Policy, designed to make certain that the Bank and all its overseas branches and subsidiaries are compliant with relevant laws, rules and regulations related to anti-money laundering and counter financing of terrorism.

The Bank maintains AML Compliance Program which mainly provides for (1) AML Procedures designed to implement the Bank's Customer Identification Program; (2) the designation of an Anti-Money Laundering Compliance Officer responsible for coordinating and monitoring day-to-day compliance with the Anti-Money Laundering Policy and applicable laws, rules and regulations; (3) record keeping and reporting practices in accordance with the Anti-Money Laundering Policy and applicable laws, rules and regulations; (4) appropriate methods of monitoring transactions and account relationships to identify potential suspicious activities; (5) reporting suspicious activities to competent authorities in accordance with the Anti-Money Laundering Policy and applicable laws, rules and regulations; (6) on-going training of appropriate personnel with regard to anti-money laundering and counter financing of terrorism issues and their responsibilities for compliance; and (7) independent testing to ensure that the Anti-Money Laundering Compliance Program has been implemented and continues to be appropriately maintained.

## Anti-Bribery and Corruption (ABC) Compliance

The Bank has a zero tolerance approach to bribery and/or any form of corruption. All our employees are strictly prohibited from having any involvement in acts of bribery and corruption. The conduct of Bank of Beirut's Board of Directors and Committee Members, Executive Directors, staff and others directly involved in the business activities form an essential part of our ABC Compliance Program, which involves: (i) Staff training, (ii) Compliance monitoring, (iii) Regulations for gifts, entertainments, donations and business courtesies, and (v) Dealing with conflicts of interest.

## Sanctions Compliance

The Bank is committed to compliance with various sanctions programs imposed mainly by the United Nations, the European Union, and the United States. Our Global Sanctions Policy defines the standards we comply with, including but not limited to (i) screening customers and transactions against local and international sanctions lists (ii) prohibiting business activities, including prohibitions on commencing or continuing customer relationships or providing products or services or facilitating transactions that the Bank believes may violate any sanction program or our Global Sanctions Policy.

## Legal/Regulatory Compliance

The Bank has established a legal compliance function whose main role is to ensure the Bank is compliant with relevant banking laws and regulations. Additionally, its mission is to track new and amended regulations; to monitor business activities and identify any violations through adequate testing; and to advise Senior Management about the compliance level with applicable laws and regulations.

## Tax

Bank of Beirut fully abides by all local and international rules, whether in Lebanon or in the countries of presence, especially those related to tax duties. We aim to have a transparent and responsible relationship with all taxation authorities, as we believe in settling our share in the jurisdictions in which we operate.

# STRATEGIC REPORT

### FATCA/CRS Compliance

The Bank continues to conform to the provisions of the Foreign Account Tax Compliance Act (FATCA) – the US Law enacted in 2010 to combat tax evasion – and its related policy and procedures. Also, the Bank complies with the Common Reporting Standard (CRS) which is a global framework issued by the Organization for Economic Cooperation and Development (OECD) for the automatic exchange of financial information between jurisdictions, in addition to compliance with relevant local laws and regulations related to CRS. This includes the implementation of CRS provisions across the Bank's Group in coordination with all stakeholders; designing, developing, and delivering training to increase overall awareness; and communicating any new CRS requirements to all concerned parties.

### GDPR Compliance

We are committed to ensuring the security and protection of the personal information that we process, and to provide a compliant and consistent approach to data protection. We have a robust and effective data protection program in place which complies with existing laws and abides by the data protection principles. In addition, we recognize our obligations in updating and expanding this program to meet the demands of the General Data Protection Regulation (GDPR) and the Lebanese Law number 81 relating to Electronic Transactions and Personal Data. We are dedicated to safeguarding the personal information under our remit and in developing an effective data protection regime.

## 3. Risk Overview

### Operating Model in the Group Context

Bank of Beirut, which operates in four continents under four different jurisdictions, ensures alignment of risk methodologies applied across the Group through a unified approach to risk management achieved through the following:

- Diversification of risk, both by geography and segment
- Maintaining a medium risk profile
- Adherence to pre-set risk targets and limits as per Board-approved risk appetite and risk tolerance
- Implementation of Group Risk Management framework in an autonomous subsidiaries and international branches
- Proactive and independent risk management functions across subsidiaries and international branches
- Strong 3LOD model (three lines of defense)
- Strong Board and Senior Management oversight

### Risk Governance Framework

Bank of Beirut adopts a forward-looking approach to manage risks arising from its business activities as well as its operating environment locally and across the Group. This approach is engaged through a Board-sponsored strict risk governance framework with clear roles and responsibilities assigned to each level.

### The Board of Directors

The ultimate responsibility to manage risk rests with the Board of Directors. In fulfilling its risk management duties, the Board undertakes critical overarching roles that include approving the overall strategy set for risks and the management of capital resources. The Board regularly evaluates the effectiveness of the risk management policies and processes and ensures that appropriate risk limits are in place. Moreover, the Board reviews and approves the ICAAP document on annual basis and verifies the current and projected capital adequacy, as well as the risk appetite and the recovery plan.

### The Board Risk Management Committee

The Board Risk Management Committee (BRMC) is an independent Committee which is appointed by the Board of Directors and is accountable to it. The BRMC consists of four Board members, out of which three are independent members including the Committee's president. The BRMC is responsible for fostering a sound internal risk management environment that incorporates risk management into the business decision making of all activities and business units of the Bank. The BRMC is also responsible for assessing the adequacy and effectiveness of risk management policies and procedures. The Committee reviews and requests amendments where necessary of documents prepared by the Group Risk Management, such as the ICAAP, Recovery Plan and Risk Appetite prior to being submitted to the Board for final approval.

# STRATEGIC REPORT

## Senior Management Committees

Assets & Liabilities Committee

The Assets & Liabilities Committee (ALCO) is formed by members of the Senior Management and chaired by the Chairman – CEO. The ALCO has an essential role in risk management as it meets on bi-weekly basis to review reports on liquidity risk, market risk, capital management and approves banks and countries limits. ALCO is also responsible for determining funding strategy, reviewing deposit-pricing for the local market, reviewing liquidity contingency plan for the bank, as well as monitoring compliance with approved regulatory ratios pertaining to capital adequacy and liquidity.

Operational Risk Management Committee

The Operational Risk Management Committee (ORMC) is formed by members of the Senior Management and chaired by the Deputy CEO.

The ORMC convenes on quarterly basis to review and approve Operational Risk policies across Bank of Beirut›s Group, in addition to coordinating major initiatives to enhance the Operational Risk environment. The ORMC also discusses reports issued by the Operational Risk Unit including Risk Control Assessments, Key Risk Indicators, Loss/Near-Miss Data, approves related recommendations and follows-up on the progress of their implementation.

## Three Lines of Defense Model

Bank of Beirut adopts a Three Lines of Defense Model (3LOD) to allocate specific roles and responsibilities across all areas of the organization in a multiple risk control layer approach. The model stipulates continuous oversight by the Board of Directors, reinforced by segregated – yet interplayed – levels of control over risk.

First Line of Defense (1LOD): Operations Functions

The 1LOD represents the business owners who are responsible to manage risk arising from business activities in their own area. In this manner, the 1LOD is accountable to identify, manage, mitigate and report risks.

Second Line of Defense (2LOD): Risk and Compliance

The 2LOD includes the Risk Management and Compliance functions. The Risk Management function (Group Risk Management), is responsible for designing, interpreting, and developing the overall risk management framework, and monitors the adherence of the Operations Functions (1LOD) to this framework. The Compliance function also belongs to the 2LOD and is responsible for monitoring and reporting on regulatory issues.

Third Line of Defense (3LOD): Internal Audit

The 3LOD represents Internal Audit who are responsible for performing independent testing and verification of efficacy of corporate standards and business line compliance. Internal Audit also provides assurance that the risk management process is functioning as designed.

## Group Risk Management Function

The Bank has an independent Group Risk Management function with authority, stature, independence, resources and access at the Board level through the Board Risk Management Committee (BRMC). The Group Risk Management function aids Executive Management in controlling and actively managing the Group's overall risk. The function mainly ensures that:

- Risk policies and methodologies are consistent with the Group's risk appetite statements;
- Limits and risks across banking activities are monitored throughout the Group;

- A proper framework for identifying, measuring, monitoring, controlling or mitigating, and reporting on risk exposures is functioning at the Group level. This encompasses all risks to the Bank, on - and off-balance sheet and at a Group-wide, portfolio and business-line levels;
- Acts as a double control layer both local and global, ensuring effectively a medium-low risk profile;
- Sharing best risk management practices across all geographies;
- Forward looking approach both at local and global functions;
- Excellence in risk management models;
- Embedding of risk management in the strategic plans both at local and global levels;
- Maintaining alignment of risk management methodologies across foreign branches and subsidiaries.

## Portfolio Credit Risk Management

The portfolio Credit Risk Management Unit is responsible for monitoring the risk profile of the Bank's loan portfolio; producing senior management reports highlighting any exposure of concern in corporate commercial and consumer lending; and examining the level of concentration, whether by credit quality, client groupings or economic sector, collateral coverage, past due loans and provisioning needs. The Portfolio Credit risk Management is also responsible for the oversight of the IFRS 9 ECL calculation and provisioning as well as the proper implementation and functioning of the internal credit rating models.

## Banks & Countries Risk Management

The Banks & Countries Risk Unit monitors consolidated Bank of Beirut Group's banks and countries exposures versus set limits and the level of concentration risk by credit quality, banks' grouping and their proper coverage. The Unit monitors Group exposures versus set limits, while alerting senior management to any breaches. In addition, the Unit is in charge of proposing Country Limits on a biannual basis to Group ALCO and of conducting the needed analysis for all country exposures, including unrated and risky countries.

## Market & Liquidity Risk Management

The Market & Liquidity Risk Management Unit generates internal reports quantifying the Bank's liquidity risk, earnings-at-risk (1yr) and equity-at-risk due to extreme movements in interest rates. It monitors daily the sensitivity of the Bank's trading and investment portfolio of fixed income securities to changes in market prices and/or market parameters. Interest rate sensitivity and liquidity gaps are periodically reported to management and to the regulatory bodies, whenever required. Market Risk Management monitors compliance with all limits set within the Market Risk, Liquidity and Investment policies of the Bank targeting permissible investments, stop loss limits, VAR limits (Securities & FX), earnings-at-risk (1yr) limits, equity-at-risk limits and liquidity coverage & gap limits. In Liquidity Risk Management, the Unit uses methods such as Basel's Liquidity Coverage Ratio to measure and monitor liquidity under different conditions, not only dictated by the regulatory weightings (BDL), but also reflective of the Bank's own views/assumptions under different scenarios in the relevant jurisdiction of operation.

# STRATEGIC REPORT

## Operational Risk Management

The Operational Risk Management Unit manages the "risk of loss resulting from inadequate or failed internal processes, systems, and people or external events", as defined by the Basel Committee. The Unit implements a set of tools to identify, measure, assess and monitor operational risks. To support the Unit in its functions, the Bank adopted an automated state-of-the-art operational risk system, which facilitates incident reporting and loss collections across the Group's operating activities in Lebanon and abroad. The Unit conducts risk and control self-assessments (RCSAs) on head office departments and branches according to a best-practice methodology aimed at proactively identifying and acting upon operational risk exposures. Moreover, the Key Risk Indicators framework is closely integrated with the RCSA process, whereby all key risks identified through RCSAs are compared against credible thresholds that would trigger corrective action upon any breach. The Unit also maintains the Bank's operational loss/near miss database in line with regulatory and Basel Committee directives.

## Middle Office

The Middle Office Unit's role is to independently manage and control the market, credit and operational risk resulting from day to day trading activities of the Bank and its customer in the Global Markets. Its main tasks are to monitor daily transactions executed by the Front Office and booked by the Back Office, review the involved clients' limits and margin requirements, check commissions, control the pledged products, and prepare relevant reports to the Head of Group Risk Management, Head of Global Markets, and regulators (i.e. BDL/CMA), while providing support to branches and various departments at the Bank in terms of control and monitoring of financial markets transactions.

## IFRS 9: Forward-Looking Expected Losses

The Group started applying the IFRS 9 Standard on a consolidated basis since December 2017, through the Group deployment of a state-of-the-art IFRS 9 Expected Credit Loss (ECL) system, which takes advantage of the internal credit rating models to arrive at forward-looking expected losses calculation, as opposed to the previous incurred loss model under IAS 39. The solution has been rolled out to the Bank's foreign branches and subsidiaries network in Cyprus, Oman, UK and Australia. The IFRS 9 model calculates ECL based on the PD (Probability of Default), the LGD (Loss Given Default), and the EAD (Exposure at Default) for each financial asset by country of operation and IFRS segment. It is to note that, where applicable and for loan exposures, the PDs were mapped against the Bank's Internal Credit Rating system for Commercial exposures and the Application Scorecards (secured and unsecured) for the Retail exposures; while the Group has relied on internal historical data to estimate Recovery Rates (i.e. LGD) and PDs for selective portfolios when internal ratings were not yet available. The Group estimates ECL and allocates provisions for its various asset classes including sovereign exposures, banks and financial institutions, fixed income securities, loan portfolios and contingent liabilities. The Group adjusts its ECL calculation by a forward-looking macro-economic overlay factor based on three economic scenario assessments of major countries of exposures, with an assigned probability of occurrence for each deployed scenario (i.e. Base Case, Worst & Best scenarios).

In order to ensure proper implementation of the IFRS9 standard across the Bank's jurisdictions, the Group has mandated an external consultant in Q1.2018 to conduct an independent review of its framework including the conceptual approach and policy, ECL inputs, calculations and results. From a governance perspective, a Group IFRS9 Impairment Committee at the executive level was set up to oversee credit asset quality and trends, review ECL results, and approve both staging classification and forward-looking economic scenarios.

## Internal Capital Adequacy Assessment Process (ICAAP)

On annual basis, the Bank prepares the Internal Capital Adequacy Assessment Process (ICAAP) which has become an integral part of the Bank's strategic decision-making process and an essential tool applied by executive management for capital planning. The Bank views the ICAAP as an important internal assessment rather than just a regulatory requirement, since it acts as an important exercise that steers the Bank towards developing and improving its internal risk models and techniques. The Bank continues to enhance and refine its various risk methodologies to include more sensitive risk measures. During 2018, both consolidated and individual ICAAPs of the Group's foreign entities (Australia, United Kingdom, and Oman) were conducted, with minor changes in required internal capital charges from previous ICAAP projections. The Capital Planning figures and the effects of stress test scenarios were estimated on the basis of the Bank's -5year business plan; stress testing and scenario analysis for this purpose includes Credit, Market, Liquidity and Operational risks. The results of the ICAAP reflected that, taking all relevant and material risks (pillar 1 and pillar 2 risks) into account, Bank of Beirut's Group capital adequacy ratio for ICAAP remained safe and sound above the minimum requirements for 2018 as per Central Bank of Lebanon's regulations.

## Recovery Plan

In 2018, the Bank finalized the Recovery Plan which is a regulatory requirement aiming at reducing the impact of Banks' failures and serves as a guide to the recovery of a distressed Bank.

The Recovery Plan sets out options to restore financial strength and viability when the firm comes under severe stress. It includes the analysis of vulnerabilities associated with the nature, size, and complexity of the firm's operations, its business model, and interconnectedness and associated risk profile. The Recovery Plan is directed through a number of qualitative and quantitative criteria that proactively identify an event or point out to a developing situation that requires senior management attention to prevent undue delays in addressing a recovery situation. Moreover, the Recovery Plan encompasses credible options to cope with a wide range of scenarios including both idiosyncratic and market wide stress as well as a robust assessment of these options, their comparative analysis and key factors that may affect their implementation. Additionally, the Recovery Plan comprises stress scenarios that address capital shortfalls and liquidity pressures, processes to ensure timely implementation of recovery options in a range of stress situations and the analysis of impediments that could have a negative impact on the execution of recovery actions and their associated action plans.

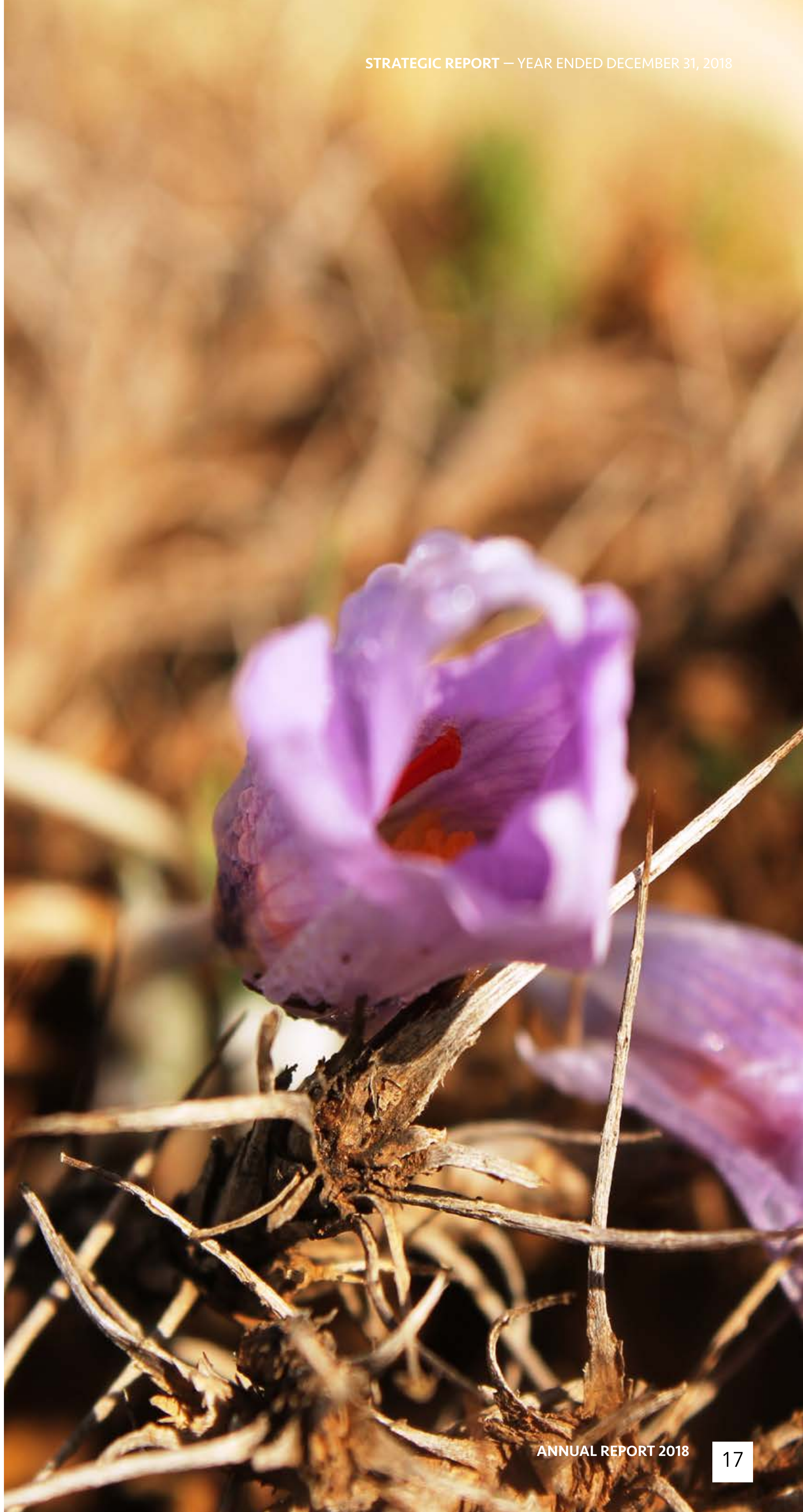
Similar Recovery and or Resolution plans have been implemented across Bank of Beirut's foreign entities, namely in the United Kingdom, Australia and Cyprus.

# STRATEGIC REPORT

## 4. Remuneration

Bank of Beirut s.a.l. strives to compensate its employees by means of a balanced mix of salaries, bonuses/incentives, and benefits (e.g. education allowances). In this respect, and based on the recommendation of its Remuneration Committee, the Board of Directors has approved a 'Compensation & Benefits Policy' and a 'Bonus & Incentive Policy' founded on the following principles:

1. Remuneration practices are consistent with Bank of Beirut's strategy, culture, risk tolerance, corporate performance, as well as legal and regulatory requirements.
2. Remuneration packages are equitable and provide all employees with a comprehensive and competitive package that is commensurate with each employee's position, grade, and performance. Business Lines employees are assessed based on the achievement of financial targets set at the beginning of the performance cycle. Support Lines employees and Senior Managers are assessed based on the achievement of set objectives and key job responsibilities, in addition to behavioral competencies.
3. The remuneration of Control Functions is determined in a manner by preserving their objectivity and independence, and thus, are not linked to the performance of the business areas they oversee.
4. An aggregate amount of salaries, bonuses, and benefits is included in the annual budget approved by the Board of Directors. It is established in a manner that does not affect the Bank's financial position.
5. The total amount of salaries, bonuses, and benefits paid annually are disclosed in accordance with the International Financial Reporting Standards and with the provisions of Article 158 of the Lebanese Code of Commerce. As reported in the Bank's consolidated financial statements for year 2018, the total staff costs, including salaries, bonuses, Executive Board remunerations, and other benefits amounted to an approximate total of LBP 182.8 Billion.



# MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL REPORT 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Introduction*

Bank of Beirut s.a.l. ("BOB") is a full-fledged Bank which offers universal banking products and services covering Corporate, Commercial, Individual and Private Banking services to a diversified client base. The Bank operates in Lebanon, Europe, Australia, Middle East and Africa region. It was incorporated as a commercial Bank on August 19, 1963, under the name of "Realty Business Bank s.a.l.". The Bank is registered in the Beirut Commercial Register under No. 13187 and on the Banks' List at the Central Bank of Lebanon, under No. 75. Its Head Office is located in Foch Street, Bank of Beirut Building, Beirut Central District, Lebanon. The Bank is one of the leading banks in Lebanon. At the end of 2018, it was ranked seventh among Lebanese banks in Assets, sixth in Deposits, fifth in Loans to customers, and third in Equity and Profits.

The Central Bank of Lebanon is the lead supervisor of Bank of Beirut s.a.l. and its subsidiaries. The Bank, together with its banking and other subsidiaries, is engaged in a wide range of banking and financial activities in Lebanon and a number of countries: The United Kingdom, Germany, Cyprus, the United Arab Emirates, Sultanate of Oman, Australia, Nigeria, and Ghana. Through its presence in these countries, the Bank has been able to expand and diversify its income, assets and loan portfolio outside Lebanon while broadening the sources of its deposit base.

The Bank maintains one of the largest branch networks in Lebanon, with currently 72 branches (including 3 E-branches), as well as one branch in Cyprus and five branches in Sultanate of Oman ("Oman"). Bank of Beirut (U.K.) Ltd. the Bank's wholly owned subsidiary based in the United Kingdom has one branch in London and another branch in Frankfurt. Bank of Sydney, in Australia, a fully owned subsidiary, was acquired in early 2011 and currently operates 16 branches. The Bank also operates a representative office located in Dubai, United Arab Emirates, to service the Gulf region; two representative offices located in Lagos, Nigeria, and Accra, Ghana, to cater for West Africa. The Bank has currently four wholly owned subsidiaries in Lebanon, BOB Finance SAL, Bank of Beirut Invest SAL, Beirut Broker Company SARL, Cofida Holding SAL. The latter owns 90% of Beirut Life SAL.

The Bank has authorized and fully issued a total of 60,996,900 shares of Common Stock, out of which 56,234,900 are ordinary Shares, and 4,762,000 are Priority Shares of Common Stock that benefit, for a limited period of time, from certain financial advantages. As at 31 December 2018, the number of the Bank's common stock (including the Priority Shares) listed and traded on the Beirut Stock Exchange amounted to 22,508,417 Shares (or 38.84% of the outstanding Shares).

## *Basis of presentation*

The analysis that follows highlights the Bank of Beirut consolidated performance for the year ended 31 December 2018, compared to year 2017.

Financial information included in this report has, unless otherwise indicated, been derived from the Bank's audited consolidated financial statements for the year ended December 31 2018.

The Bank's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee, the regulations of the Central Bank of Lebanon ("CBL") and the Banking Control Commission ("BCC"), and include the results of the Bank and its consolidated subsidiaries. Deloitte & Touche and DFK Fiduciaire du Moyen-Orient have audited the Bank's consolidated financial statements for the year ended December 31, 2018.

The consolidated financial statements of Bank of Beirut s.a.l. incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

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

The Bank reassesses 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 listed above.

# MANAGEMENT DISCUSSION AND ANALYSIS

| Subsidiary | Country of Incorporation | Year of Acquisition or Incorporation | Percentage of Ownership | Business Activity |
|---|---|---|---|---|
| Bank of Beirut (UK) Ltd. | United Kingdom | 2002 | 100% | Banking |
| Bank of Beirut Invest s.a.l. | Lebanon | 2007 | 100% | Investment Banking |
| Beirut Broker company s.a.r.l. | Lebanon | 1999 | 100% | Insurance brokerage |
| BOB Finance s.a.l. | Lebanon | 2006 | 100% | Money Transfer company |
| Cofida Holding s.a.l. | Lebanon | 2008 | 100% | Holding company |
| Beirut Life s.a.l. | Lebanon | 2010 | 90% | Insurance (Life) |
| Bank of Sydney Ltd | Australia | 2011 | 100% | Banking |
| Medawar 247 | Lebanon | 2015 | 100% | Real Estate |
| Medawar 1216 | Lebanon | 2015 | 100% | Real Estate |
| Optimal Investment Fund | Lebanon | 2010 | | Mutual Fund |
| Beirut Preferred Fund II | Cayman Island | 2013 | 1.23% | Mutual Fund |
| BOB LBP Growth Fund | Lebanon | 2015 | | Mutual Fund |

## *Year 2018 group performance overview*

Despite the economic slowdown in Lebanon, Bank of Beirut strengthened its franchise through positive growth in total assets and deposits underpinned by good performance of its international business and sustained growth within the Lebanese market. Over the years, the Bank has created an international presence which boosted its ability to become the leading trade finance Bank in the country and to cater to Lebanese expatriate communities.

The achieved growth has been in line with the long-term strategy adopted by the Bank aiming at diversifying its business activities towards a universal banking model through expanding regionally and internationally in profitable and relatively low-risk countries.

It is worth mentioning that the Bank's long-term strategy is to attain a balanced breakdown of profits through activities in Lebanon and abroad.

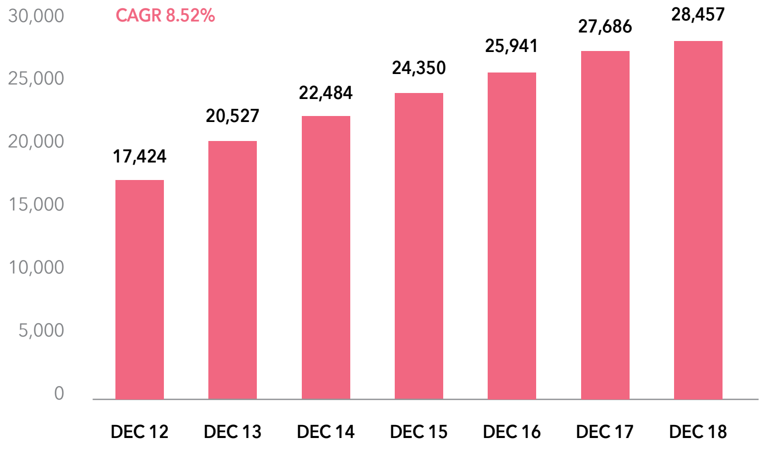
The performance was characterized by acceptable growth in all main financial indicators. Capitalizing on the large branch network and the diversified product range, the Bank achieved gains in market shares in both commercial and retail businesses while maintaining its position as a leader in the Trade Finance.

On consolidated basis, the Bank's total assets reached as at 31 December 2018 LBP 28.457 billion (USD 18.9 billion), growing by 2.78% year-on-year. The growth in size was mainly funded by the growth in deposits and other borrowings.

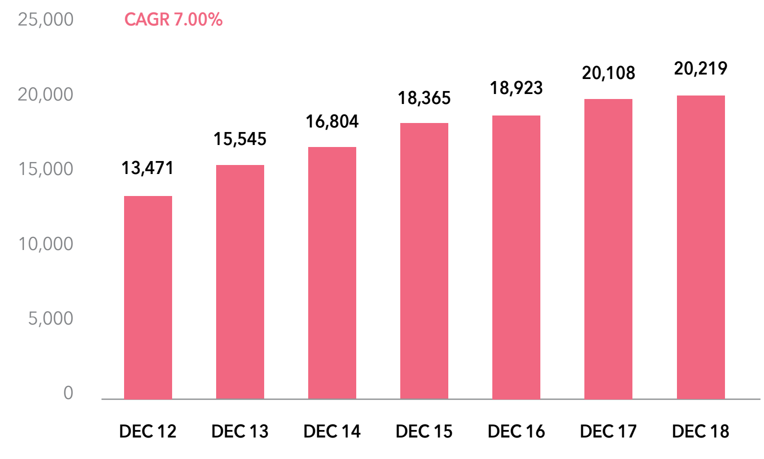
| LBP Billion | Balances | | Growth | |
|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Total Assets | 27,686 | 28,457 | 771 | 2.78% |
| Customers' deposits | 20,108 | 20,219 | 111 | 0.55% |
| Loans to Customers | 8,573 | 8,681 | 108 | 1.25% |
| Total Equity | 3,547 | 3,542 | (5) | -0.13% |
| o.w. Controlling Interests | 2,394 | 2,619 | 224 | 9.37% |
| Profit for the year | 308 | 312 | 3 | 1.13% |
| o.w. Controlling Interests | 236 | 260 | 24 | 10.35% |

# MANAGEMENT DISCUSSION AND ANALYSIS

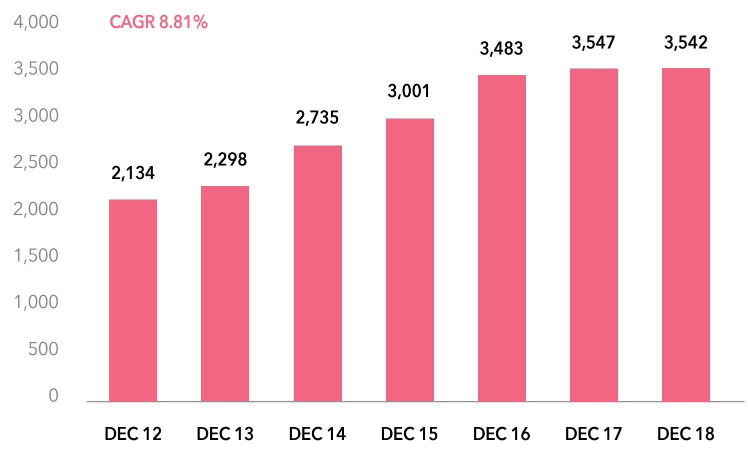
### Consolidated Assets



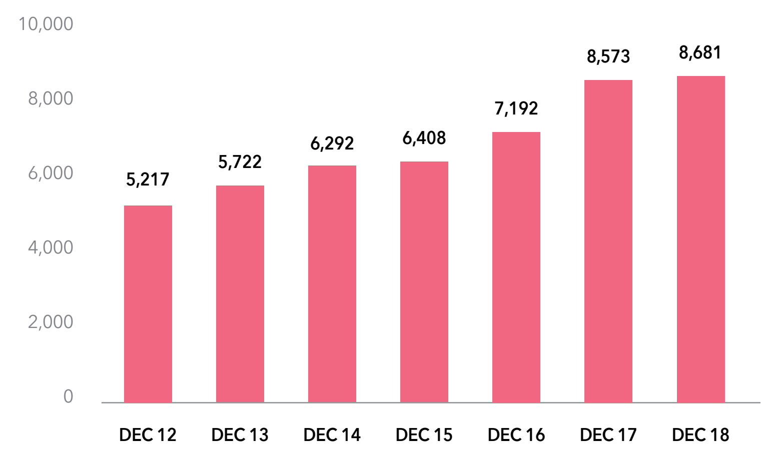

### Consolidated Deposits



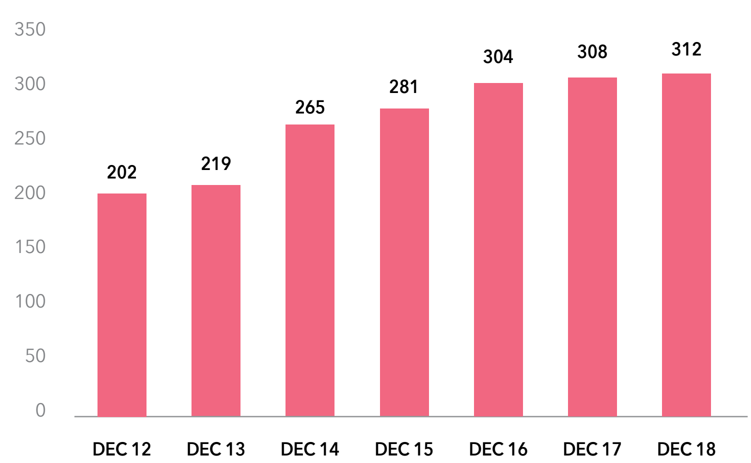

### Total Equity




### Consolidated Loans




### Profit of the year



# MANAGEMENT DISCUSSION AND ANALYSIS

The year 2018 Growth in main financial indicators was achieved in almost all the Bank of Beirut Group as shown here below:

| LBP Billion | Balances as at 31 Dec. 2017 | | | | |
|---|---|---|---|---|---|
| Description | Assets | Deposits | Loans | Equity | Profits |
| Bank of Beirut SAL - Lebanon | 22,478 | 16,943 | 6,136 | 2,095 | 169 |
| Local Subsidiaries | 310 | 15 | 6 | 247 | 36 |
| Foreign branches and subsidiaries | 4,972 | 3,252 | 2,685 | 750 | 35 |
| Investment Funds | 1,465 | - | - | 1,156 | 72 |
| Eliminations & Adjustments | (1,539) | (103) | (254) | (702) | (3) |
| **Consolidated** | **27,686** | **20,108** | **8,573** | **3,547** | **308** |

| LBP Billion | Balances as at 31 Dec. 2018 | | | | |
|---|---|---|---|---|---|
| Description | Assets | Deposits | Loans | Equity | Profits |
| Bank of Beirut SAL - Lebanon | 23,726 | 17,170 | 6,329 | 2,299 | 196 |
| Local Subsidiaries | 326 | 13 | - | 267 | 36 |
| Foreign branches and subsidiaries | 4,919 | 3,173 | 2,633 | 731 | 33 |
| Investment Funds | 1,264 | - | - | 874 | 51 |
| Eliminations & Adjustments | (1,779) | (137) | (281) | (630) | (3) |
| **Consolidated** | **28,457** | **20,219** | **8,681** | **3,542** | **312** |

## *Market and Peer Group Shares Analysis*

In 2018, Bank of Beirut was able to sustain its market and peer group shares in most indicators and maintained its ranking in Deposits and Equity, while improving its ranking in profits:

| | Peer Group Share | | Market Share | | Ranking | |
|---|---|---|---|---|---|---|
| Indicator | Dec 17 | Dec 18 | Dec 17 | Dec 18 | Dec 17 | Dec 18 |
| Assets | 7.81% | 7.23% | 7.12% | 6.62% | 6 | 7 |
| Deposits | 7.23% | 7.12% | 6.68% | 6.58% | 6 | 6 |
| Loans | 8.49% | 9.02% | 7.50% | 7.89% | 4 | 5 |
| Equity | 10.72% | 10.69% | 9.54% | 9.49% | 3 | 3 |
| Profit | 8.52% | 9.14% | 7.90% | 8.41% | 4 | 3 |

# MANAGEMENT DISCUSSION AND ANALYSIS

On the other hand, Bank of Beirut was able to achieve the following outstanding rankings as at 31 December 2018 within the peer group:

- Ranking 1st in "Equity to Asset ratio", 1st in "Leverage to Total Capital" and 6th in Capital Adequacy Ratio, indicating the high level of capitalization.
- Ranking 1st in "Total L/C Openings"
- Ranking 6th in "Total footings"
- Ranking 2nd in "Loan to Deposits Ratio"
- Ranking 3rd in "Total retail and housing loans"
- Ranking 4th in Loan Portfolio quality ratios, namely "Net credit-impaired loans (S3) to gross loans", denoting the conservative management of the credit risk.
- Ranking 3rd in "Net Operating Margin"
- Ranking 3rd in Return on Average Assets (ROAA)

## A. Consolidated Balance Sheet Management

The composition and size of the balance-sheet and contingent liabilities reflect the Board of Directors' overall growth objectives and the risk appetite/ tolerance for the Group. The latter's strategy targets a sustainable growth and a good financial standing while adopting a conservative risk management framework and adequate corporate governance guidelines.

### a. Sources and Uses of Funds

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Liabilities and Equity | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| Customers' deposits | 20,108 | 20,219 | 111 | 0.55% | 72.63% | 71.05% |
| Shareholders' Equity | 2,394 | 2,619 | 224 | 9.37% | 8.65% | 9.20% |
| Deposits from Banks and Fis | 2,095 | 2,476 | 381 | 18.18% | 7.57% | 8.70% |
| Equity - Non-controlling Interests | 1,152 | 923 | (229) | -19.88% | 4.16% | 3.24% |
| Leverage arrangement with BDL | 152 | 823 | 671 | 441.30% | 0.55% | 2.89% |
| Other borrowings | 841 | 569 | (273) | -32.42% | 3.04% | 2.00% |
| Other liabilities & provisions | 586 | 429 | (158) | -26.86% | 2.12% | 1.51% |
| Liabilities under acceptance | 357 | 400 | 43 | 11.98% | 1.29% | 1.41% |
| Total | 27,686 | 28,457 | 771 | 2.78% | 100.00% | 100.00% |

- The main source of funds was generated from the customers' deposits which represented at the end of year 2018 around 71.05% of the funding sources, as compared to 72.63% at year-end 2017. The customers' deposit base grew by LBP 111 billion in 2018 (+0.55%).
- The Shareholders' Equity (controlling interests of the group) caption increased by LBP 224 billion (+9.37%), due mainly to the increase of capital by issuing 3,050,000 new common shares for USD 100 million, in addition to the retained earnings of previous year net profit.
- The funding from banks and financial institutions increased during the year by LBP 381 billion, a significant 18.18% year-on-year growth, mainly from short-term from non-resident banks.
- The decrease in "Other borrowings" caption by 273 billion was mainly related to the settlement of borrowings from the Central Bank of Lebanon and other Central Banks.
- The decrease by LBP 158 billion of "Other Liabilities & Provisions" was mainly due to the transfer of LBP 227.5 billion from "regulatory deferred liability" to equity under "Reserves and Retained Earnings" to offset the expected credit loss provisions resulted from the application of IFRS9, in accordance with the Central Bank of Lebanon requirements (Intermediary Circular no. 446 dated December 30, 2016).
- The leverage arrangements represent funding from the Central Bank of Lebanon to finance term-placements with BDL (LBP 476 billion and LBP 6 billion as at 31 Dec. 2018 and 31 Dec. 2017 respectively) and Lebanese Treasury bills (LBP 347 billion and LBP 146 billion as at 31 Dec. 2018 and 31 Dec. 2017 respectively), with the same amount and maturity.

# MANAGEMENT DISCUSSION AND ANALYSIS

## b. Uses of Funds

The Bank's strategy places emphasis on maintaining high asset quality and a strong Investment Securities' portfolio. While each entity of the Group is abiding by the local regulations, and as part of the Group Risk Management framework. The Assets' structure is subject to internal limits in terms of business lines, financial instruments, counter-party concentration and geographical distribution.

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Assets | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| Investment securities | 9,680 | 8,994 | (687) | -7.09% | 34.96% | 31.60% |
| Loans to customers | 8,573 | 8,681 | 108 | 1.25% | 30.97% | 30.50% |
| Cash & Central Banks | 6,577 | 7,138 | 561 | 8.53% | 23.76% | 25.08% |
| Banks & financial institutions* | 1,840 | 1,897 | 58 | 3.13% | 6.64% | 6.67% |
| Assets under leverage | 152 | 823 | 671 | 441.30% | 0.55% | 2.89% |
| Customers' acceptance liability | 357 | 400 | 42 | 11.78% | 1.29% | 1.40% |
| Property and equipment | 281 | 295 | 14 | 5.15% | 1.01% | 1.04% |
| Other assets | 137 | 141 | 4 | 2.70% | 0.50% | 0.50% |
| Goodwill | 89 | 88 | (0) | -0.11% | 0.32% | 0.31% |
| Total | 27,686 | 28,457 | 771 | 2.78% | 100.00% | 100.00% |

* Including loans to banks

**- Loans to customers**

Growing by LBP 108 billion, a growth of 1.25%, the share of the Loan Portfolio represented 30.50% of Total Assets as at 31 December 2018, compared to 30.97% at the end of 2017. The achieved growth was much higher than the Peer Group which registered a negative growth of 4.69%.

**- Cash & Central Banks**

Increasing during the year by LBP 561 billion (+8.53%) and representing 25.08% of Total Assets as at 31 December 2018, compared to 23.76% at year-end 2017. The increase was less than the Peer Group growth in 2018 (i.e. 34.35%).

**- Investment Securities**

Decreasing by LBP 687 billion (-7.09%) and representing 31.60% of Total Assets as at 31 December 2018, compared to 34.96% at year-end 2017.

**- Due to Banks and Financial Institutions, including Loans to Banks**

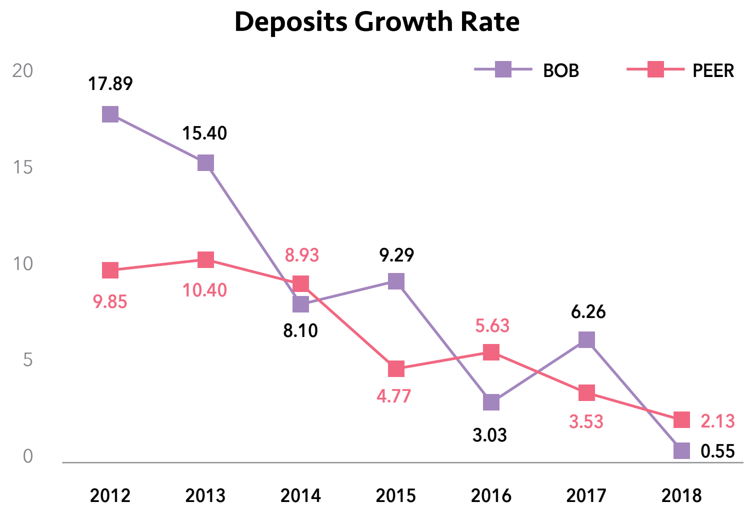
Increasing during the year by LBP 58 billion (+3.13%) and representing 6.67% of Total Assets as at 31 December 2018, compared to 6.64% at year-end 2017.

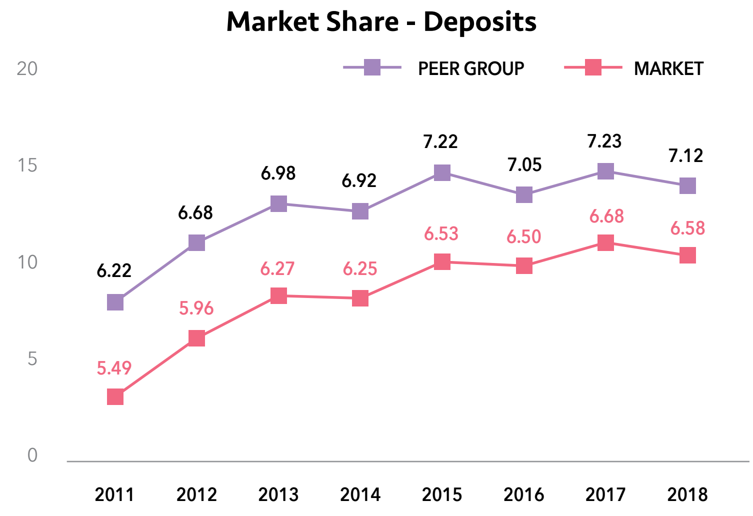
# MANAGEMENT DISCUSSION AND ANALYSIS

## *Customers' Deposits*

Constituting the main funding source, the consolidated deposits base increased during year 2018 by LBP 111 billion to reach LBP 20,219 billion (USD 13.4 billion), a year-on-year growth of 0.55%.

On consolidated basis, Bank of Beirut Group slightly under performed the peer Group growth rate of 2.13%, consequently, the peer group share decreased from 7.23% as at 31 December 2017 to 7.12% as at 31 December 2018.




Domestically, the Bank peer group share declined slightly from 7.04% at year-end 2017 to 6.93% as at 31 December 2018:

**Distribution of customers and related parties' deposits by entity of the Group**

Bank of Beirut Lebanon's branches registered 1.34% growth in 2018, as compared to 2.76% growth rate for customers' deposits of all "Commercial Banks" operating in Lebanon. On the other hand, the decrease in deposit portfolio at Bank of Beirut Oman branches was aligned with the management decision to match it with the decrease in loan portfolio.

| LBP Billion | | Balances | | Growth | |
|---|---|---|---|---|---|
| Description | Functional Currency | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Bank of Beirut - Lebanon | USD | 16,943 | 17,170 | 226 | 1.34% |
| Bank of Sydney | AUD | 2,041 | 2,078 | 37 | 1.80% |
| Bank of Beirut - Oman | OMR | 949 | 820 | (129) | -13.59% |
| Bank of Beirut (UK) | GBP | 187 | 199 | 11 | 6.02% |
| Bank of Beirut - Cyprus | USD | 75 | 77 | 2 | 2.42% |
| Bank of Beirut Invest | USD | 15 | 13 | (2) | -13.22% |
| **Total Banking units** | | **20,211** | **20,356** | **145** | **0.72%** |
| **Non-Banking Subsidiaries** | **USD** | **-** | **-** | **-** | **0.00%** |
| **Mutual Funds** | **USD** | **-** | **-** | **-** | **0.00%** |
| **Eliminations** | | **(103)** | **(137)** | **(34)** | **33.00%** |
| **Consolidated** | | **20,108** | **20,219** | **111** | **0.55%** |

Eliminations: Related to non-bank Subsidiaries & Funds Deposits at BOB

# MANAGEMENT DISCUSSION AND ANALYSIS

## Geographical distribution of Deposits

An analysis of customers and related parties' deposits by geographical area distribution reveals that the growth was largely contributed to Lebanon with LBP 276 billion (+1.93%), which is still representing the lion's share with 72.03% of total customers' deposits as at year-end 2018.

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| Lebanon | 14,287 | 14,563 | 276 | 1.93% | 71.05% | 72.03% |
| Australia | 1,997 | 2,035 | 38 | 1.89% | 9.93% | 10.06% |
| Middle East and Africa | 2,048 | 2,122 | 74 | 3.64% | 10.18% | 10.50% |
| Europe | 1,587 | 1,310 | (277) | -17.46% | 7.89% | 6.48% |
| North America | 151 | 158 | 7 | 4.62% | 0.75% | 0.78% |
| Others | 38 | 31 | (7) | -17.93% | 0.19% | 0.15% |
| **Total** | **20,108** | **20,219** | **111** | **0.55%** | **100.00%** | **100.00%** |

## Deposits' distribution by currency

The USD denominated deposits augmented by LBP 498 billion in 2018, recording an annual growth rate of 4.79% and continuing to hold the largest share of 53.87%. The dollarization rate of customers' deposits increased in 2018 to reach 74.17%, as compared to 72.00% at year-end 2017.

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Currency | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| LBP | 5,629 | 5,222 | (407) | -7.23% | 28.00% | 25.83% |
| USD | 10,394 | 10,892 | 498 | 4.79% | 51.69% | 53.87% |
| Euro | 740 | 911 | 170 | 23.02% | 3.68% | 4.50% |
| GBP | 253 | 233 | (19) | -7.68% | 1.26% | 1.15% |
| AUD | 2,060 | 2,105 | 44 | 2.15% | 10.25% | 10.41% |
| Others | 1,031 | 856 | (175) | -16.98% | 5.13% | 4.23% |
| **Total** | **20,108** | **20,219** | **111** | **0.55%** | **100.00%** | **100.00%** |

## Distribution by type of deposits

The breakdown of deposits by type has been relatively stable in 2018, with term deposits continuing to reflect the lion's share of 80.7% of total deposits as at 31 December 2018 and the healthy level of demand deposits reflecting 9.9% of total deposits.

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| Term Deposits | 16,124 | 16,315 | 191 | 1.18% | 80.19% | 80.69% |
| Demand deposits | 2,284 | 1,991 | (293) | -12.83% | 11.36% | 9.85% |
| Collateral against loans | 1,406 | 1,545 | 139 | 9.87% | 6.99% | 7.64% |
| Margins on LGs | 128 | 108 | (21) | -16.00% | 0.64% | 0.53% |
| Margins on LCs | 28 | 104 | 75 | 264.93% | 0.14% | 0.51% |
| Other Margins | 28 | 29 | 1 | 3.69% | 0.14% | 0.14% |
| Accrued interest | 109 | 128 | 19 | 17.44% | 0.54% | 0.63% |
| **Total** | **20,108** | **20,219** | **111** | **0.55%** | **100.00%** | **100.00%** |

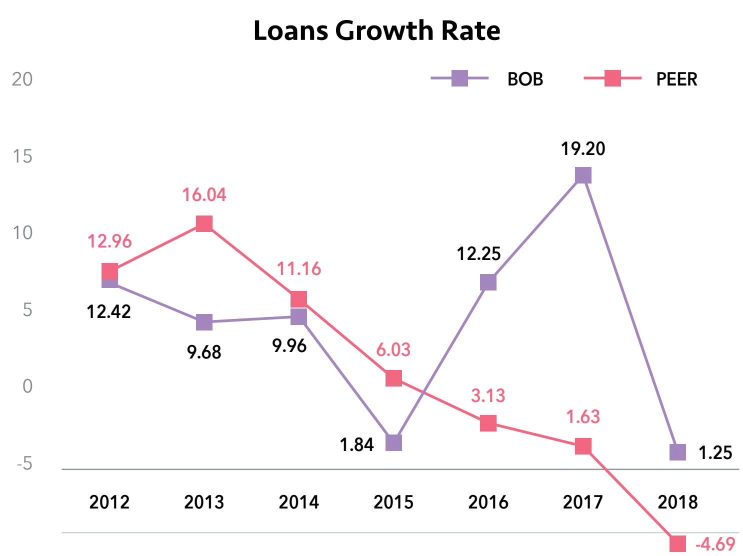
# MANAGEMENT DISCUSSION AND ANALYSIS

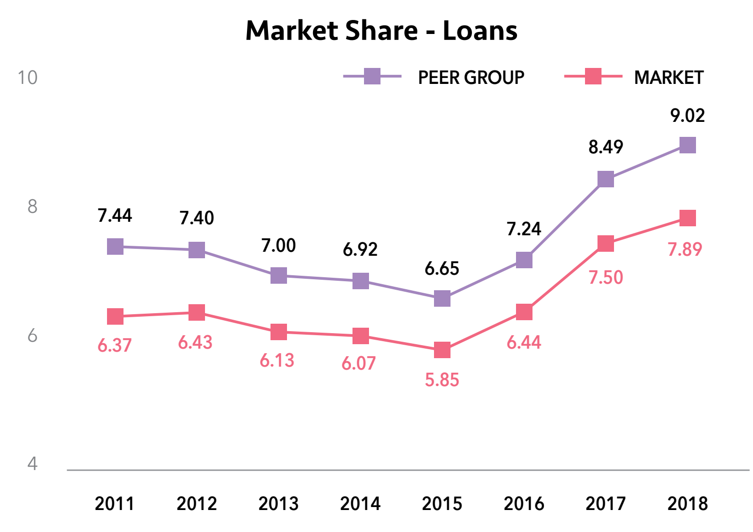
## *Loans to Customers and Related Parties*

The loan to Customers' Portfolio increased by LBP 108 billion in 2018 reaching LBP 8,681 billion, compared to LBP 8,573 billion at the end of year 2017.

| LBP Billion | Balances | | Growth | |
|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Regular Loans to Customers | 8,233 | 8,472 | 239 | 2.91% |
| Regular Loans to related parties | 128 | 125 | (3) | -2.25% |
| Substandard Loans (net) | 108 | 99 | (10) | -8.81% |
| Doubtful Loans (net) | 130 | 142 | 12 | 9.17% |
| Collective Provisions | (26) | - | 26 | -100.00% |
| Expected Credit Losses (stages 1 & 2) | - | (157) | (157) | |
| Total | 8,573 | 8,681 | 108 | 1.25% |

The Bank's year-on-year growth of 1.25% clearly outperformed the Peer Group negative growth rate of 4.69% achieved in 2018. Consequently, the Market and Peer Group shares have significantly improved as follows:



# MANAGEMENT DISCUSSION AND ANALYSIS

## *Distribution of Loans to customers by entity of the Group*

Bank of Beirut Lebanon's branches registered a moderate 3.15% growth in 2018, as compared to 1.02% negative growth rate for loans to customers of all "Commercial Banks" operating in Lebanon. The decrease in Oman branches loan portfolio can be contributed to the slowdown of the Omani economy.

| LBP Billion | | Balances | | Growth | |
|---|---|---|---|---|---|
| Description | Functional Currency | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Bank of Beirut - Lebanon | USD | 6,136 | 6,329 | 193 | 3.15% |
| Bank of Sydney | AUD | 1,737 | 1,867 | 130 | 7.48% |
| Bank of Beirut - Oman | OMR | 733 | 561 | (172) | -23.42% |
| Bank of Beirut (UK) | GBP | 131 | 113 | (18) | -13.68% |
| Bank of Beirut - Cyprus | USD | 85 | 92 | 7 | 8.50% |
| Bank of Beirut Invest | USD | 6 | - | (6) | -100.00% |
| **Total Banking units** | | **8,828** | **8,962** | **134** | **-117.97%** |
| **Eliminations** | | **(254)** | **281** | **(27)** | **10.61%** |
| **Consolidated** | | **8,573** | **8,681** | **108** | **1.25%** |

## *Loans distribution by geographical area*

An analysis of Loans to customers by geographical area distribution reveals that the growth was largely contributed to Australia with LBP 130 billion (+7.49%) and a notable increase in Europe by LBP 98 billion (+84.96%). The share of Loans outside Lebanon reached 34.28% as year-end 2018, compared to 32.83% as at 31 December 2017.

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| Lebanon | 5,759 | 5,705 | (54) | -0.94% | 67.17% | 65.72% |
| Australia | 1,732 | 1,862 | 130 | 7.49% | 20.21% | 21.45% |
| Middle East & Africa | 930 | 864 | (66) | -7.10% | 10.85% | 9.96% |
| Europe | 115 | 213 | 98 | 84.96% | 1.34% | 2.45% |
| North America | 37 | 36 | (0) | -0.84% | 0.43% | 0.42% |
| Others | 0 | 0 | 0 | 592.95% | 0.00% | 0.01% |
| Total | 8,573 | 8,681 | 108 | 1.25% | 100.00% | 100.00% |

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Loans distribution by currency*

The LBP denominated Loans decreased by LBP 110 billion in 2018, recording a negative annual growth rate of 6.06%. On the foreign currency side, the Euro registered a significant increase during 2018 by LBP 294 billion (+103.3%). The USD to continue to hold the largest share (47.33% as at year-end 2018):

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Currency | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| LBP | 1,817 | 1,707 | (110) | -6.06% | 21.20% | 19.67% |
| USD | 4,063 | 4,108 | 46 | 1.12% | 47.39% | 47.33% |
| Euro | 284 | 578 | 294 | 103.30% | 3.32% | 6.66% |
| GBP | 42 | 28 | (15) | -34.76% | 0.49% | 0.32% |
| AUD | 1,575 | 1,649 | 74 | 4.69% | 18.37% | 18.99% |
| Other | 791 | 611 | (181) | -22.85% | 9.23% | 7.03% |
| Total | 8,573 | 8,681 | 108 | 1.25% | 100.00% | 100.00% |

## *Distribution of Loans by type of Customer*

As clearly shown in the table above, the main driver behind the increase in loans was the "Housing" caption by LBP 210 billion (+7.62%) and the "SME" by LBP 136 billion (+12.33%):

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| Corporate | 4,249 | 4,248 | (1) | -0.03% | %49.56 | 48.93% |
| Housing | 2,752 | 2,962 | 210 | 7.62% | 32.1% | 34.1% |
| SME | 1,100 | 1,235 | 136 | 12.33% | 12.8% | 14.2% |
| Retail | 492 | 386 | (106) | -21.63% | 5.7% | 4.4% |
| Public Institutions | 7 | 8 | 1 | 13.26% | 0.1% | 0.1% |
| Collective Provisions & ECL | (26) | (157) | (131) | 504.00% | -0.3% | -1.8% |
| Total | 8,573 | 8,681 | 108 | 1.25% | 100.0% | 100.0% |

## *Distribution of Loans by Economic Sector*

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Sector/Industry | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| Real Estate & Construction | 2,719 | 2,567 | (152) | -5.60% | 31.71% | 28.56% |
| Trade and Services | 2,017 | 2,453 | 436 | 21.61% | 23.53% | 27.30% |
| Manufacturing & Industry | 695 | 753 | 58 | 8.42% | 8.10% | 8.38% |
| Financial Services | 417 | 524 | 107 | 25.64% | 4.86% | 5.83% |
| Agriculture | 36 | 29 | (6) | -17.28% | 0.42% | 0.33% |
| Others | 2,690 | 2,661 | (29) | -1.08% | 31.38% | 29.61% |
| Total | 8,573 | 8,987 | 414 | 4.83% | 100.00% | 100.00% |

As shown in the table below, the "Real Estate & Construction" sector still has the largest exposure at year-end 2018 with a 28.56% share, followed by 27.30% for "Trade and Services" sector.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Fair Value of Guarantees against Loan Portfolio*

The Bank employs collateral to mitigate credit risk, primarily over the Loans and Advances to customers. In addition, the Bank restricts its exposure to credit losses by entering into netting arrangements with counterparties.

| LBP Billion | 31 Dec 17 | | | 31 Dec 18 | | |
|---|---|---|---|---|---|---|
| Description | Performing | NPLs | Total | Performing | NPLs | Total |
| Gross Balances | 8,233 | 369 | 8,602 | 8,469 | 390 | 8,859 |
| Expected Credit Losses | (26) | (130) | (156) | (154) | (149) | (303) |
| **Net Loans Balances** | **8,207** | **238** | **8,445** | **8,315** | **241** | **8,556** |
| Pledged Funds | 1,549 | 2 | 1,551 | 1,775 | 17 | 1,792 |
| 1st Degree Mortgage | 4,275 | 3,374 | 7,649 | 7,832 | 274 | 8,106 |
| Debt securities | 22 | - | 22 | 31 | 9 | 40 |
| Bank Guarantees | 103 | - | 103 | 111 | - | 111 |
| Vehicles | 270 | 8 | 278 | 230 | 8 | 238 |
| **Fair Value of real guarantees received** | **6,218** | **3,384** | **9,603** | **9,979** | **307** | **10,286** |
| **Fair Value of other guarantees received** | **2,641** | **7** | **2,648** | **3,212** | **40** | **3,252** |
| **Real Guarantee Coverage Ratio** | **75.77%** | **1419.68%** | **113.71%** | **120.02%** | **127.65%** | **120.23%** |

## *Classification of loans*

As specified in the table below, the net non-performing loans ("NPL's"), after deduction of specific loan loss reserves, increased by LBP 2 billion (+1.00%), due mainly to the increase in gross NPL's (net of unrealized interests) by LBP 21 billion (+5.70%) coupled with the increase in Loan Loss Reserves ("LLRs") by LBP 19 billion.

| LBP Billion | Balances | | Growth | |
|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % |
| **Regular loans** | **8,335** | **8,440** | **105** | **1.26%** |
| Gross balances | 8,361 | 8,597 | 236 | 2.83% |
| Collective provisions | (26) | - | 26 | -100.00% |
| Expected Credit Losses (stages 1 & 2) | - | (54) | (54) | 0.00% |
| Expected Credit Losses (extra buffer) | - | (103) | (103) | 0.00% |
| **Substandard Loans** | **108** | **99** | **(10)** | **-8.81%** |
| Gross balances | 125 | 116 | (9) | -7.47% |
| Unrealized interest | (16) | (17) | (1) | 8.84% |
| Impairment allowances | (1) | - | 1 | -100.00% |
| **Doubtful Loans** | **130** | **142** | **12** | **9.17%** |
| Gross balances | 340 | 400 | 60 | 17.67% |
| Unrealized interest | (81) | (109) | (28) | 35.04% |
| Impairment allowances | (129) | (149) | (20) | 15.33% |
| **Total Net Loans** | **8,573** | **8,681** | **108** | **1.25%** |

# MANAGEMENT DISCUSSION AND ANALYSIS

## *IFRS9 Expected Credit Losses*

The Group has adopted the IFRS9 expected credit losses effective January 1, 2018, consequently, the Group recognizes Loss Allowances for the loans and advances to customers and related parties.

Classification by Stage and correspondent impairment allowances:

| LBP Billion | 1 Jan 18 | | | 31 Dec 18 | | |
|---|---|---|---|---|---|---|
| Description | Gross Exposure | Impairment Allowance | Net Exposure | Gross Exposure | Impairment Allowance | Net Exposure |
| Stage 1 Loans to Customers | 7,493 | (19) | 7,473 | 6,802 | (12) | 6,789 |
| Stage 2 Loans to Customers | 868 | (157) | 711 | 1,796 | (145) | 1,651 |
| Stage 3 Loans to Customers | 369 | (130) | 238 | 390 | (149) | 241 |
| **Total** | **8,730** | **(307)** | **8,423** | **8,987** | **(306)** | **8,681** |

Classification by credit risk internal rating and stage:

| LBP Billion | 31 Dec 18 | | | | 1 Jan 18 |
|---|---|---|---|---|---|
| Description | Stage 1 12 month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total | Total |
| Grade 1-3: Low to fair risk | 6,802 | 934 | - | 7,736 | 7,972 |
| Grades 4-6: Monitoring | - | 861 | - | 861 | 389 |
| Grade 7-8: Substandard | - | - | 99 | 99 | 110 |
| Grade 9: Doubftful | - | - | 38 | 38 | 61 |
| Grade 10: Impaired | - | - | 253 | 253 | 198 |
| Total Gross Carrying Amount | 6,802 | 1,796 | 390 | 8,987 | 8,730 |
| Loss Allowances | (12) | (145) | (149) | (306) | (307) |
| **Net Carrying Amount** | **6,789** | **1,651** | **241** | **8,681** | **8,423** |

## *Loan Portfolio Quality Ratios*

The KPI's Loan ratios indicate a sustained high quality as compared to Peer Group:

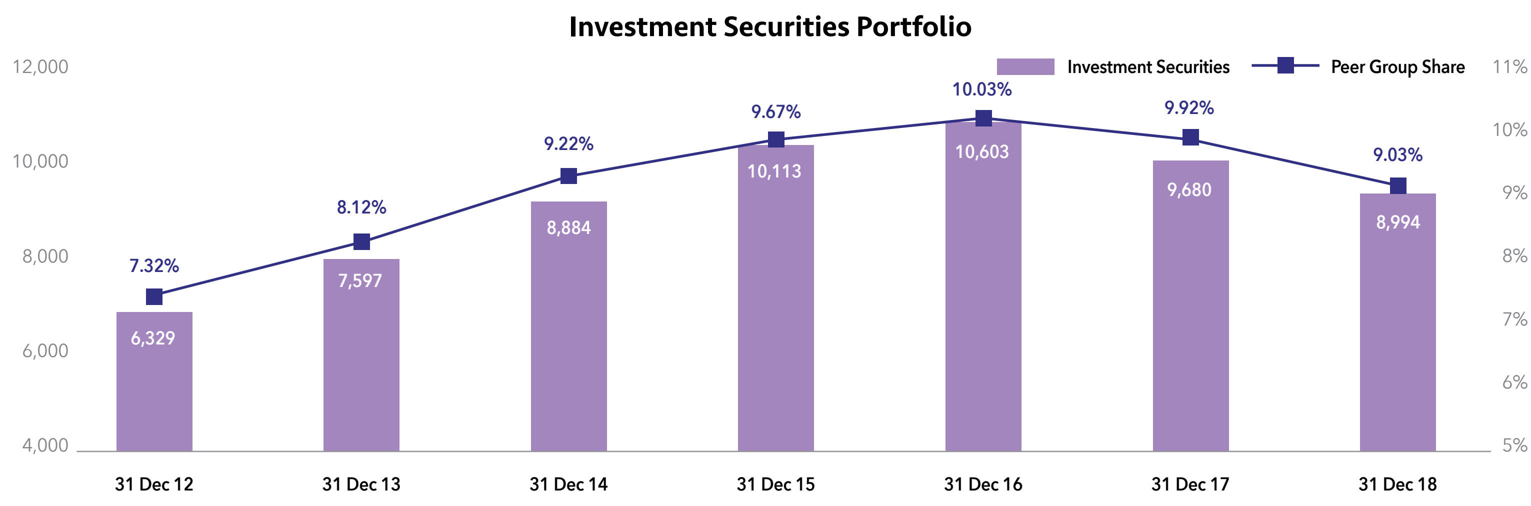
| | Bank of Beirut | | | Peer Group | | |
|---|---|---|---|---|---|---|
| Ratio | 31 Dec 17 | 31 Dec 18 | Variance | 31 Dec 17 | 31 Dec 18 | Variance |
| Gross Performing Loans / Gross Loans | 95.76% | 95.58% | -0.18% | 97.07% | 96.74% | -0.33% |
| Gross NPLSs / Gross Loans | 4.24% | 4.42% | 0.18% | 2.93% | 3.26% | 0.33% |
| Net NPLs / Net Loans | 2.78% | 2.77% | -0.01% | 1.16% | 1.26% | 0.10% |
| ECL stage 3 / Gross NPLs | 35.36% | 38.24% | 2.87% | 30.74% | 34.56% | 3.82% |
| ECL stage s 1 & 2 / gross performing loans | 0.31% | 1.83% | 1.52% | 0.55% | 0.57% | 0.02% |
| Net NPLs / Total Assets | 0.86% | 0.85% | -0.01% | 0.91% | 0.91% | 0.00% |
| Net NPLs / Shareholders› Equity (share group) | 9.96% | 9.19% | -0.76% | 10.56% | 11.50% | 0.94% |

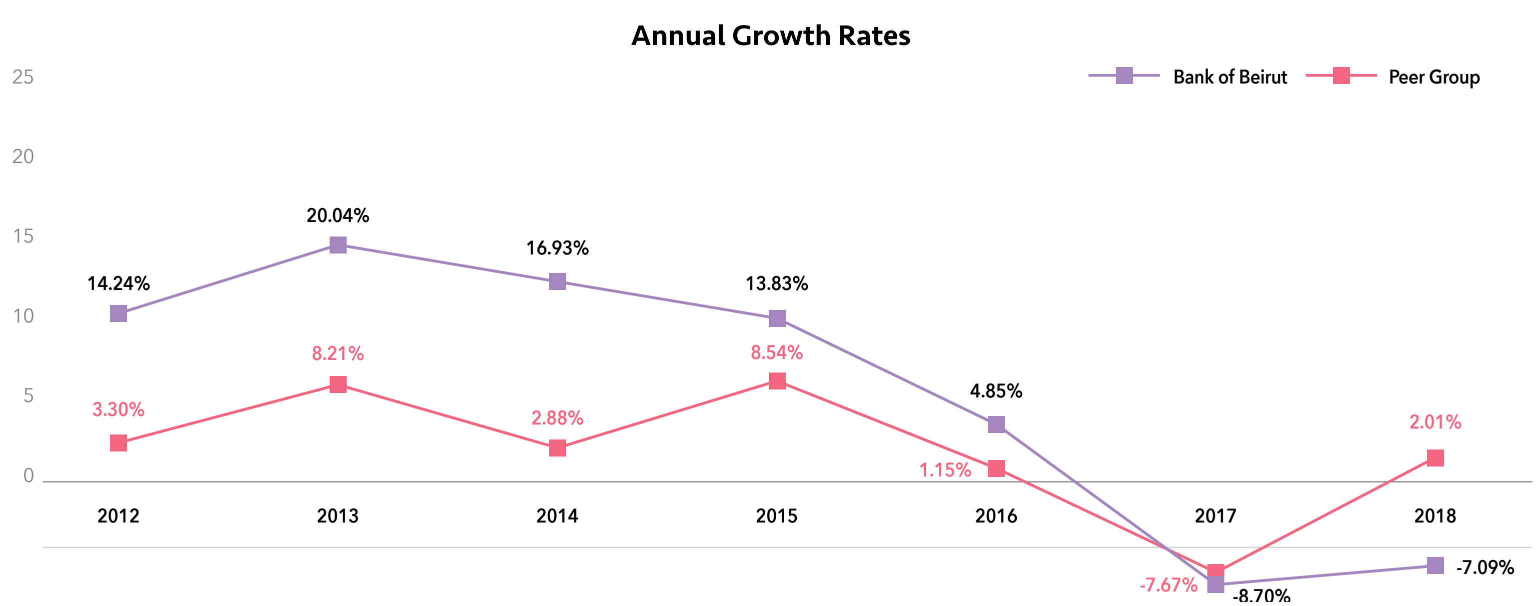
# MANAGEMENT DISCUSSION AND ANALYSIS

## *Investment Securities Portfolio*

The Bank's securities portfolio, which consists of both Fixed and variable Income Securities, decreased by LBP 687 billion during 2018, an annual negative growth rate of 7.09%, to reach LBP 8,994 billion while representing 31.60% of Total Assets as at 31 December 2018 (compared to 34.96% in 2017).

| LBP Billion | Balances | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % | 31 Dec 17 | 31 Dec 18 |
| Debt instruments at amortized cost | 8,162 | 7,662 | (500) | -6.13% | 84.32% | 85.19% |
| Debt instruments at fair value through P&L | 1,444 | 1,257 | (188) | -12.99% | 14.92% | 13.97% |
| Shares and participations at FVTPL | 63 | 59 | (4) | -6.17% | 0.65% | 0.66% |
| Shares and participations at FVTOCI | 11 | 16 | 5 | 46.40% | 0.11% | 0.17% |
| Total | 9,680 | 8,994 | (687) | -7.09% | 100.00% | 100.00% |



# MANAGEMENT DISCUSSION AND ANALYSIS

## Growth by type of Instruments

| LBP Billion | Balances | | Growth | |
|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Lebanese Government Eurobonds (FCY) | 3,833 | 3,600 | (233) | -6.08% |
| Lebanese Treasury Bills (LBP) | 2,112 | 1,405 | (707) | -33.46% |
| CDs issued by BDL (LBP) | 1,771 | 2,138 | 367 | 20.72% |
| CDs issued by BDL (FCY) | 1,020 | 1,090 | 70 | 6.89% |
| Financial private sector debt securities (FCY) | 593 | 406 | (188) | -31.63% |
| Foreign Government treasury bonds (FCY) | 142 | 176 | 34 | 23.58% |
| Certificates of deposit by financial sector (FCY) | 1 | 19 | 18 | 2002.84% |
| Accrued interest fixed income securities | 134 | 132 | (3) | -2.00% |
| (Less) Allowance for Expected Credit Losses | | (46) | (46) | |
| Unquoted equity securities | 59 | 64 | 5 | 8.42% |
| Quoted equity securities and funds | 15 | 11 | (4) | -26.54% |
| Total | 9,680 | 8,994 | (687) | -7.09% |

## Fair Value of Debt Instruments classified at Amortized Cost

The valuation of the amortized cost Debt Securities at year-end 2018 revealed a negative variation of LBP 445 billion, compared to a negative valuation of LBP 118 billion as at 31 December 2017, due mainly to the decline in the Lebanese Sovereign Eurobonds prices during the year 2018.

| LBP Billion | 31 Dec 18 | | | | 31 Dec 17 | | |
|---|---|---|---|---|---|---|---|
| Description | Amortized Cost | Accrued Interest | ECL | Fair Value | Amortized Cost | Accrued Interest | Fair Value |
| Lebanese Government Eurobonds (FCY) | 3,365 | 38 | (37) | 2,884 | 3,535 | 39 | 3,373 |
| Lebanese Treasury Bills (LBP) | 972 | 16 | (5) | 990 | 1,453 | 23 | 1,469 |
| CDs issued by BDL (LBP) | 1,891 | 43 | - | 1,888 | 1,532 | 35 | 1,560 |
| CDs issued by BDL (FCY) | 843 | 13 | (5) | 859 | 843 | 13 | 845 |
| Financial private sector debt securities (FCY) | 406 | 3 | (0) | 410 | 593 | 4 | 591 |
| Foreign Government treasury bonds (FCY) | 98 | 1 | - | 100 | 90 | 1 | 90 |
| Certificates of deposit by financial sector (FCY) | 19 | 0 | - | 19 | 1 | 0 | 1 |
| Total | 7,594 | 114 | (46) | 7,149 | 8,047 | 115 | 7,929 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Property & Equipment

| LBP Billion | Net Balances | | Growth | |
|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Land & Buildings | 221 | 232 | 11 | 5.14% |
| Furniture | 17 | 17 | (0) | -0.43% |
| Equipment | 15 | 14 | (0) | -2.24% |
| Vehicles | 0 | 0 | (0) | -29.20% |
| Key Money | - | - | - | |
| Installations and improvements | 17 | 19 | 2 | 14.38% |
| Advance on Capital expenditures | 11 | 12 | 1 | 11.31% |
| **Total** | **281** | **295** | **14** | **5.15%** |

The "Property & Equipment" caption witnessed a moderate increase during 2018 to reach LBP 295 billion, compared to LBP 281 billion as at 31 December 2017.

## Profitability

### Overview

The consolidated total net profit after tax increased in 2018 by 1.13% to LBP 311.6 billion, compared to LBP 308.2 billion for the year 2017. This growth in profitability was driven by growth in business activities, coupled with efficient management of interest rate margins, high commission base and effective cost containment policy, with a focus on consistently increasing the operating noninterest base revenues. The positive growth in the net earnings was due to:

- Increase in "Net Interest Income" by LBP 13.9 billion (+3.19%) after accounting for LBP 44.8 billion of taxes on interests for full year 2018 as compared to LBP 6.6 billion for year 2017 due to the fact the new tax regulation has been effective 27/10/2017.
- Decrease in "Interest Income from Financial Assets at FVTPL" by LBP 20.4 billion (-20.38%) due to decline in investment funds managed by the group during 2018.
- Increase in "Net fee and commission income" by LBP 3.3 billion (+2.41%)
- Increase in "Other non-interest income" by LBP 16.0 billion (+85.76%) which resulted largely from the income increase in FX gains and ….
- Decrease in "Impairment losses" by LBP 23.6 billion, due to significant write-back of provisions against non-performing loans.
- Increase in "Operating Expenses" by LBP 25.6 billion (+8.39%)

After accounting for the non-controlling interest (mainly the net profit from controlled Mutual Funds), the Net Profit for the equity holders registered a remarkable increase by LBP 24.4 billon (+10.35%).

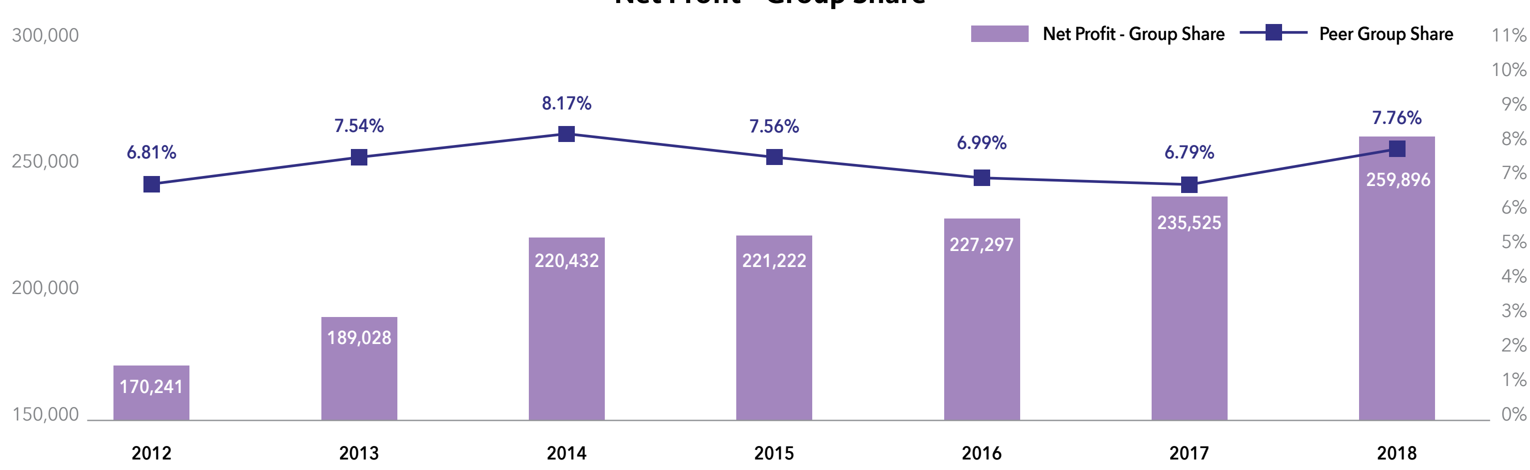
# MANAGEMENT DISCUSSION AND ANALYSIS

| LBP Million | Period ended... | | Growth | |
|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Interest income | 1,251,273 | 1,454,379 | 203,107 | 16.23% |
| (Less) Taxes on Interest | (6,553) | (51,317) | (44,764) | 683.07% |
| Interest expense | (808,197) | (952,616) | (144,419) | 17.87% |
| **Net interest income** | **436,522** | **450,446** | **13,924** | **3.19%** |
| Net fee & commission income | 137,322 | 140,638 | 3,315 | 2.41% |
| Interest income on FVTPL assets | 100,033 | 79,648 | (20,385) | -20.38% |
| Other gains on FVTPL assets | 428 | 641 | 214 | 49.93% |
| Other non-interest income | 18,709 | 34,754 | 16,045 | 85.76% |
| **Operating income** | **693,014** | **706,127** | **13,113** | **1.89%** |
| Impairment losses (net) | (22,009) | 1,567 | 23,576 | -107.12% |
| Other Provisions | (9,553) | (7,170) | 2,384 | -24.95% |
| **Net operating income** | **661,452** | **700,524** | **39,072** | **5.91%** |
| **Operating Expenses** | **(305,813)** | **(331,456)** | **(25,643)** | **8.39%** |
| **Operating Profit** | **355,639** | **369,068** | **13,429** | **3.78%** |
| Income taxes | (47,483) | (57,420) | (9,937) | 20.93% |
| **Net profit after tax** | **308,156** | **311,647** | **3,492** | **1.13%** |
| Non-controlling interest | (72,631) | (51,751) | 20,879 | -28.75% |
| **Net profit (Equity holders)** | **235,525** | **259,896** | **24,371** | **10.35%** |

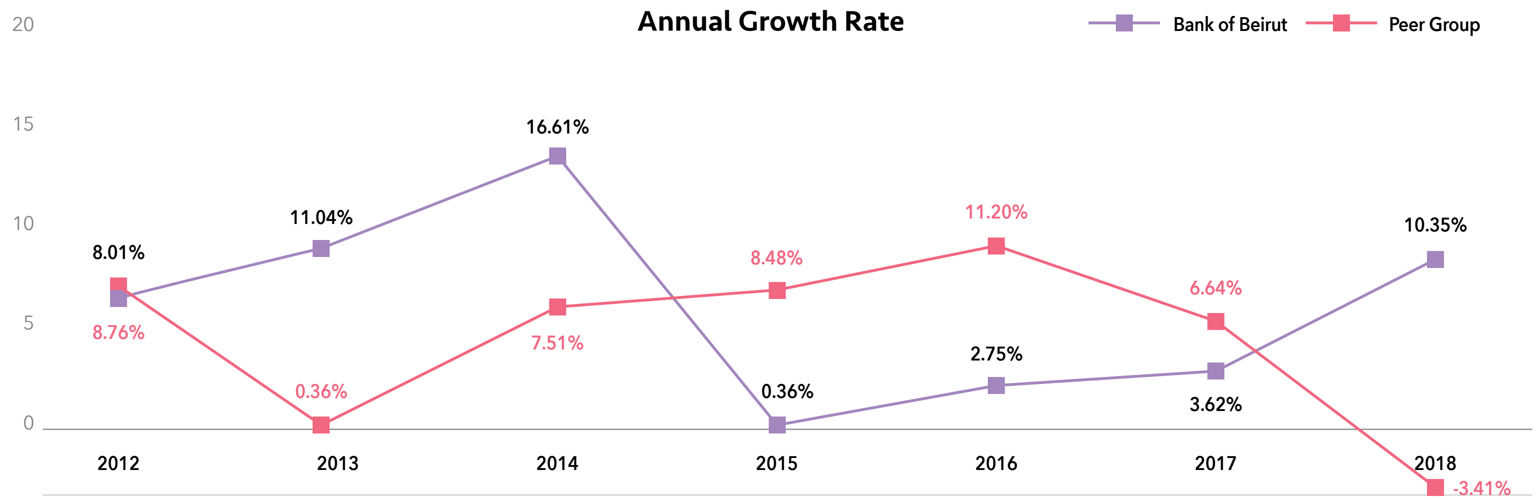
## *Peer Group Analysis*

Bank of Beirut Group has been able to increase its peer group share during the last 6 years from 6.81% at year-end 2012 to 7.76% as at 31 December 2018

**Net Profit - Group Share**



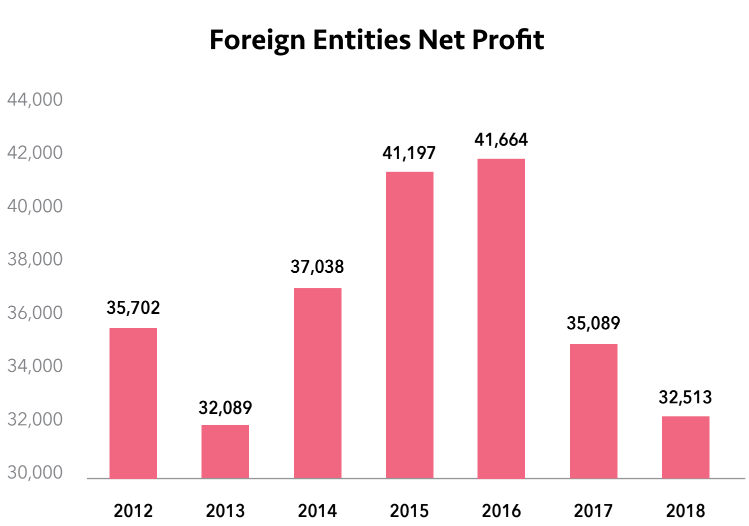
# MANAGEMENT DISCUSSION AND ANALYSIS

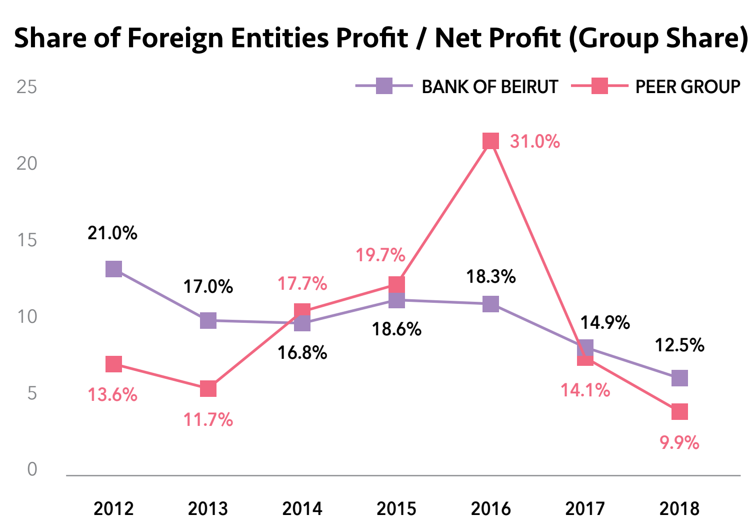



## *Net profit by entity type*

In 2018, the Bank has registered a positive growth in Bank of Beirut Lebanon's branches and local subsidiaries, however, the foreign affiliates profit declined by 7.34%, in addition to a decline in the "Investment Funds" by around 29.5%. In line with the Peer Group, the share of net profit from foreign affiliates from total net profit (equity holders) reached 12.50% in 2018, down from 14.9% in 2017.

| LBP Million | Year | | Growth | |
|---|---|---|---|---|
| Entity | 2017 | 2018 | Amount | % |
| Bank of Beirut - Lebanon | 192,410 | 211,515 | 19,105 | 9.93% |
| Local Subsidiaries | 35,991 | 36,215 | 224 | 0.62% |
| Foreign branches & Subsidiaries | 35,089 | 32,513 | (2,575) | -7.34% |
| Investment Funds | 72,157 | 50,870 | (21,287) | -29.50% |
| Eliminations & adjustments | (27,491) | (19,466) | 8,025 | -29.19% |
| Net Profit after Tax | 308,156 | 311,647 | 3,492 | 1.13% |
| o.w. non-controlling interests | 72,631 | 51,751 | (20,879) | -28.75% |
| o.w. Equity Holders of the Bank | 235,525 | 259,896 | 24,371 | 10.35% |



# MANAGEMENT DISCUSSION AND ANALYSIS

## *Profitability KPIs*

In 2018, the Bank has outpaced the peer group on terms of many profitability KPIs, namely the Return on Average Assets, the Cost to Income Ratio, the Assets Utilization ratio, the interest margin and Interest spread.

| | BOB | | Peer Group | |
|---|---|---|---|---|
| Ratio | 2017 | 2018 | 2017 | 2018 |
| + Yield on earning assets | 5.35% | 5.74% | 6.10% | 6.44% |
| - Cost of earning assets | -3.23% | -3.62% | -4.09% | -4.49% |
| = Interest margin | 2.13% | 2.11% | 2.01% | 1.95% |
| x Average interest earning assets / average assets | 93.43% | 93.63% | 95.82% | 95.40% |
| = Interest Spread | 1.99% | 1.98% | 1.93% | 1.86% |
| + Net non interest income / average assets | 0.60% | 0.54% | 0.95% | 0.58% |
| = Asset Utilization Ratio | 2.58% | 2.52% | 2.87% | 2.44% |
| x Net operating margin | 44.47% | 44.13% | 36.58% | 37.49% |
| o.w. Cost to income | 44.13% | 46.94% | 47.14% | 49.20% |
| o.w. Credit Cost | 3.18% | -0.22% | 6.23% | 5.09% |
| o.w. Other provisions | 1.38% | 1.02% | 1.96% | 0.55% |
| o.w. Tax Cost | 6.85% | 8.13% | 8.09% | 7.67% |
| = Return on average assets (ROAA) | 1.15% | 1.11% | 1.05% | 0.91% |
| x Leverage (average assets/average equity) | 7.63 | 7.92 | 10.70 | 11.29 |
| = Return on average equity (ROAE) | 8.77% | 8.79% | 11.24% | 10.31% |

Consequently, the bank has been able to improve the peer group ranking in major KPIs and maintain the rankings of others.

| | Peer Group Randing | |
|---|---|---|
| Ratio | 2017 | 2018 |
| Return on Average Assets | 4 | 3 |
| Net operating margin | 4 | 3 |
| Cost to income | 6 | 6 |
| Interest Spread | 5 | 5 |
| Asset utilization ratio | 5 | 5 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Net Interest Income

| LBP Million | Year | | Growth | | Breakdown | |
|---|---|---|---|---|---|---|
| Description | 2017 | 2018 | Amount | % | 2017 | 2018 |
| Placements with Central Banks | 261,675 | 414,789 | 153,114 | 58.51% | 21.02% | 29.56% |
| Placements with banks | 21,284 | 23,984 | 2,700 | 12.69% | 1.71% | 1.71% |
| Loans to Banks | 8,930 | 8,656 | (274) | -3.06% | 0.72% | 0.62% |
| Financial assets at amortized cost | 528,705 | 536,262 | 7,557 | 1.43% | 42.48% | 38.22% |
| Loans to customers and related parties | 430,679 | 470,688 | 40,009 | 9.29% | 34.60% | 33.55% |
| (Less) tax on interest | (6,553) | (51,317) | (44,764) | 683.07% | -0.53% | -3.66% |
| **Interest income** | **1,244,719** | **1,403,062** | **158,343** | **12.72%** | **100.00%** | **100.00%** |
| Banks and financial Institutions | 34,864 | 63,708 | 28,844 | 82.73% | 4.31% | 6.69% |
| Customers and related parties deposits | 765,118 | 878,300 | 113,182 | 14.79% | 94.67% | 92.20% |
| Certificates of Deposit | 13 | 14 | 1 | 4.93% | 0.00% | 0.00% |
| Other Borrowings | 8,202 | 10,594 | 2,392 | 29.16% | 1.01% | 1.11% |
| **Interest expense** | **808,197** | **952,616** | **144,419** | **17.87%** | **100.00%** | **100.00%** |
| **Net Interest Income** | **436,522** | **450,446** | **13,924** | **3.19%** | | |
| **Financial assets at Fair Value Through P&L** | **96,450** | **104,674** | **8,224** | **8.53%** | | |

As reflected in the table above, the net interest income increased by 3.19% in 2018, mainly due to the increase in interest earned on Central Banks (+58.51%), on Loans to customers and to related parties (+9.29%) and on placements with banks and financial loans to banks (+12.69%), offset largely by the increase in Interest expense on customers' deposits and borrowings from financial sector As a result, and the taxes on interests amounted to LBP 51.3 billion for the year 2018, as compared to LBP 6.553 billion for year 2017 noting that the related tax law was effective starting October 27, 2017.

## Non-interest Income

| LBP Million | Year | | Growth | |
|---|---|---|---|---|
| Description | 2017 | 2018 | Amount | % |
| Net Fee and commission income | 137,322 | 140,638 | 3,315 | 2.41% |
| Change in fair value of trading portfolio | (4,261) | (36,199) | (31,938) | 749.51% |
| Foreign exchange gain | 20,644 | 19,896 | (747) | -3.62% |
| Other non-interest income | 772 | 8,265 | 7,493 | 970.78% |
| Realized Gain from sale of FVTPL investment securities | 3,365 | 6,931 | 3,565 | 105.94% |
| Charge on forward contract | (4,239) | 4,852 | 9,091 | -214.45% |
| Dividends received on assets at FVTPL | 4,479 | 4,243 | (237) | -5.29% |
| Share in profit of an associate | 901 | 1,105 | 204 | 22.66% |
| Net Gain on sale of foreclosed assets | 370 | 652 | 282 | 76.39% |
| Realized Gain from sale of AC investment securities | 428 | 641 | 214 | 49.93% |
| Dividends received on other investments | 316 | 9 | (308) | -97.28% |
| Net Gain on sale of property and equipment | (54) | (25) | 29 | -53.63% |
| Total | 160,043 | 151,008 | (9,035) | -5.65% |

# MANAGEMENT DISCUSSION AND ANALYSIS

The non-interest income registered in 2018 a slight decrease by LBP 9.0 billion (-5.65%) which was mainly derived from the increase in "Negative Change in fair value of trading portfolio" by LBP 31.9 billion.

## *Provisions for credit losses*

| LBP Million | Year | | Growth | |
|---|---|---|---|---|
| Description | 2017 | 2018 | Amount | % |
| Provisions against credit risk charged during the year | (26,794) | (14,140) | 12,654 | -47.23% |
| Provisions for loans to banks | 1,002 | - | (1,002) | -100.00% |
| Write-back of provision during the year | 3,795 | 16,476 | 12,681 | 334.14% |
| Collections on loans transferred to off-balance-sheet | 23 | - | (23) | -100.00% |
| Loss from write-off of loans | (34) | (769) | (735) | 2155.80% |
| **Net provisions against credit losses** | **(22,009)** | **1,567** | **23,576** | **-107.12%** |
| Provision for insurance liabilities | (6,059) | (7,170) | (1,110) | 18.32% |
| Allowance for impairment on investments | (3,000) | - | 3,000 | -100.00% |
| Other (net) | (494) | - | 494 | -100.00% |
| **Other provisions (net)** | **(9,553)** | **(7,170)** | **2,384** | **-24.95%** |
| Total | (31,562) | (5,603) | 25,959 | -82.25% |

The net provisions against credit losses declined significantly during 2018 by LBP 23.6 billion due mainly to the larger write-backs by LBP 12.7 billion and lesser provisions charge for LBP 12.7 billion.

## *Other operating expenses*

| LBP Million | Year | | Growth | |
|---|---|---|---|---|
| Description | 2017 | 2018 | Amount | % |
| Staff expenses | 174,580 | 182,803 | 8,222 | 4.71% |
| General operating expenses | 108,331 | 122,912 | 14,582 | 13.46% |
| Depreciation and amortization | 22,902 | 25,742 | 2,839 | 12.40% |
| Total | 305,813 | 331,456 | 25,643 | 8.39% |

The main drivers behind the 8.39% year-on-year increase in the operating expenses could be summarized by the following:

- Staff count growth by 42 Full-Time Employees during 2018
- Opening of 2 new branches in Lebanon
- Increased IT investments in Lebanon and in foreign affiliates

# MANAGEMENT DISCUSSION AND ANALYSIS

## Operating Efficiency

On the operating efficiency level, cost to income ratio increased slightly to reach 46.94% due to the increase in Operating Expenses (+8.39%) as compared to much lesser increase in Operating income (+1.89%).

| | | Bank of Beirut | | | Peer Group | | |
|---|---|---|---|---|---|---|---|
| Ratio | Unit | 2017 | 2018 | Variance | 2017 | 2018 | Variance |
| **Cost ratios** | | | | | | | |
| Staff expenses / operating Income | % | 25.19% | 25.89% | 0.70% | 26.24% | 28.05% | 1.81% |
| General expenses / operating income | % | 15.63% | 17.41% | 1.77% | 17.01% | 18.19% | 1.18% |
| Depreciation & Amortizataion / operating income | % | 3.30% | 3.65% | 0.34% | 3.15% | 3.29% | 0.13% |
| Impairment of goodwill / operating income | % | 0.00% | 0.00% | 0.00% | 1.77% | 0.00% | -1.77% |
| Cost to income ratio | % | 44.13% | 46.94% | 2.81% | 48.18% | 49.53% | 1.35% |
| Cost to average assets | % | 1.14% | 1.18% | 0.04% | 1.36% | 1.20% | -0.16% |
| Effective tax rate | % | 16.78% | 18.10% | 1.32% | 19.41% | 17.21% | -2.20% |
| **Operating efficiency** | | | | | | | |
| Number of Staff | Count | 1,997 | 2,039 | 42 | 31,215 | 31,036 | (179) |
| Number of branches and banking units | Count | 91 | 93 | 2 | 1,216 | 1,224 | 8 |
| Staff per branch | Count | 21.9 | 21.9 | (0.0) | 25.7 | 25.4 | (0.3) |
| Average assets per average staff | LBP million | 13,936 | 13,911 | (26) | 10,997 | 12,010 | 1,012 |
| Average deposits per average staff | LBP million | 10,143 | 9,992 | (151) | 8,756 | 9,029 | 273 |
| Staff expenses per average staff | LBP million | 91 | 91 | (0) | 81 | 81 | 0 |
| Operating Income per average staff | LBP million | 360 | 350 | (10) | 310 | 290 | (20) |
| Net profit per average staff | LBP million | 160 | 154 | (6) | 116 | 110 | (6) |
| Assets per branch | LBP million | 304,246 | 305,989 | 1,744 | 291,356 | 321,347 | 29,991 |
| Total Deposits per branch | LBP million | 220,962 | 217,405 | (3,558) | 228,682 | 232,030 | 3,347 |
| Operating Income per branch | LBP million | 7,616 | 7,593 | (23) | 7,952 | 7,381 | (571) |
| Net profit per branch | LBP million | 3,386 | 3,351 | (35) | 2,973 | 2,786 | (187) |

As indicated in the table above, the Bank has been able to preserve and enhance most of the operating efficiency indicators within good ranges as compared to year 2017 and to the Peer Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Evolution of number of Full-Time Employees*

| | Count | | | Breakdown | |
|---|---|---|---|---|---|
| Description (count) | 31 Dec 17 | 31 Dec 18 | Variance | 31 Dec 17 | 31 Dec 18 |
| Banking entities | 1,916 | 1,958 | 42 | 95.94% | 96.03% |
| Non-Banking entities | 81 | 81 | - | 4.06% | 3.97% |
| Total | 1,997 | 2,039 | 42 | 100.00% | 100.00% |
| Staff in Lebanon | 1,616 | 1,632 | 16 | 80.92% | 80.04% |
| Staff Abroad | 381 | 407 | 26 | 19.08% | 19.96% |
| **Total** | 1,997 | 2,039 | 42 | 100.00% | 100.00% |

## *Calculation of Earnings per Common Share (EPS)*

The common earnings (net profit attributable to Common Shareholders) recorded a significant growth of 14.11% in 2018 after accounting for the Preferred Shares Dividends and the Priority Dividends for Priority Common Shares (i.e. 4% of issue price per Share – USD 21). Taking into consideration the growth in the weighted average number of Common Shares of 0.94%, the Basic Earnings per Common Share (EPS) stood at LBP 3,385 in 2018, compared to LBP 2,994 for the year 2017, a remarkable increase by 13.05%.

| LBP Million | | Years | | Growth | |
|---|---|---|---|---|---|
| Description | | 2017 | 2018 | Amount | % |
| Consolidated net profit | | 308,156 | 311,647 | 3,492 | 1.13% |
| (Less) Non-Controlling interests | | (72,631) | (51,751) | 20,879 | -28.75% |
| **Consolidated net profit - Equity holders of the Group** | | **235,525** | **259,896** | **24,371** | **%10.35** |
| **(Less) Priority Dividends on Priority Common Shares** | | **(6,030)** | **(6,030)** | **-** | **%0.00** |
| **Dividends on non-cumulative pref. shares** | | **(56,828)** | **(56,828)** | **-** | **%0.00** |
| **Common Earnings** | | **172,667** | **197,038** | **24,371** | **%14.11** |
| Weighted average number of common shares | | 52,986,943 | 53,474,728 | 487,785 | 0.92% |
| Weighted average number of priority common shares | | 4,677,788 | 4,734,779 | 56,991 | 1.22% |
| **Total weighted average number of Common Shares** | | **57,664,731** | **58,209,507** | **544,776** | **%0.94** |
| Basic Earnings per Common Share | LBP | 2,994 | 3,385 | 391 | 13.05% |
| Basic Earnings per Priority Common Share | LBP | 4,283 | 4,659 | 375 | 8.76% |
| Diluted Earnings per share | LBP | 2,994 | 3,385 | 391 | 13.05% |

# MANAGEMENT DISCUSSION AND ANALYSIS

### Calculation of Preferred Shares Dividends

| Issue | Issue Value - USD | Dividend Rate | Dividends - USD 2017 | Dividends - USD 2018 |
|---|---|---|---|---|
| Preferred Shares series "G" | 124,950,000 | 6.75% | 8,434,125 | 8,434,125 |
| Preferred Shares series "H" | 135,000,000 | 7.00% | 9,450,000 | 9,450,000 |
| Preferred Shares series "I" | 125,000,000 | 6.75% | 8,437,500 | 8,437,500 |
| Preferred Shares series "J" | 75,000,000 | 6.50% | 4,875,000 | 4,875,000 |
| Preferred Shares series "K" | 100,000,000 | 6.50% | 6,500,000 | 6,500,000 |
| **Total / Average** | **559,950,000** | **6.73%** | **37,696,625** | **37,696,625** |

## Capitalization

The Bank's consolidated equity (attributable to the equity holders of the group) grew by LBP 224.3 billion, reaching LBP 2,619 billion as at 31 December 2018, an increase of 9.37% compared to 2017 year-end. It is noted that the non-controlling interests witnessed a considerable decrease by LBP 229 billion (-19.88%) due to the decline in the Net Asset Value of consolidated mutual funds.

| LBP Million | Balances | | Growth | |
|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Ordinary share capital | 77,650 | 82,103 | 4,453 | 5.73% |
| Shareholders' cash contribution to capital | 20,978 | 20,978 | - | 0.00% |
| Priority Common Shares | 150,753 | 150,753 | - | 0.00% |
| Non-cumulative preferred shares | 844,125 | 844,125 | - | 0.00% |
| Issue premium on common shares | 303,519 | 385,506 | 81,987 | 27.01% |
| Reserves and Retained Earnings | 885,846 | 972,590 | 86,743 | 9.79% |
| Treasury Shares | (105,831) | (70,284) | 35,547 | -33.59% |
| Hedge Accounting & translation adjustments | (18,132) | (26,898) | (8,766) | 48.35% |
| Net profit after tax - Group Share | 235,525 | 259,896 | 24,371 | 10.35% |
| **Equity attributable to the equity holders** | **2,394,433** | **2,618,769** | **224,336** | **9.37%** |
| Non-Controlling interests | 1,152,108 | 923,036 | (229,072) | -19.88% |
| **Total Equity** | **3,546,541** | **3,541,805** | **(4,736)** | **-0.13%** |

The growth in Equity was mainly derived from the following:

- The increase in common share capital and issue premium on common shares by LBP 86.4 billion, being the proceeds of the capital increase during 2018 by virtue of issuing 3,050,000 new common shares at USD 18.80 per share.
- Increase in reserves and retained earnings by LBP 82.0 billion, mainly due to the retained profit of previous year.
- The increase in Net Profit – Equity Holders by LBP 24.4 billion
- The decrease in Treasury Shares by LBP 35.5 billion
- The decrease of the hedge accounting & translation adjustment due to the better valuation of the AUD hedge position.

With the achieved level of Equity, Bank of Beirut reflected high Capitalization Indicators among its Peer Group:

- 1st rank in "Equity to Asset Ratio" of 12.45% as at 31 December 2018 compared to 4.42% for the Peer Group.
- 1st rank in "Leverage" (average assets times average equity) of 7.92 as at December 2018, compared to 11.29 for the Peer Group
- 6th rank in "Capital Adequacy Ratio" of 16.91% as at 31 December 2018, compared to 17.74% for the Peer Group.

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Capital Structure*

The Bank's capital constitutes Common, Priority and Preferred Shares as follows:

| | Number of Shares | | Growth | |
|---|---|---|---|---|
| Share Type | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Common shares | 53,184,900 | 56,234,900 | 3,050,000 | 5.73% |
| Priority Common Shares | 4,762,000 | 4,762,000 | - | 0.00% |
| Preferred Shares Series "G" | 3,570,000 | 3,570,000 | - | 0.00% |
| Preferred Shares Series "H" | 5,400,000 | 5,400,000 | - | 0.00% |
| Preferred Shares Series "I" | 5,000,000 | 5,000,000 | - | 0.00% |
| Preferred Shares Series "J" | 3,000,000 | 3,000,000 | - | 0.00% |
| Preferred Shares Series "K" | 4,000,000 | 4,000,000 | - | 0.00% |
| **Total** | **78,916,900** | **81,966,900** | **3,050,000** | **3.86%** |

The increase of number of common shares is related to the increase of capital by virtue of issuing new 3,050,000 ordinary common shares for USD 18.80 per share during 2018.

## *Preferred Shares overview*

Currently, the total issue value of the outstanding Preferred Shares stands at around USD 559.95 million, representing 32.23 % of Shareholders' Equity – controlling interests. The main features of the outstanding Preferred Shares are as follows:

| Description | Series "G" | Series "H" | Series "I" | Series "J" | Series "K" |
|---|---|---|---|---|---|
| Number of shares | 3,570,000 | 5,400,000 | 5,000,000 | 3,000,000 | 4,000,000 |
| Issue price per share | $35.00 | $25.00 | $25.00 | $25.00 | $25.00 |
| Issue Size (USD 000's) | $124,950 | $135,000 | $125,000 | $75,000 | $100,000 |
| Dividend rate p.a. | 6.75% | 7.00% | 6.75% | 6.50% | 6.50% |
| Non-Cumulative, Perpetual, Redeemable | Yes | Yes | Yes | Yes | Yes |
| Convertible to Common Shares | Yes | No | No | No | No |
| Redemption price per share | $35.00 | $25.00 | $25.00 | $25.00 | $25.00 |
| Conversion exercise price | $35.00 | - | - | - | - |
| Redemption right holder | BOB | BOB | BOB | BOB | BOB |
| Conversion right holder | Holder | - | - | - | - |
| Conversion date | 30 Dec 15 | - | - | - | - |
| Listing on Beirut Stock Exchange | No | Yes | Yes | Yes | Yes |
| Issue date | 29 Sep 10 | 30 Jun 11 | 19 Nov 12 | 17 Nov 14 | 26 May 16 |
| Closing date * | 29 Dec 10 | 28 Sep 11 | 28 Dec 12 | 26 Dec 14 | 25 Aug 16 |
| Next redemption exercise date | 30 Dec 18 | 30 Dec 18 | 30 Dec 19 | 30 Dec 19 | 30 Dec 21 |

* Closing date: the date the Bank's Extraordinary General Meeting of shareholders that verifies the validity and ascertains the payment of capital increase related to the issuance

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Treasury Shares Overview*

USD 000's

| Description | Purchasing Entity | Balance 31 Dec 17 | Balance 31 Dec 18 | Growth Amount | Growth % |
|---|---|---|---|---|---|
| Ordinary Common Shares | BOB Lebanon | 29,963 | 1,421 | (28,542) | -95.26% |
| Priority Common Shares | BOB Lebanon | 242 | 1,022 | 780 | 322.96% |
| **Total Common Shares** | | **30,205** | **2,442** | **(27,762)** | **-91.91%** |
| | | | | | |
| Preferred Shares "G" | Mutual Funds | 20,041 | 20,430 | 389 | 1.94% |
| Preferred Shares "H" | Mutual Funds | 6,288 | 6,360 | 72 | 1.15% |
| Preferred Shares "I" | Mutual Funds | 10,305 | 12,367 | 2,062 | 20.01% |
| Preferred Shares "J" | Mutual Funds | 1,845 | 3,023 | 1,178 | 63.83% |
| Preferred Shares "K" | Mutual Funds | 1,519 | 2,000 | 481 | 31.70% |
| **Total Preferred Shares** | | **39,998** | **44,180** | **4,182** | **10.46%** |
| | | | | | |
| **Grand Total** | | **70,203** | **46,623** | **(23,580)** | **-33.59%** |
| | | | | | |
| **C/V LBP Million** | | **105,831** | **70,284** | **(35,547)** | **-33.59%** |

## *Capital Adequacy*

Maintaining its position as the Bank with highest capitalization level among the Peer Group Banks, Bank of Beirut reflected a very healthy set of Capital ratios.

The high level of Capital Adequacy confirmed the Bank's strategy in strengthening its Capital base in order to fund its expansion strategy, in addition to complying comfortably with the Basel III requirements; taking into consideration the increasing risk weights applied on the exposure to Lebanese Sovereign Risk.

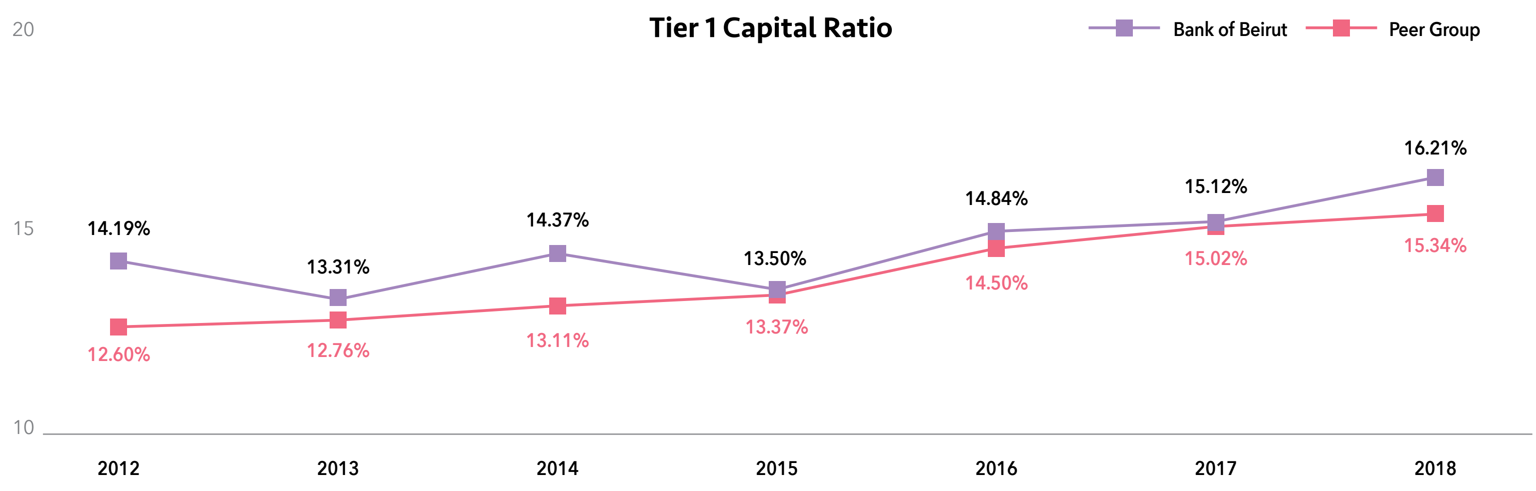
LBP Million

| Description | Balances / Ratio 31 Dec 17 | Balances / Ratio 31 Dec 18 | Variances Amount | Variances % |
|---|---|---|---|---|
| Common Equity (Net) | 1,380,366 | 1,602,929 | 222,563 | 16.12% |
| Additional Tier 1 Capital (Net) | 844,125 | 844,125 | - | 0.00% |
| Net Tier 2 Capital | 13,157 | 104,325 | 91,168 | 692.94% |
| **Total Regulatory Capital** | **2,237,647** | **2,551,379** | **313,732** | **14.02%** |
| | | | | |
| RWA - Credit Risk | 13,548,257 | 13,878,265 | 330,008 | 2.44% |
| RWA - Market Risk | 105,952 | 69,855 | (36,097) | -34.07% |
| RWA - Operational Risk | 1,056,679 | 1,143,598 | 86,919 | 8.23% |
| **Total RWA** | **14,710,887** | **15,091,718** | **380,830** | **2.59%** |
| | | | | |
| Common Equity Ratio Tier 1 Ratio | 9.38% | 10.62% | 1.24% | |
| Tier 1 Capital Ratio | 15.12% | 16.21% | 1.09% | |
| Total Capital Ratio | 15.21% | 16.91% | 1.69% | |

# MANAGEMENT DISCUSSION AND ANALYSIS

Under Basel III, the Capital Adequacy ratio stood at year-end 2018 at 16.91%, up from 15.21% as at 31 December 2017, compared to the minimum required ratio by the Central Bank of Lebanon of 15.00%.

The calculation of year-end 2018 ratios took into consideration the retained earnings from year 2018 consolidated net profit after accounting for the Preferred Shares Dividends, Priority Dividends for Priority Shares and the Common Shares Dividends (i.e. LBP 1,150 per share) as per the resolutions of the Board of Directors and the Ordinary General Meeting).




## *Leverage Ratios*

| LBP Million | Balances / Ratio | | Variances | |
|---|---|---|---|---|
| Description | 31 Dec 17 | 31 Dec 18 | Amount | % |
| Common Equity (Net) | 1,380,366 | 1,602,929 | 222,563 | 16.12% |
| Additional Tier 1 Capital (Net) | 844,125 | 844,125 | - | 0.00% |
| Net Tier 2 Capital | 13,157 | 104,325 | 91,168 | 692.94% |
| **Total Regulatory Capital** | **2,237,647** | **2,551,379** | **313,732** | **14.02%** |
| | | | | |
| On-Balance Sheet Exposure | 26,526,054 | 27,523,058 | 997,004 | 3.76% |
| Off-Balance Sheet Exposure | 2,053,548 | 2,090,480 | 36,932 | 1.80% |
| **Total Credit Exposure** | **28,579,602** | **29,613,539** | **1,033,937** | **3.62%** |
| | | | | |
| **Common Tier 1 Leverage Ratio** | **4.83%** | **5.41%** | **0.58%** | |
| **Tier 1 Leverage Ratio** | **7.78%** | **8.26%** | **0.48%** | |
| **Total Leverage Ratio** | **7.83%** | **8.62%** | **0.79%** | |

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Share Information*

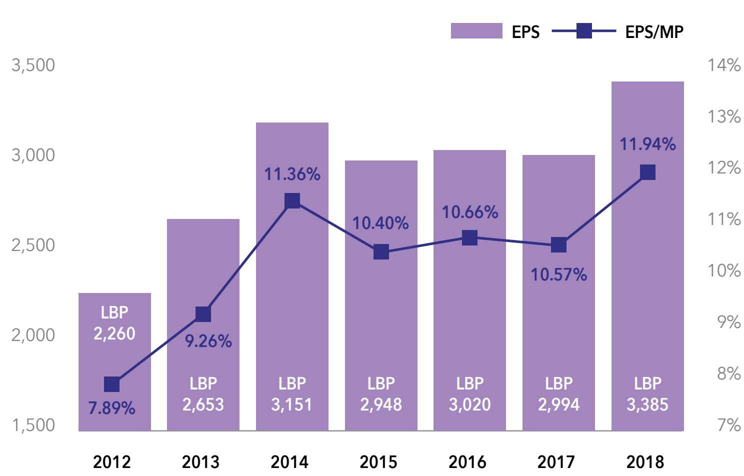
### *Common Shares Performance*

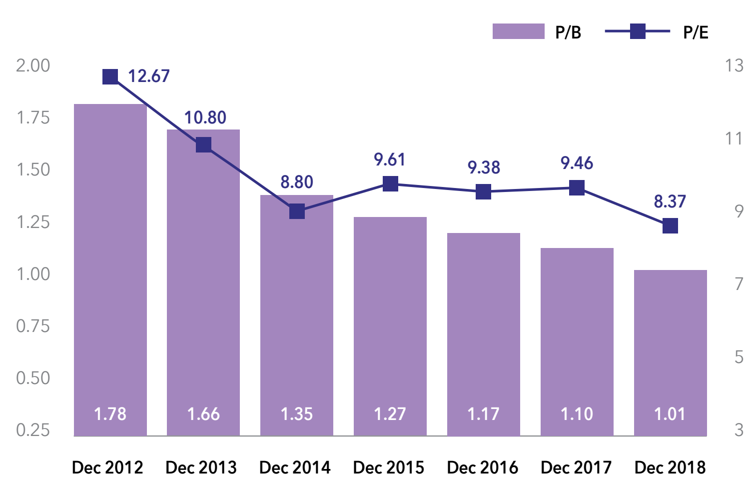
| Indicator | Unit | 31 Dec 17 | 31 Dec 18 | Variances |
|---|---|---|---|---|
| Ordinary Common Share market price | LBP | 28,341 | 28,341 | - |
| Priority Common Share market price | LBP | 31,658 | 31,658 | - |
| Total number of ordinary common shares | Count | 53,184,900 | 56,234,900 | 3,050,000 |
| Total number of priority common shares | Count | 4,762,000 | 4,762,000 | - |
| Common equity book value (1) | LBP million | 1,487,451 | 1,711,786 | 224,336 |
| Common Share book value | LBP | 25,669 | 28,063 | 2,394 |
| Market Capitalization (end of period) | LBP million | 1,658,066 | 1,744,506 | 86,440 |
| Market Value added | LBP million | 170,616 | 32,720 | (137,896) |
| Market Value added/Market capitalization | % | 10.29% | 1.88% | -8.41% |
| Basic Earnings per Share (EPS) | LBP | 2,994 | 3,385 | 391 |
| Basic EPS / Common share market price | % | 10.57% | 11.94% | 1.38% |
| Price to common earnings - P/E Ratio (2) | Times | 9.46 | 8.37 | (1.09) |
| Price to common book value - M/B Ratio | Times | 1.10 | 1.01 | (0.09) |
| Price to assets | % | 5.99% | 6.13% | 0.14% |

(1) Including the common earnings of the year & Excluding non-controlling interest
(2) Calculated as basic earnings per share / Ordinary common share market price

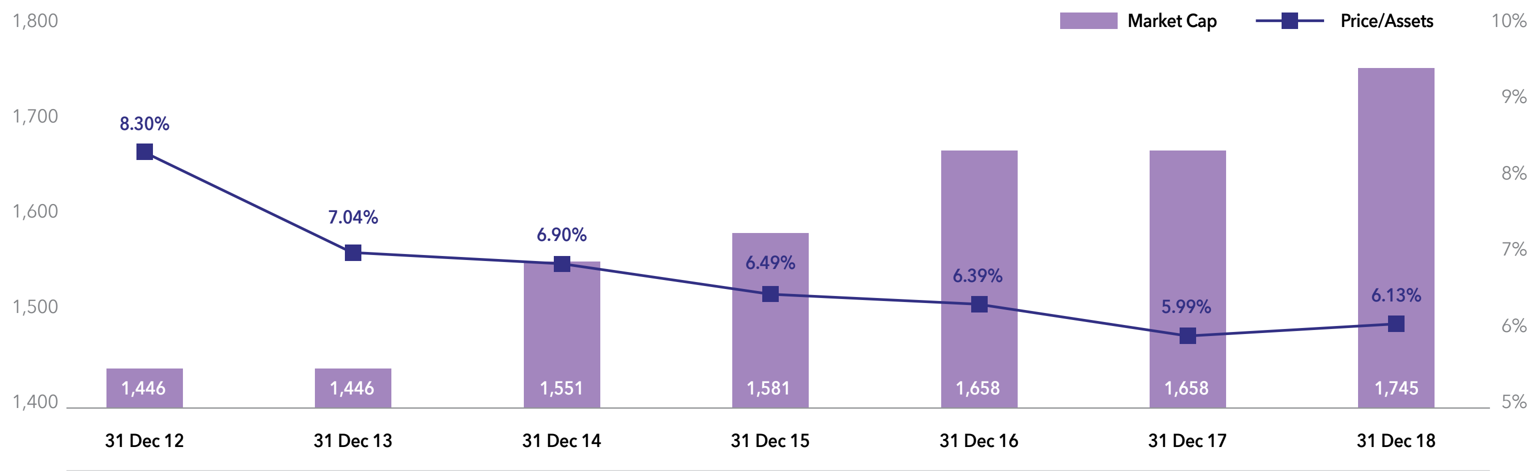
The Common Share market price was stable during 2018 at USD 18.80. Since there has been an issuance during 2018 of 3,050,000 new Common Shares at USD 18.80 (market price), the market capitalization increased to LBP 1,744 billion (USD 1,156 million). Moreover, the book value per Common Share increased by 9.33% due to the increase of Common Equity Book Value.

Consequently, the "price to Book Value" decreased to 1.01 times, compared to 1.10 times at the end of year 2017. The "price to Assets" ratio stood at a very healthy level of 6.13%, one of the lowest in the market.



# MANAGEMENT DISCUSSION AND ANALYSIS




## *Listing of outstanding Shares at Beirut Stock Exchange*

The number of listed shares increased in 2018 by 3,050,000 new ordinary common shares due to the capital increase for USD 57.34 million. Consequently, the listed common shares represent 41.9% of the total common shares as at 31 December 2018:

| | 31 Dec 17 | | | 31 Dec 18 | | |
|---|---|---|---|---|---|---|
| Number of Shares (count) | Listed | Not Listed | Total | Listed | Not Listed | Total |
| Ordinary Common Shares | 17,746,417 | 35,438,483 | 53,184,900 | 20,796,417 | 35,438,483 | 56,234,900 |
| Priority Common Shares | 4,762,000 | | 4,762,000 | 4,762,000 | | 4,762,000 |
| **Total Common Shares** | **22,508,417** | **35,438,483** | **57,946,900** | **25,558,417** | **35,438,483** | **60,996,900** |
| Preferred Shares Series "G" | | 3,570,000 | 3,570,000 | | 3,570,000 | 3,570,000 |
| Preferred Shares Series "H" | 5,400,000 | | 5,400,000 | 5,400,000 | | 5,400,000 |
| Preferred Shares Series "I" | 5,000,000 | | 5,000,000 | 5,000,000 | | 5,000,000 |
| Preferred Shares Series "J" | 3,000,000 | | 3,000,000 | 3,000,000 | | 3,000,000 |
| Preferred Shares Series "K" | 4,000,000 | | 4,000,000 | 4,000,000 | | 4,000,000 |
| **Total Preferred Shares** | **17,400,000** | **3,570,000** | **20,970,000** | **17,400,000** | **3,570,000** | **20,970,000** |
| **Total Shares** | **39,908,417** | **39,008,483** | **78,916,900** | **42,958,417** | **39,008,483** | **81,966,900** |
| **Listed Common / Total Common** | **38.84%** | | | **41.90%** | | |
| **Total Listed / Total Shares** | **50.57%** | | | **52.41%** | | |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Dividend Policy

The General Assembly has decided during its meeting held on 06/05/2019, the appropriation of Bank of Beirut year 2018 Net Profit as follows:

| LBP Million | | Fiscal Year | | Growth | |
|---|---|---|---|---|---|
| **Description** | | **2017** | **2018** | **Amount** | **%** |
| Net profit after tax | | 308,156 | 311,647 | 3,492 | 1.1% |
| (Less) Non-controlling Interests | | (72,631) | (51,751) | 20,879 | -28.7% |
| **Net Profit after tax - Equity Holders** | | **235,525** | **259,896** | **24,371** | **10.3%** |
| | | | | | |
| **Deductions** | | | | | |
| Dividends on Preferred Shares | | 56,828 | 56,828 | - | 0.0% |
| Priority Dividends on Priority Shares | | 6,030 | 6,030 | - | 0.0% |
| Legal Reserve | | 19,945 | 21,914 | 1,969 | 9.9% |
| Regulator reserves on Foreclosed Assets | | 2,295 | 2,299 | 5 | 0.2% |
| Regulatory reserves from net gain on sale foreclosed Properties | | 370 | 652 | 282 | 76.4% |
| Regulatory reserves from realized profit on treasury shares | | 372 | 7,740 | 7,368 | 1982.9% |
| **Total deductions** | | **85,839** | **95,463** | **9,625** | **11.2%** |
| | | | | | |
| **Net profit eligible for distribution** | | **149,686** | **164,433** | **14,747** | **9.9%** |
| | | | | | |
| Number of outstanding Common Shares | | 57,946,900 | 60,996,900 | 3,050,000 | 5.3% |
| Declared Dividend per Common Shares | LBP | 1,150 | 1,150 | - | 0.0% |
| Total dividends to common shareholders | | 66,639 | 70,146 | 3,508 | 5.3% |

The stable dividend per share at LBP 1,150, coupled with the stable market price per ordinary common share, resulted in a constant Dividend Yield of the Ordinary Common Share to 4.06% and 7.63% for the Priority Common Share.

The total Dividend payout ratio (out of Net Profit – controlling Interests) for year 2018 declined to 51.18% as compared to 54.98% for year 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

| LBP Million | | Amount | | Growth | |
|---|---|---|---|---|---|
| Description | | 2017 | 2018 | Amount | % |
| Dividend per Common Share (DPS) | (LBP) | 1,150 | 1,150 | - | 0.00% |
| Priority dividend per Priority Share | (LBP) | 1,266 | 1,266 | - | 0.00% |
| Number of outstanding ordinary Common Shares | Count | 53,184,900 | 56,234,900 | 3,050,000 | 5.73% |
| Number of outstanding priority Common Shares | Count | 4,762,000 | 4,762,000 | - | 0.00% |
| **Total number of Common Shares** | | **57,946,900** | **60,996,900** | **3,050,000** | **5.26%** |
| Total Dividends on Common Shares | | 66,639 | 70,146 | 3,508 | 5.26% |
| Total priority dividends on Priority Shares | | 6,030 | 6,030 | - | 0.00% |
| Total Dividends on non-cumulative Preferred Shares | | 56,828 | 56,828 | - | 0.00% |
| **Total Dividends (Common and non-cumulative Preferred)** | | **129,497** | **133,004** | **3,508** | **2.71%** |
| Ordinary Common Share market price | (LBP) | 28,341 | 28,341 | - | 0.00% |
| Priority Common Share market price | (LBP) | 31,658 | 31,658 | - | 0.00% |
| Dividend yield per ordinary Common Share (DPS/Price) | | 4.06% | 4.06% | 0.00% | 0.00% |
| Dividend yield per priority Common Share (DPS/Price) | | 7.63% | 7.63% | 0.00% | 0.00% |
| Common Share dividend payout ratio (% of net profit group share) | | 30.85% | 29.31% | -1.54% | -5.00% |
| Preferred Share dividends payout ratio (% of net profit group share) | | 24.13% | 21.87% | -2.26% | -9.38% |
| Total dividends payout ratio (Net Profit) | | 54.98% | 51.18% | -3.81% | -6.92% |

## LIQUIDITY

The conservation of adequate liquidity has invariably been the Bank's policy to retain a high level of liquid assets and a diversified and stable funding base. Monitored and controlled by the Asset Liability Committee (ALCO), the liquidity position of the Bank is managed on daily basis by the Treasury Department with liquidity risks being consistently measured, monitored, and scrutinized by the Risk Management Department.

Ensuring low liquidity risk is evidenced by the following factors:

- Sufficient high-quality liquid assets, including high level placements with well reputed and highly rated global banks
- Diversification in the Securities Portfolio
- Stability in customers' deposits
- Manageable cash-flow mismatching gaps
- Moderate reliance on whole-sale funding

The liquidity ratios, in both local and foreign currencies, maintained the healthy levels of 2017, while the loan to deposit ratio increasing to the level of 42.93% from 42.64% at year-end 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

| LBP Billion | LBP | | FCY | |
|---|---|---|---|---|
| Description | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 |
| Cash on hand | 24 | 25 | 33 | 39 |
| Free placements in Central Bank(s) | 1,773 | 1,856 | 2,650 | 3,001 |
| Due from Banks & Financial Institutions | 21 | 14 | 1,527 | 1,628 |
| (Less): Due to banks & Financial Institutions | (114) | (186) | (1,981) | (2,476) |
| (Less): Pledged Deposits with banks | - | - | (73) | (179) |
| Equity Instruments at FVTPL | - | - | 63 | 59 |
| Debt instruments at FVTPL | 910 | 690 | 534 | 567 |
| **Core Liquid Assets** | **2,615** | **2,399** | **2,753** | **2,639** |
| | | | | |
| Debt instruments at Amortized Cost | 3,043 | 2,923 | 5,119 | 4,786 |
| Equity instruments at FVOCI | 5 | 10 | 5 | 6 |
| Central Bank Compulsory Reserves | 379 | 383 | 1,717 | 1,834 |
| Loans to Banks | 13 | 9 | 279 | 246 |
| **Other Liquid Assets** | **3,441** | **3,325** | **7,121** | **6,872** |
| | | | | |
| **Total net liquid assets** | **6,056** | **5,724** | **9,873** | **9,510** |
| | | | | |
| Customers' deposits | 5,626 | 5,222 | 14,482 | 14,996 |
| (Less): Cash collateral & Margins | (400) | (390) | (1,162) | (1,396) |
| Certificates of deposits | - | - | 1 | 1 |
| Other Borrowings | 537 | 565 | 303 | 3 |
| Liabilities under acceptance | - | - | 357 | 400 |
| Other Liabilities | 332 | 117 | 196 | 248 |
| **Total Financial Liabilities** | **6,095** | **5,515** | **14,177** | **14,252** |
| | | | | |
| **Core liquidity Ratio** | **42.90%** | **43.50%** | **19.42%** | **18.51%** |
| **Total net liquidity ratio** | **99.35%** | **103.78%** | **69.64%** | **66.73%** |

# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE

## *1. The Bank's Commitment to a Sound Corporate Governance Framework*

Bank of Beirut s.a.l., through its Board of Directors, acknowledges the necessity of having a sound Corporate Governance Framework that is aimed at safeguarding the stakeholders' interests. In doing so, the Board is committed to being collectively responsible for implementing an effective Corporate Governance Framework that is driven by its principal duty to act in good faith, with prudence, and within a set of values and standards that ensure that the stakeholders' interests are fully understood and met.

The Board has adopted the principles and practices of international regulations, namely the Basel Committee's "Corporate Governance Principles for Banks" issued in July 2015 as well as the Banque du Liban (BDL) Basic Circular no. 106 issued in July 2006 and its amendments.

The Board continues to review and improve its processes and to monitor developments in this area to ensure commitment to a sound Corporate Governance Framework on a sustainable basis.

## *2. Bank of Beirut Governance & Integrity Rating (GIR) & Investors for Governance and Integrity (IGI) Signing*

Bank of Beirut s.al. is always committed to the highest ethical standards, fostering transparency and disclosure in all material matters related to the Bank's financial situation, performance, ownership and governance.

As such, Bank of Beirut's Governance & Integrity rating (GIR), as issued by Capital Concepts in 2017, is A-.

In addition, Bank of Beirut has signed the Investors for Governance and Integrity (IGI) declaration in February 2019 as a commitment to promote sound corporate governance and to preserve shareholders' rights, including minority shareholders. As per the declaration, signatories acknowledge their duty to act in the long-term interest of their beneficiaries.

## *3. Overview of the Board of Directors*

### 3.1 Function

As per its Articles of Association, Bank of Beirut s.a.l. is managed under the direction and oversight of its Board of Directors. The Board's primary function is to supervise management and to exercise its business judgment, to act in good faith and in the best interests of the various stockholders in optimizing long-term value, by providing guidance and strategic oversight.

### 3.2 Composition

The Bank's Articles of Association state that the number of Directors may not be less than three members but not more than twelve.

In order to ensure carrying out its primary responsibilities of supervising management and act in the best interest of the Bank's stakeholders with integrity and independence, and pursuant to BDL Basic Circular no. 118, issued in July 2008, the Board of Directors is composed of a sufficientnumber of non-executive[1] and independent[2] members. Accordingly, the substantial majority of the current twelve members of the Board of Directors of Bank of Beirut s.a.l. is composed of non-executive and independent Directors. The majority of Directors should be of Lebanese nationality and can be legal entities represented by a person designated in this respect.

There is no age limitation regarding the membership in the Board of Directors of Bank of Beirut s.a.l. provided compliance with Article 154 of the Code of Commerce.

Directors are expected to advise the Chairman of the Board in advance of accepting any other company directorship or the Board of Directors of any other company and to obtain the approval of the General Meeting of Shareholders pursuant to the provision of Article 159 of the Code of Commerce when applicable.

# CORPORATE GOVERNANCE

The Members of the Board & Board Committees are as follows:

| Directors | Position | Status | Year of initial election | Board Committees: Credit | Risk | Audit | Remuneration | Compliance |
|---|---|---|---|---|---|---|---|---|
| Dr. Salim G. Sfeir | Chairman and CEO | Executive | 1993 | Chairman | | | | |
| Mr. Adib S. Millet | Vice-Chairman | Non-executive | 1999 | Member | | Member | Member | |
| Mr. Fawaz H. Naboulsi | Deputy CEO | Executive | 1993 | Member | Member | | | Member |
| Mr. Antoine A. Abdel Massi | Member | Non-executive | 1993 | Member | Member | | | |
| H.E. Anwar M. El-Khalil | Member | Non-executive | 2002 | | | | | |
| Mr. Rashid S. Al-Rashid | Member | Independent | 2010 | | | Member | | |
| Mr. Antoine Y. Wakim | Member | Independent | 2012 | | | | | Chairman |
| Mr. Krikor S. Sadikian | Member | Independent | 2012 | | | Chairman | Member | |
| Mr. Ramzi N. Saliba | Member | Independent | 2016 | | Member | | Chairman | |
| Mr. Robert K. Sursock | Member | Independent | 2016 | | | Member | Member | Member |
| Mr. Pierre A. Gaspard | Member | Independent | 2017 | | Chairman | Member | | Member |
| Mr. Sarkis K. Nassif | Member | Non-executive | 2018 | | | | | |

[1] Article 1 of BDL Circular No. 118: A Board of Directors' non-executive member: a Board member who has no administrative function in the concerned bank and is entrusted with non-executive duties at this bank and/or any of its branches or affiliates in Lebanon or abroad, or who does not fulfill a consultative function for the Senior Management, whether presently or during the two years preceding his/her appointment as a Board member. The Board member appointed in any subsidiary abroad is not considered as an executive member under this Decision, if the laws governing him/her in the foreign country do not grant him/her this capacity.

[2] Article 1 of BDL Circular No. 118: A Board of Directors' independent member: a Board member who meets the following conditions:

- Is a non-executive Board member
- Is not one of the major shareholders who own, directly or indirectly, more than 5% of the bank total shares or voting rights pertaining to these shares, whichever bigger
- Is independent from any person in the Senior Management of the concerned bank or from its major shareholders, so that no business relationship binds him/her to any of them, whether presently or during the two years preceding his/her appointment as a Board member
- Is not related by kinship, up to the fourth degree, to any of the major shareholders
- Is not one of the Bank's debtors

# CORPORATE GOVERNANCE

### 3.3 Profiles of Board Members:

**1. Salim G. Sfeir** has held the position of Chairman and Chief Executive Officer of Bank of Beirut since 1993. Sfeir was born and raised in Beirut, Lebanon. After attending l'Institut des Frères des Écoles Chrétiennes in Beirut, from 1950 to 1964, he moved to Montreal, Canada, he received his B.S.S. degree in Economics from the Université de Montréal and his Masters of Business Administration from the University of Detroit Mercy (UDM). Years later, as an educator, he lectured at The Lebanese University, Beirut University College, Haigazian College, l'Université Saint-Joseph and Le Centre d'études bancaires.

He embarked on his journey of intentions and elbowed his way through four decades of a banking career when his joined Bank of Nova Scotia, Beirut, in 1971. He later held the position of Deputy General Manager with Banque de la Mediterranée from 1980 to 1983. He founded Wedge Bank (M.E.) s.a.l. in 1983 Beirut, and was appointed General Manager and Member of the Board of Directors. From 1985 till 1991 Sfeir held the positions of General Manaer and Chief Executive Officer, Wedge Bank (Switzerland) S.A.. Geneva; In 1992 was appointed Vice-Chairman and Managing Diorector of Wedge Bank (M.E.) The turning point came with the Management Buy-In of Bank of Beirut in 1993. Under his leadership, a small, local Bank eventually expanded to 9 countries on 4 continents earning the trademark "Banking Beyond Borders." Today, Bank of Beirut comprises more than 100 branches and strategic business units internationally.

Dr. Sfeir's tireless work has been recognized through many treasured honors internationally, including: Inauguration of the Library of the Pontifical Maronite College in Rome; Honorary President of the Australian Lebanese Chamber of Commerce, Melbourne; Medal of Saint Maroun by His Eminence Mar Bechara Boutros El Rai, Patriarch of Antioch; Lifetime Achievement Award by the Minister of Foreign Affairs, H.E. Gebran Bassil, for his contribution to the LDE in Johannesburg, Beirut, New York and Sydney; Honorary Doctorate in Humane Letters Honoris Causa, Lebanese American University (LAU); Knight Commander of the Pontifical Order of Pope Saint Sylvester; Medal of Friendship and High Distinction - The Russian Ministry of Foreign Affairs; Best Banker in the MENA Region - Banker Middle East Magazine; Medal of the National Order of the Cedar conferred by President Michel Suleiman; Medal of the Maronite Patriarchate, Maronite Patriarch of Antioch; The Lebanese-German Council Lifetime Achievements Award; The Australian-Lebanese Chamber of Commerce Award. Lebanese Diaspora Energy Award-Chapter Lebanon, from Minister of Foreign Affairs, H.E. Gebran Bassil. Lifetime Achievement Award, Banker Middle East; Lebanese Diaspora Energy Award-Chapter North America, Montreal Canada, from Minister of Foreign Affairs, H.E. Gebran Bassil.

**2. Adib S. Millet** currently holds the position of Vice-Chairman of the Board, in addition to his roles as a Member of the Bank's Board Audit Committee, Board Credit Committee, and Board Remuneration, Nominations, & Corporate Governance Committee. Mr. Millet is a highly reputable industrialist who also has a vast banking experience for having held the position of the Chairman of the Board of Directors of Transorient Bank s.a.l. until November 1998, and for having been Member of the Board of Bank of Beirut s.a.l. since 1999. Mr. Millet is currently the Chairman of Gimble Ltd. & Frobisher Ltd. London, England, and former Director of Millet Textiles and Sprintex, Ghana.

**3. Antoine A. Abdel-Massih** has been one of the Bank's key Non-Executive Board Members since 1993, attesting to his vast expertise within the banking industry. He is also an active member of the Bank's Board Risk Management Committee and Board Credit Committee. Mr. Abdel Massih is a proficient industrialist, founding various Formica and furniture manufacturing plants in Lebanon and the region. In 1972, he founded Puriplast s.a.l.He is an industry leader in the Formica manufacturing industry; and as Chairman and Chief Executive, he commands four plants spanning across Lebanon, Jordan and Egypt. Mr. Abdel-Massih is also a major shareholder in LOMA S.P.A., Italy.

**4. Fawaz H. Naboulsi** began his banking career in 1978 with the Fidelity Bank (USA), ultimately reaching the position of Vice-President - Head of the Middle East Division. In 1989, he joined Bank of Oman as Chief Executive Officer of their British operations in London. In 1993, Mr. Naboulsi was appointed Deputy Chief Executive Officer of Bank of Beirut and assumes a key position in the executive management and monitoring of the bank's significant business functions, which witnessed Bank of Beirut develop to become one of the leading banks in Lebanon. Mr. Naboulsi is also a Member of the Board Risk Management Committee, the Compliance Committee and the Board Credit Committee. Mr. Naboulsi holds a degree in Business Administration from the University of London.

**5. H.E. Anwar Mohamad El Khalil** was elected Member of Parliament for five consecutive terms spanning from 1992 until 2013. He was also Minister of State for Parliamentary Affairs (1992-1994), Minister of State for Administrative Reform (1994-1996), Minister of Information (1998-2000), and Minister of Displaced (1998-2000). H.E. Anwar M. El- Khalil is a well-established businessman as he owns and chairs a number of companies in Lebanon and abroad. He held the position of Managing Director of M. El-Khalil Transport Ltd., Nigeria, from 1958 to1960. He has been the Chairman of Seven-Up Bottling Co., Nigeria, since 1972, the Chairman of M. El-Khalil & Sons (Properties) Ltd., Nigeria, since 1960, and the Chairman of MAK Holdings Ltd. since 2002. When it comes to his career in the Banking sector, H.E. Anwar M. El Khalil held the position of Chairman - General Manager of Beirut Riyadh Bank s.a.l. from 1995 till 2002, in addition to having been the President of the Union of Arab Banks for the period spanning from 1983 until 1989. H.E. Anwar Mohamad El-Khalil is a Barrister at Law from LLM – London University and a member of the Honorable Society of the Middle Temple - London.

**6. Rashid S. Al Rashid** has been an Independent Member of the Board of Directors of Bank of Beirut s.a.l. since 2010, as well as a Member of the Board Audit Committee. He is also a Member of Arab National Bank's Board of Directors. Arch. Rashid S. Al Rashid has been a Partner and General Manager of Real Estate and Investment Division in Al Rashid Trading & Contracting Company since 1976. He is also the Chief Executive Officer of both Rashid S. Al Rashid Sons Ltd. and Rashid S. Al Rashid Architectural Consulting Engineers. In addition to being one of the founding partners and General Manager of Arch Centre for Architectural Designing. Mr. Al Rashid holds a Bachelor of Architecture from Oregon, USA.

# CORPORATE GOVERNANCE

**7. Krikor S. Sadikian** has been an Independent Member on the Bank of Beirut s.a.l. Board of Directors since 2011. As a former equity partner at Deloitte & Touche Middle East, with a 42-year of experience in audit and financial advisory, Mr. Sadikian currently holds the position of Chairman of Bank of Beirut's Board Audit Committee, in addition to his role as a member of the Board of Remuneration, Nominations, and Corporate Governance Committee. Mr. Sadikian holds a Bachelor of Business Administration from American University of Beirut.

**8. Ramzi N. Saliba** has joined Bank of Beirut s.a.l in 2016 as an Independent Board Member, Chairman of the Board Remuneration, Nominations, and Corporate Governance Committee and a Member of the Board Risk Management Committee. Mr. Saliba began his banking career with Citibank N.A in 1975 and was then assigned as Head of its Corporate Banking Group to Citibank Maghreb S.A until 1982. In 1983, he joined Bank Med s.a.l as a Deputy General Manager and was appointed Managing Director General Manager. In 2003, Mr. Saliba joined Audi Saradar Group as Head of Corporate Banking and as an Executive Director General Manager for Audi Saradar Investment Bank s.a.l. Mr. Saliba also held the position of Executive Director General Manager at BIT Bank s.a.l from 2013 and until 2015. Mr. Saliba holds a Bachelor of Arts degree from Emory & Henry College, Virginia, USA.

**9. Pierre A. Gaspard** has joined the Bank of Beirut s.a.l. Board of Directors as an Independent Director in 2017. He also chairs Bank of Beirut's Board Risk Management Committee and is a Member of the Board of the Compliance Committee and the Board Audit Committee. Mr. Gaspard was formerly Advisor to the Chairman and Board Member of Saradar Bank. Throughout his 35-year career in the finance industry, Mr. Gaspard held senior executive positions in several local and international banks namely in the fields of Treasury and Capital Markets. Mr. Gaspard holds a Bachelor of Business Administration from the American University of Beirut and a Master of Business Administration from California State University, USA.

**10. Antoine Y. Wakim** has been an Independent Member of the Board of Directors since 2011. He also chairs Bank of Beirut's Compliance Committee. Mr. Wakim was the General Manager of Allianz SNA from 1998 till 2007, in addition to various senior management roles in other insurance companies across Lebanon and the Middle East. Mr. Wakim studied Actuary at Université de Lausanne and completed the Advanced Management Programme at INSEAD. He is also a member of the International Actuarial Association (IAA) and the Association des Actuaries Suisses.

**11. Robert K. Sursock** has joined Bank of Beirut s.a.l in 2016 as an Independent Board Member, a Member of the Board of the Audit Committee, the Board Remuneration, Nominations and Corporate Governance Committee and the Compliance Committee. Mr.Sursock spent 25 years at Banque Arabe et International d'Investissement, 12 of which as CEO. He established PrimeCorp Finance S.A in 1997 where he held the position of Chairman and CEO. He was also the Chairman and CEO of Gazprombank Invest MENA from 2009 until May 2015.

Mr. Sursock studied Hautes Etudes Commerciales at Université de Lausanne.

**12. Sarkis K. Nassif** has been elected by the Board of Directors as a non-executive Director on September 26th, 2018. He, through HPG Urban Developments PTY LTD (HPG), currently holds %5.00 of the share capital of Bank of Beirut s.a.l. Mr. Sarkis Nassif is the Founder and Chief Executive Officer of Holdmark Property Group, a diversified property development, investment, and construction group based in New South Wales, Australia. It has evolved into one of Australia's leading private property development companies. Mr. Nassif has overseen the successful completion of hundreds of projects since the family business was founded in 1988.

### *3.4 Qualifications*

The criteria for the selection of new Directors include the possession of skills and competencies required to have an effective Board, with successful professional background, and the ability and willingness to commit adequate time to the Bank. These criteria, among others, are verified by the Board Remuneration, Nominations, and Corporate Governance Committee who advises the Chairman and the Board on the profile and credentials to be considered in the newly admitted Board members.

### *3.5 Elections and Term*

According to the Bank's Articles of Association, Directors are elected by the Ordinary General Assembly to a term that is, at most, three years.

### *3.6 Remuneration*

Non-executive Directors and Independent Directors receive attendance fees for their services as Directors of the Board and Chairpersons and/or members of Board Committees. The remuneration of the 2 Executive Board Members (i.e. Chairman – Chief Executive Officer and Deputy Chief Executive Officer), including the incentive scheme linked to performance has been approved by the General Assembly of the Bank.

### *3.7 Board Meetings*

The Board meets in formal sessions at least quarterly. The Chairman - Chief Executive Officer will establish the agenda for each Board meeting.

The presence of the majority of the Directors at the time of any meeting constitutes a quorum. Directors may vote or participate by proxy.

# CORPORATE GOVERNANCE

## *4. Responsibilities of the Board of Directors:*

### *A. Establishing and overseeing the implementation of the Bank's Business Strategy*

The Board has the ultimate responsibility for the strategy and the management of the Bank. The basic responsibility of the Directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Bank and its shareholders. In discharging that obligation, Directors are entitled to rely on the honesty and integrity of the Bank's senior executives and its external advisors and auditors.

Accordingly, in fulfilling its responsibilities, the Board of Directors will:

- Review, approve and monitor the long-term strategic plan as well as the annual budget as presented by the Bank's Senior Management and evaluate, on regular basis, the Bank's performance;
- Review and approve significant corporate actions, and recommend to the Ordinary General Assembly to pass the appropriate resolutions in this respect whenever required;
- Maintain active involvement in the affairs of the Bank and keep up with material changes in the Bank's business and external environment to safeguard the long-term interest of the Bank and its stakeholders;
- Ensure that the Bank continuously maintains a robust Finance function to guarantee the accuracy and integrity of accounting and financial data;
- Approve the annual financial statements and ensure critical areas are subject to a periodic annual review.

### *B. Ensuring compliance with applicable laws and regulations*

The Board ensures that Directors, Senior Management, and employees continuously observe and act within the applicable laws and regulations, through enforcing the Bank's policies and practices at all times. In this respect, the Board approves and oversees the implementation of key policies at the Bank, as well as capital and liquidity plans, including the Internal Capital Adequacy Assessment Process (ICAAP), Risk Management and Compliance policies as well as maintaining a robust internal control framework, in accordance with supervisory requirements.

Furthermore, the Board oversees the management of the Bank's compliance risk through an independent Compliance function that ensures that the Bank operates with integrity and in accordance with applicable laws and regulations. The Compliance function has direct access to Senior Management and to the Board through the Compliance Committee, whereby the Board and Senior Management are kept informed with developments in Compliance risks. Additionally, the Board, through its Board Compliance Committee, ensures that the Compliance function regularly educates employees on Compliance issues and provides them with guidance in this regard.

### *C. Overseeing an effective Risk Governance Framework*

- *Risk Appetite*

The Board is responsible for defining the Bank's overall risk appetite and tolerance levels that are aligned with the Bank's strategic and financial plans and objectives. In doing so, the Board ensures communicating the defined risk appetite and tolerance levels to the various Business Lines through its Board committees as well as the several Senior Management committees. Likewise, the Group Risk Management function ensures that risk policies and methodologies are consistent with the Bank's risk appetite, and it monitors and regularly reports risk exposures to the Board through its Board Risk Management Committee.

- *Risk Governance Framework*

Ensuring the presence of a sound Risk Management and an effective Internal Control is an essential responsibility of the Board. In this respect, the Board maintains an active role in overseeing the efficiency and effectiveness of a sound Risk Governance Framework that comprises:

- Business Lines that are responsible and accountable for the management of risk in their areas;
- Independent Risk Management and Compliance functions with sufficient authority, stature, independence, resources and access at the Board level through the Board Risk Management Committee & the Board Compliance Committee;
- An Independent Internal Audit function with direct asccess to the Chairman of the Board of Directorsl; the Internal Audit function is responsible for independently reviewing and providing an objective assurance on the quality and effectiveness of the Bank's internal control framesork.

### *D. Reinforcing corporate culture, values, and ethical behavior*

In its governance approach, the Board assumes the "tone at the top" in promoting a sound corporate culture that is based on high standards of ethical behavior. The Board ensures that these standards are strictly observed by Directors, Senior Management and employees. In doing so, the Board expects Directors, Senior Management and employees to:

- Observe the highest standards of behavior and commitment to truth;
- Strive at all times to enhance the reputation and performance of the Bank through fair dealing;
- Decline acceptance of gifts of significant value;
- Conduct the business of the Bank in compliance with relevant laws and ethical standards;
- Prevent conflicts of interest; and
- Demonstrate social responsibility and contribute to the well-being of the community.

In addtion, the ethical business conduct is enforced through formal policies implemented at the Bank that comprise the "Code of Conduct" and the "Anti-Bribery & Anti-Corruption (ABC)" policies summarized here below:

- *Code of Conduct*

The Bank adopted a Code of Conduct policy that embodies honesty, integrity, quality and trust, and other principles and standards to which management, officers, and employees are expected to adhere to.

The purpose of the Code is to communicate the ethical framework within which the Bank operates and to place employees on notice that they will be held responsible for abiding by the articulated standards, including applicable laws. They are also expected to conduct themselves in order to protect and promote organization-wide integrity and to enhance the Bank's ability to achieve its mission, as it provides a practical set of guiding principles to help them make decisions in their day-to-day work.

# CORPORATE GOVERNANCE

• *Anti-Bribery & Anti-Corruption (ABC)*

The Bank has an adequate ABC policy in place that will prevent bribery and corruption while ensuring commitment to high behavioral standards and integrity when conducting day-to-day operations. It also ensures that staff and associated persons comply with the relevant procedures.

## *E. Maintaining Oversight of Senior Management*

• *Delegation of Responsibilities to Senior Management*

The Board is ultimately responsible for the management of the Bank; however, the Board may delegate a number of its responsibilities to the Senior Management and its Committees. In this respect, Senior Management is responsible for managing the day- to-day operations of the Bank, and is also responsible for recommending policy and strategic direction for Board approval. Nevertheless, the Board cannot abolish its responsibility for functions delegated to management.

In exercising its duties, Senior Management must provide confirmation to the Board that the Bank's financial reports represent a true and fair view, in all material respects, of the Bank's financial condition and operational results and are in accordance with relevant accounting standards.

• *Directors' Access to Senior Management*

Directors have complete and open access to the Bank's Senior Management and other employees. Any meeting or contact that a Director wishes to initiate with an Officer at the Bank is to be arranged through the Chairman of the Board of Directors.

• *Senior Management Succession Planning*

The Board of Directors, after discussions with the Remuneration, Nominations, and Corporate Governance Committee, shall plan for the succession of the Senior Management positions held within the Bank.
The Board may delegate such a task to the Chairman of the Board of Directors.

• *Senior Management Committees*

The Board is responsible for approving the charters of the various committees at the Bank and monitoring their performance. In this respect, it is expected that each of the Bank's committees operates within its own written charter which includes, among others, the committee's roles and responsibilities. In this respect, the Board has approved the charters and continuously monitors the performance of the following 18 Management Committees that comprise members of Senior Management:

1. Asset/Liability Management Committee
2. Investment Committee for Funds & Structured Products & Derivatives
3. Credit Committee
4. Credit Committee for Financial Institutions
5. Foreign Affiliates Committee
6. Consumer Banking Committee
7. Advertising and Media Committee
8. Human Resources Committee
9. Information Technology Committee
10. Procurement Committee
11. Retail Banking Committee
12. Corporate Business Continuity
13. Asset Recovery Committee
14. Real Estate Committee
15. Operational Risk Management Committee
16. Corporate Information Security
17. Projects' Portfolio Committee
18. Technology and Digital Banking Committee

## *5. The Board of Directors' Own Governance Structure and Performance*

### *5.1 Chairman of the Board of Directors*

The Board shall appoint a Chairman and a Vice-Chairman from among its members for a maximum period of three years (renewable without any restriction). As per the Lebanese law, the Chairman of the Board of Directors shall act as the General Manager of the Bank (also referred to as the Chief Executive Officer).

The responsibilities of the Chairman include, but are not be limited to:

- Ensuring the proper running of the Board and that all matters on the agenda are sufficiently supported;
- Ensuring the Board meets at regular intervals and minutes of meetings accurately record decisions taken;
- Providing effective leadership to formulate the Board's strategy; and
- Reviewing the performance of the Board and individual Directors.

# CORPORATE GOVERNANCE

## 5.2 Board Committees

*1. Board Audit Committee*

The Audit Committee of Bank of Beirut comprises at least 3 non-executive Directors. The Audit Committee assists the Board in fulfilling its oversight responsibilities in relation to compliance with financial reporting and regulatory requirements, integrity of financial statements and reports, and external and internal audit functions. The Audit Committee must meet at least 4 times per year in scheduled meetings.

Furthermore, the Audit Committee is responsible for ensuring the independence of the external Auditor. The Audit Committee reviews significant accounting and reporting issues and recent professional and regulatory pronouncements, and understand their impact on the financial statements.

*2. Board Risk Management Committee*

The Board Risk Management Committee of Bank of Beirut comprises at least 3 non-executive Directors and is scheduled to meet at least 4 times a year. The Committee assists the Board in fulfilling its oversight responsibilities in relation to Basel requirements and Internal Capital Adequacy Assessment Process (ICAAP). The Committee also oversees a sound and effective internal risk management framework whereby itv evaluates and manages all key business risks by administering policies and procedures.

*3. The Board Compliance Committee:*

The Board Compliance Committee consists of at least 3 members, with an independent Chairman. Except for the Chairman of the Committee, any member of the Committee may, simultaneously, serve as a member of the Audit Committee, the Risk Committee or the Remuneration Committee. The Committee shall meet at least 4 times a year. The Committee oversees the Bank's compliance with local and international laws, regulations and guidelines, as well as the policies and procedures that are applicable within the jurisdictions where the Bank is licensed to operate. This typically includes specific areas such as regulatory compliance, the combatting of financial crime, anti- bribery and corruption, prevention of money laundering and terrorist financing.

*6. Board Remuneration, Nominations, and Corporate Governance Committee*

The Board Remuneration, Nominations, and Corporate Governance Committee of Bank of Beirut comprises at least 3 non-executive Directors. Functions of the Committee regarding remuneration include: overseeing the implementation of the Bank's Remuneration Policy; approving the annual staff bonus pool; and approving the remuneration arrangement of the C-Level by performing periodic reviews accordingly. On the other hand, functions of the Committee regarding nominations include: advising the Chairman and the Board on the profile and credentials to consider in the newly admitted Board members and assisting the Chairman of the Board in assessing the role and effectiveness of the Board performance as a whole. Functions of the Committee regarding the corporate governance include: assist the Board in monitoring and reviewing the Board's and the Bank's compliance with appropriate corporate governance practices and laws, review and monitor the induction training programs for new Board members and the ongoing training for all Board members.

The Board Remuneration, Nominations, and Corporate Governance Committee will typically meet on a semi-annual basis and be convened by the Chairman where necessary and appropriate in relation to the appointment of executive and non-executive directors and senior managers.

7. Board Credit Committee

The role, responsibility, composition and membership requirements of the Board Credit Committee are documented in the "Board Credit Committee Charter". The Board Credit Committee is the highest credit approval authority at the bank and its main function is the approval/ratification of all the commercial credit requests presented to it and which are above USD 3,000,000.

## 5.3 Board Performance

The Board recognizes that it is collectively responsible for promoting the success of the Bank by directing and supervising the Bank's affairs. In doing so:

- The Board shall conduct an annual self-assessment to determine whether the Board as a whole, or its various committees are functioning effectively;
- Each Board Committee shall conduct a self-evaluation and report the results to the Board, comparing the performance of the committee with the requirements of its written charter.
- The Board shall assess on annual basis, the suitability of each of its Board members, while taking into consideration each member's performance on the Board;
- The Board shall continuously evaluate its performance and conduct ongoing improvements of its own governance practices when needed.

## 5.4 Ethical Standards

• *Conflict of Interest*

Directors must avoid any action, position or interest that may conflict between their duty to the Bank and their own interests. A Director who has a conflict or potential conflict of interest in a matter that relates to the affairs of the Bank, must give the Chairman notice of such interest as soon as practicable after the Director becomes aware of his interest.

• *Duty of Care*

Directors are expected to act in the Bank's best interest and exercise their business judgment in good faith and prudence, while assuming the care an ordinary person might use in a similar position. Likewise, each Director must take informed decisions based on diligent knowledge of the Bank's structure and business practices.

• *Duty of Loyalty*

Directors owe a duty of loyalty to the Bank. This duty of loyalty mandates that the best interests of the Bank take precedence over any interests possessed by a Director. As such, the Directors are expected to avoid any conflicts of interest. Should a Director become involved in any transaction that could lead to a potential conflict of interest, he/she should promptly report it to the Chairman - Chief Executive Officer.

# CORPORATE GOVERNANCE

### 5.5 Disclosure and Transparency

The Board of Directors shall take adequate and reasonable steps to disclose its governance structure through its annual reports and on its website, to enable shareholders and stakeholders assess the effectiveness of the Board and Senior Management in governing the Bank. In this respect, the Board shall disclose:

- The Bank's governance structure, including its Corporate Governance approach;
- Board Members and their qualifications, in addition to their remunerations;
- The Board Committees Charters;
- The Code of Conduct, including the Bank's policy towards safeguarding against conflicts of interest;
- Overview of the Bank's policies and practices in Risk Management and Compliance;
- The Bank's ownership and organizational structure;
- Financial results, including all relevant financial statements required by the regulators, in addition to the External Auditors opinions where relevant.

On the other hand, the Board is committed to promoting a transparent environment within the Bank, through entrusting to the Internal Audit the necessity of providing assurance and protection to whistleblowers from among its employees who report any unethical behavior, questionable, or illegal activities that might jeopardize the Bank's reputation or its financial integrity.

### 5.6 Board Education

The Board ensures that Directors are continuously kept up-to-date with the latest developments in the banking industry, including new or enhanced banking practices and advancements in the business within the Bank or regarding the industry as a whole, in addition to any changes to the legal and regulatory frameworks. Consequently, the Board takes the needed steps and is open to conducting the necessary training to Board members where it deems needed; the Board also acknowledges that this is important in particular to newly appointed Directors.

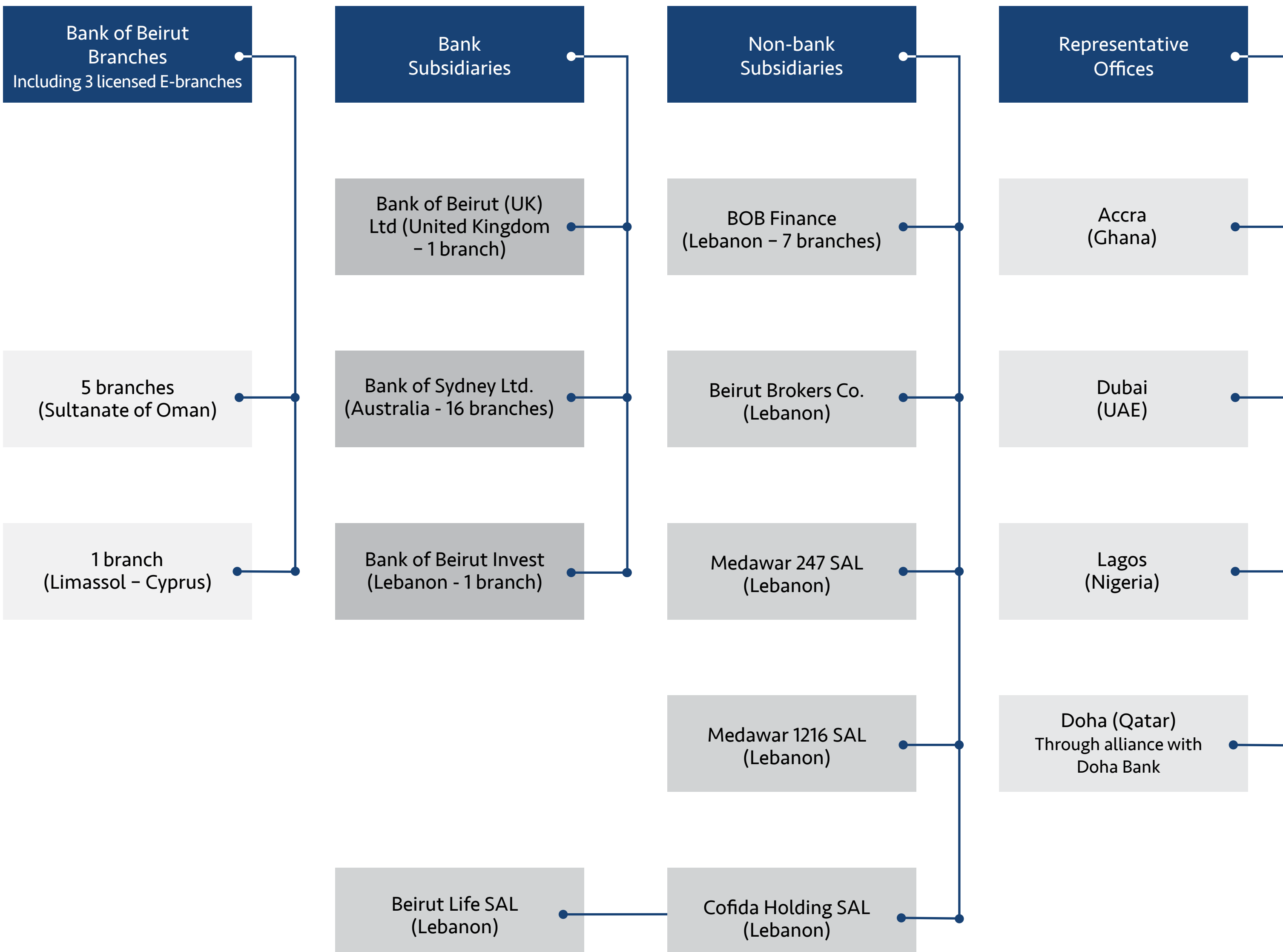
## 6. Shareholding Structure

The following table sets out the composition of the major holders of Common Shares as at December 31, 2018:

| Name | Percentage Ownership % |
|---|---|
| International Century Corporation S.A. S.P.F | 23.18% |
| Millet & Millet Inc. | 8.26% |
| Nar Aram Khatchadourian | 7.54% |
| HPG Urban Developments PTY LTD | 5.00% |
| Solpro S.A.L Holding | 4.51% |
| Merit S.A.L Holding | 4.38% |
| Rashid Bin Saad Bin Abdul Rahman Al Rashid | 4.10% |
| Others | 43.02% |
| **Total** | **100.00%** |

# CORPORATE GOVERNANCE

## 7. Group Corporate Structure



# FINANCIAL STATEMENTS

# INDEPENDENT AUDITORS' REPORT

Deloitte.

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**INDEPENDENT AUDITORS' REPORT**

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

***Opinion***

We have audited the accompanying consolidated financial statements of Bank of Beirut S.A.L. (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

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

***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. 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 financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# INDEPENDENT AUDITORS' REPORT

***Key Audit Matters***

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

**Key audit matters**

**Impairment of financial assets**

The Group adopted IFRS 9 Financial Instruments (as revised in July 2014) including impairment requirements on its mandatory effective date of implementation on January 1, 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the consolidated financial statements. As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures and recorded an adjustment of LBP240billion to the opening retained earnings in the consolidated statement of changes in equity as at January 1, 2018.

The changes required to processes, systems and controls to comply with IFRS 9 were significant, as the standard requires a fundamental change to the way and when credit losses are recognised and how these are measured by changing the impairment model from an Incurred Loss model to an Expected Credit Loss (ECL) model.

There was a risk that:

- Judgements, assumptions and estimates, which includes adopting a 'default' definition and methodologies for developing PDs at origination, lifetime-PDs, loss given default (LGD); and (exposure at default EAD) and macroeconomic models with a number of scenarios and probabilities for each scenario and other post-model adjustments and management overlays are inadequate;

- Inadequate data, as well as lack of uniformity in the data is used which makes it difficult to develop models which are sufficient for IFRS 9 impairment requirements.

**How our audit addressed the key audit matters?**

We updated our understanding of the Group's adoption of IFRS 9 and identified the internal controls including entity level controls adopted by the Group for the accounting, processes and systems under the new accounting standard.

In addition, our work performed includes the below procedures:

- Evaluate the appropriateness of key technical decisions, judgments and accounting policy elections made by the Group to ensure compliance with IFRS 9 impairment requirements.

- Evaluate the reasonableness of management's key judgements and estimates made in the ECL calculation, including but not limited to the selection of methods, models, assumptions and data sources.

- Evaluate the appropriateness and testing the mathematical accuracy of the ECL model applied.

- Test the controls related to the credit impairment process and verified the integrity of data used as input to the models.

- Evaluate post model adjustments and management overlays in order to assess the reasonableness of these adjustments.

- Assess the reasonableness of forward looking information incorporated into the impairment calculations.

- Assessment on whether significant increase in credit risk (SICR) indicators are present for the financial assets portfolio based on

# INDEPENDENT AUDITORS' REPORT

| Key audit matters | How our audit addressed the key audit matters? |
|---|---|
| - Inappropriate segmentation of portfolios is used to develop risk parameters.<br>- The number and range of forward-looking scenarios are not representative of an appropriate range of possible outcomes.<br>- The methodology used to allocate a probability to each scenario is inappropriate or unsupported.<br>- Significant increases (or reductions) in credit risk (movements between Stage 1, Stage 2 and Stage 3) are not completely or accurately identified on a timely basis.<br>- Assumptions incorporated in the ECL model are not updated on a timely basis.<br><br>The Notes 2, 3(F), 4 and 53 to the consolidated financial statements include disclosures on the Group's judgments, assumptions, estimates and methodologies adopted as well as information about impairment of the Group's financial assets. | IFRS 9 and the possible implications on the ECL staging and expected provisioning.<br><br>- Credit file classification supports the staging of relevant exposures, on a sample basis.<br><br>- Assessment of the ECL methodology, macroeconomic scenarios weightage, on a sample basis. |

**Impairment of Goodwill**

| | |
|---|---|
| As at December 31, 2018, the Group has goodwill of LBP88.5billion of which LBP86.6billion related the Group's acquisition of Bank of Sydney Ltd in prior years. Management performs an annual impairment test on the recoverability of the goodwill as required by International Financial Reporting Standards which is subjective in nature due to judgements made related to assumptions made by management. Due to the level of judgement and the significance to the Group's financial position, this is considered to be a key audit matter. Management performs the calculation of the impairment of goodwill using the average price-to-book ratio applicable to banks in Australia after applying a haircut to adjust for the size of the Australian subsidiary in addition to a premium of control.<br><br>The notes 3 and 17 to the consolidated financial statements include disclosures on the Group's judgements, assumptions, estimates and methodology adopted as well as information about impairment of goodwill. | The risk of inadequate determination of the impairment of goodwill was addressed in our audit by obtaining the impairment calculation used by Management and verifying the inputs related to price to book of top banks in Australia as at December 31, 2018 by comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the Group and the industry. We also assessed the reasonableness of the haircut and premium control applied by management. |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# INDEPENDENT AUDITORS' REPORT

**Impairment of Investment in an Associate**

| | |
|---|---|
| The Group's investment in an associate in the amount of LBP23billion as at December 31, 2018 is considered material to the consolidated financial statements and related impairment involves considerable estimation uncertainty. The Group uses the equity method of accounting to account for the investment in the Group's consolidated financial statements. The determination of recoverable amount of the Group's investment in an associate relies on management's estimates of future cash flows and judgement with respect to the associate's performance. Due to the uncertainty of forecasting future cash flows, the level of management's judgement involved and the significance of the Group's investment in an associate this is considered to a key audit matter.<br><br>The notes 3, 4 and 14 to the consolidated financial statements include disclosures on the Group's judgements assumptions, estimates and methodology adopted as well as information about impairment of investment in an associate. | Our audit procedures included the review of model used by management and assessment of the assumptions made by management with respect to historical and projected earnings derived from the associate. Furthermore, we assessed the reasonableness of the multiple applied to the average earnings taking into consideration market conditions in the country of incorporation of the associate. |

***Other Information***

Management is responsible for the Other Information included in the Annual Report. The Other Information does not include the financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the Other Information and we do not express any form of assurance or conclusion thereon.

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

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

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

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

# INDEPENDENT AUDITORS' REPORT

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

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs, within the framework of local banking laws, will always detect a material misstatement when it exists.

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

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

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

# INDEPENDENT AUDITORS' REPORT

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

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

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

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

The partners in charge of the audit resulting in this independent auditors' report are Joseph Khalife for Deloitte & Touche and Alfred Nehme for DFK Fiduciaire du Moyen Orient.

| | | |
|---|---|---|
| Beirut, Lebanon<br>April 23, 2019 | DFK Fiduciaire du Moyen Orient | Deloitte & Touche |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| December 31st - LBP'000 | Notes | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits at central banks | 5 | 7,137,979,450 | 6,576,913,590 |
| Assets under leverage arrangement with the Central Bank of Lebanon | 6 | 823,039,258 | 152,048,750 |
| Deposits with banks and financial institutions | 7 | 1,641,968,614 | 1,547,299,126 |
| Financial assets at fair value through profit or loss | 8 | 1,315,922,850 | 1,507,433,409 |
| Loans to banks | 9 | 255,316,224 | 292,410,807 |
| Loans and advances to customers | 10 | 8,555,503,383 | 8,445,100,947 |
| Loans and advances to related parties | 11 | 125,277,446 | 128,160,657 |
| Investment securities | 12 | 7,677,716,311 | 8,172,896,908 |
| Customers' liability under acceptances | 13 | 399,604,145 | 357,494,071 |
| Investment in an associate | 14 | 23,009,057 | 41,535,338 |
| Assets acquired in satisfaction of loans | 15 | 24,566,718 | 22,742,704 |
| Property and equipment | 16 | 295,172,636 | 280,703,585 |
| Goodwill | 17 | 88,466,704 | 88,564,254 |
| Other assets | 18 | 93,462,327 | 73,049,675 |
| **Total Assets** | | **28,457,005,123** | **27,686,353,821** |

## Financial instruments with off-balance sheet risks

| December 31st - LBP'000 | | 2018 | 2017 |
|---|---|---|---|
| Letters of guarantee and standby letters of credit | 45 | 1,270,962,293 | 1,277,866,731 |
| Documentary and commercial letters of credit | 45 | 414,838,510 | 490,177,197 |
| Notional amount of interest rate swap | 45 | 104,064,240 | 10,837,232 |
| Forward exchange contracts | 45 | 1,455,812,887 | 1,394,131,152 |
| Fiduciary accounts | 46 | 165,422,536 | 169,787,000 |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| December 31st - LBP'000 | | 2018 | 2017 |
|---|---|---|---|
| **LIABILITIES** | | | |
| Deposits from banks and financial institutions | 19 | 2,475,854,214 | 2,095,011,208 |
| Customers' and related parties' deposits | 20 | 20,218,646,101 | 20,107,581,304 |
| Liabilities under acceptance | 13 | 400,305,358 | 357,494,071 |
| Other borrowings | 21 | 567,949,842 | 840,732,674 |
| Leverage arrangement with the Central Bank of Lebanon | 6 | 823,039,258 | 152,048,750 |
| Certificates of deposit | 22 | 607,045 | 634,044 |
| Other liabilities | 23 | 364,963,190 | 528,083,050 |
| Provisions | 24 | 63,835,212 | 58,227,365 |
| **Total liabilities** | | **24,915,200,220** | **24,139,812,466** |

| December 31st - LBP'000 | | 2018 | 2017 |
|---|---|---|---|
| **EQUITY** | **Notes** | | |
| Common share capital | 25 | 82,102,954 | 77,649,954 |
| Common priority shares | 25 | 150,753,015 | 150,753,015 |
| Preferred shares | 26 | 844,124,625 | 844,124,625 |
| Shareholders' cash contribution to capital | 27 | 20,978,370 | 20,978,370 |
| Reserves | 28 | 927,138,699 | 819,813,487 |
| Retained earnings | | 424,084,310 | 367,273,650 |
| Cumulative change in fair value of fixed currency positions designated as hedging instruments | 25 | (52,122,857) | (39,267,559) |
| Cumulative change in fair value of investment securities at fair value through other comprehensive income | | 6,872,444 | 2,278,016 |
| Treasury shares | 29 | (70,283,647) | (105,831,043) |
| Currency translation adjustment | | 25,224,637 | 21,135,608 |
| Profit for the year | 43 | 259,896,246 | 235,525,041 |
| Equity attributable to the equity holders of the Bank | | 2,618,768,796 | 2,394,433,164 |
| Non-controlling interests | 30 | 923,036,107 | 1,152,108,191 |
| **Total equity** | | **3,541,804,903** | **3,546,541,355** |
| **Total Liabilities and Equity** | | **28,457,005,123** | **27,686,353,821** |

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| December 31st - LBP'000 | Notes | 2018 | 2017 |
|---|---|---|---|
| Interest income | 32 | 1,454,379,194 | 1,251,272,581 |
| Less: tax on interest | 32 | (51,317,238) | (6,553,371) |
| Interest income, net of tax | | 1,403,061,956 | 1,244,719,210 |
| Interest expense | 33 | (952,616,060) | (808,197,491) |
| Net interest income | | 450,445,896 | 436,521,719 |
| Fee and commission income | 34 | 167,294,419 | 163,431,229 |
| Fee and commission expense | 35 | (26,656,740) | (26,108,780) |
| Net fee and commission income | | 140,637,679 | 137,322,449 |
| Net income on financial assets at fair value through profit or loss | 36 | 79,648,171 | 100,033,473 |
| Gains on derecognition of financial assets at amortized cost (net) | 12 | 641,383 | 427,788 |
| Other operating income (net) | 37 | 34,753,901 | 18,708,986 |
| Net financial revenues | | 706,127,030 | 693,014,415 |
| Write-back/(set up) of allowance for credit losses (net) | 38 | 1,566,727 | (23,011,034) |
| Write-back of allowance for loans to banks (net) | 9 | - | 1,002,038 |
| Other provisions (net) | 39 | (7,169,570) | (9,553,264) |
| Net financial revenues after allowance for credit losses | | 700,524,187 | 661,452,155 |
| Staff costs | 40 | (182,802,542) | (174,580,298) |
| General and administrative expenses | 41 | (122,912,055) | (108,330,535) |
| Depreciation and amortization | 42 | (25,741,819) | (22,902,361) |
| Profit before income tax | | 369,067,771 | 355,638,961 |
| Income tax expense | 23 | (53,967,205) | (44,105,339) |
| Deferred tax on undistributed profit | 23 | (3,453,187) | (3,377,969) |
| **Profit for the year** | | **311,647,379** | **308,155,653** |
| **Attributable to:** | | | |
| **Equity holders of the Bank** | 43 | **259,896,246** | **235,525,041** |
| **Non-controlling interests** | 30 | **51,751,133** | **72,630,612** |
| **Basic earnings per share in LBP** | 44 | **LBP 3,385** | **LBP 2,994** |
| **Basic earnings per priority share in LBP** | 44 | **LBP 4,659** | **LBP 4,283** |
| **Diluted earnings per share in LBP** | 44 | **LBP 3,385** | **LBP 2,994** |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| December 31st - LBP'000 | Notes | 2018 | 2017 |
|---|---|---|---|
| **Profit for the year** | | 311,647,379 | 308,155,653 |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| **Change in fair value of investment securities at fair value through other comprehensive income** | | **4,596,755** | - |
| | | 4,596,755 | - |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Foreign currency translation adjustment related to foreign operations | | 4,089,029 | (2,591,216) |
| Change in fair value of cash flow hedge | | (1,111,445) | 248,646 |
| Revaluation of fixed and special currency positions to hedge investments in foreign entities | 25 | (12,855,298) | 10,733,153 |
| | | (9,877,714) | 8,390,583 |
| **Total other comprehensive (loss)/income for the year** | | **(5,280,959)** | **8,390,583** |
| **Total comprehensive income for the year** | | **306,366,420** | **316,546,236** |
| **Attributable to:** | | | |
| Equity holders of the Bank | | **254,615,287** | **243,915,624** |
| Non-controlling interests | | **51,751,133** | **72,630,612** |
| | | **306,366,420** | **316,546,236** |

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| LBP'000 | Common Share Capital | Common Priority Shares | Non-Cumulative Preferred Shares | Shareholders' Cash Contribution to Capital | Owned Building Revaluation Surplus | Cumulative Change in Fair Value of Fixed Positions Designated as Hedging Instruments |
|---|---|---|---|---|---|---|
| Balance January 1, 2017 | 77,649,954 | 150,753,015 | 844,124,625 | 20,978,370 | 1,668,934 | (50,000,712) |
| Allocation of 2016 profit | - | - | - | - | - | - |
| Dividends paid on preferred shares (Note 31) | - | - | - | - | - | - |
| Dividends paid on common shares (Note 31) | - | - | - | - | - | - |
| Dividends paid on priority shares (Note 31) | - | - | - | - | - | - |
| Dividends paid to non-controlling interests | - | - | - | - | - | - |
| Dividends on treasury shares | - | - | - | - | - | - |
| Reclassification from free reserves (Note 15) | - | - | - | - | - | - |
| Change in treasury shares | - | - | - | - | - | - |
| Change in net asset value of funds | - | - | - | - | - | - |
| Effect of transactions with funds | - | - | - | - | - | - |
| Effect of exchange difference | - | - | - | - | - | - |
| Total comprehensive income for the year 2017 | - | - | - | - | - | 10,733,153 |
| **Balance December 31, 2017** | **77,649,954** | **150,753,015** | **844,124,625** | **20,978,370** | **1,668,934** | **(39,267,559)** |
| Effect of adoption of IFRS9 (Note 2) | - | - | - | - | - | - |
| Transfer from regulatory deferred liability (Note 23) | - | - | - | - | - | - |
| Allocation of 2017 profit | - | - | - | - | - | - |
| Dividends paid on preferred shares (Note 31) | - | - | - | - | - | - |
| Dividends paid on common shares (Note 31) | - | - | - | - | - | - |
| Dividends paid on priority shares (Note 31) | - | - | - | - | - | - |
| Dividends paid to non-controlling interests | - | - | - | - | - | - |
| Dividends on treasury shares | - | - | - | - | - | - |
| Reclassification from free reserves (Note 15) | - | - | - | - | - | - |
| Issuance of common shares (Note 25) | 4,453,000 | - | - | - | - | - |
| Change in treasury shares | - | - | - | - | - | - |
| Change in net asset value of funds | - | - | - | - | - | - |
| Effect of transactions with funds | - | - | - | - | - | - |
| Effect of exchange difference | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Total comprehensive income for the year 2018 | - | - | - | - | - | (12,855,298) |
| **Balance December 31, 2018** | **82,102,954** | **150,753,015** | **844,124,625** | **20,978,370** | **1,668,934** | **(52,122,857)** |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

| Cumulative Change in Fair value of Investment Securities at Fair Value through Other Comprehensive Income | Reserve for Assets Acquired in Satisfaction of Loans | Reserves and Retained Earnings | Treasury Shares | Currency Translation Adjustment | Profit for the year | Equity attributable to the Equity Holders of the Bank | Non-Controlling Interests | Total |
|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| 2,272,038 | 8,367,354 | 1,052,906,423 | (56,878,575) | 23,726,824 | 227,296,686 | 2,302,864,936 | 1,180,354,657 | 3,483,219,593 |
| - | 1,367,761 | 225,928,925 | - | - | (227,296,686) | - | - | - |
| - | - | (50,455,797) | - | - | - | (50,455,797) | - | (50,455,797) |
| - | - | (57,946,900) | - | - | - | (57,946,900) | - | (57,946,900) |
| - | - | (6,030,121) | - | - | - | (6,030,121) | - | (6,030,121) |
| - | - | - | - | - | - | - | (72,055,871) | (72,055,871) |
| - | - | 474,191 | - | - | - | 474,191 | - | 474,191 |
| - | (105,589) | 105,589 | - | - | - | - | - | - |
| - | - | - | (48,952,468) | - | - | (48,952,468) | - | (48,952,468) |
| - | - | - | - | - | - | - | (32,111,280) | (32,111,280) |
| - | - | (34,998) | - | - | - | (34,998) | 3,290,073 | 3,255,075 |
| 5,978 | - | 10,592,719 | - | - | - | 10,598,697 | - | 10,598,697 |
| - | - | 248,646 | - | (2,591,216) | 235,525,041 | 243,915,624 | 72,630,612 | 316,546,236 |
| **2,278,016** | **9,629,526** | **1,175,788,677** | **(105,831,043)** | **21,135,608** | **235,525,041** | **2,394,433,164** | **1,152,108,191** | **3,546,541,355** |
| - | - | (240,443,912) | - | - | - | (240,443,912) | - | (240,443,912) |
| - | - | 227,477,400 | - | - | - | 227,477,400 | - | 227,477,400 |
| - | 2,294,781 | 233,230,260 | - | - | (235,525,041) | - | - | - |
| - | - | (56,827,662) | - | - | - | (56,827,662) | - | (56,827,662) |
| - | - | (66,638,935) | - | - | - | (66,638,935) | - | (66,638,935) |
| - | - | (6,030,121) | - | - | - | (6,030,121) | - | (6,030,121) |
| - | - | - | - | - | - | - | (77,036,694) | (77,036,694) |
| - | - | 51,106 | - | - | - | 51,106 | - | 51,106 |
| - | (366,913) | 366,913 | - | - | - | - | - | - |
| - | - | 81,987,050 | - | - | - | 86,440,050 | - | 86,440,050 |
| - | - | - | 35,547,396 | - | - | 35,547,396 | - | 35,547,396 |
| - | - | - | - | - | - | - | (207,464,814) | (207,464,814) |
| - | - | (171,084) | - | - | - | (171,084) | 3,678,291 | 3,507,207 |
| (2,327) | - | (9,981,240) | - | - | - | (9,983,567) | - | (9,983,567) |
| - | - | 299,674 | - | - | - | 299,674 | - | 299,674 |
| 4,596,755 | - | (1,111,445) | - | 4,089,029 | 259,896,246 | 254,615,287 | 51,751,133 | 306,366,420 |
| **6,872,444** | **11,557,394** | **1,337,996,681** | **(70,283,647)** | **25,224,637** | **259,896,246** | **2,618,768,796** | **923,036,107** | **3,541,804,903** |

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

| December 31st - LBP'000 | Notes | 2018 | 2017 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Profit for the year | | 311,647,379 | 308,155,653 |
| Adjustments for: | | | |
| Income tax expense | 23 | 53,967,205 | 44,105,339 |
| Depreciation and amortization | 42 | 25,741,819 | 22,902,361 |
| (Write-back)/set up of allowance for credit losses (Net) | 38 | ( 1,566,727) | 23,011,034 |
| Write-back of provision for loans to banks | 9 | - | (1,002,038) |
| Deferred tax on profits for distribution | 23 | 3,453,187 | 3,377,969 |
| Unrealized loss on assets at fair value through profit or loss | 36 | 36,198,841 | 4,261,166 |
| Gain on sale of assets acquired in satisfaction of loans | 37 | (651,803) | (369,532) |
| Loss on sale on property and equipment | 37 | 25,063 | 54,052 |
| Share in profits of an associate | 37 | (1,105,118) | (900,983) |
| Provision for end of service indemnity for employees | 24 | 5,137,271 | 4,376,454 |
| Other adjustments and effect of difference on exchange | | (2,598,569) | 6,195,087 |
| | | **430,248,548** | **414,166,562** |
| Net decrease/(increase) in financial assets at fair value through profit or loss | | 155,311,718 | (30,398,695) |
| Net decrease/(increase) in loans to banks | | 35,602,511 | (28,104,967) |
| Net increase in loans and advances to customers | 48 | (260,025,646) | (1,381,891,368) |
| Net decrease/(increase) in loans and advances to related parties | | 38,975 | (22,209,147) |
| Net increase in cash and deposits at central banks | | (745,815,883) | (1,185,048,898) |
| Net decrease/(increase) in deposits with banks and financial institutions | | 21,757,977 | (35,729,991) |
| Decrease in investment securities | | 453,423,528 | 946,696,464 |
| Net increase in other assets | 48 | (37,158,542) | (2,858,721) |
| Net increase in deposits from banks and financial institutions | | 92,102,351 | 355,070,302 |
| Net increase/(decrease) in other liabilities | 48 | 18,237,148 | (149,726,929) |
| Net increase in other provisions | | 3,855,228 | 9,005,487 |
| Net increase in customers' and related parties' accounts at amortized cost | | 111,064,797 | 1,184,798,307 |
| Settlement of end-of-service indemnity | 24 | (2,683,069) | (177,387) |
| **Net cash provided by operating activities** | | **275,959,641** | **73,591,019** |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

| December 31st - LBP'000 | Notes | 2018 | 2017 |
|---|---|---|---|
| Cash flows from investing activities: | | | |
| Property and equipment | | (40,314,334) | (78,463,523) |
| Proceeds from sale of assets acquired in satisfaction of loans | | 1,092,680 | 2,562,750 |
| Proceeds from sale of property and equipment | | 832,576 | 147,239 |
| Dividends from investment in an associate | 14 | 102,618 | 242,559 |
| **Net cash used in investing activities** | | **(38,286,460)** | **(75,510,975)** |
| Cash flows from financing activities: | | | |
| Dividends paid | | (206,482,306) | (186,014,498) |
| Issuance of common shares | | 86,440,050 | - |
| (Decrease)/increase in other borrowings | | (272,782,832) | 253,852,834 |
| (Decrease)/increase in certificates of deposit | | (26,999) | 68,718 |
| Non-controlling interests | | (203,957,607) | (28,856,205) |
| Change in treasury shares | | 35,547,396 | (48,952,468) |
| **Net cash used in financing activities** | | **(561,262,298)** | **(9,901,619)** |
| Net decrease in cash and cash equivalents | | (323,589,117) | (11,821,575) |
| Cash and cash equivalents - Beginning of year | 48 | 1,948,780,109 | 1,960,601,684 |
| **Cash and cash equivalents - End of year** | **48** | **1,625,190,992** | **1,948,780,109** |

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Bank of Beirut S.A.L. (the "Bank") is a Lebanese joint stock company listed on the Beirut stock exchange, registered under number 13187 in the Lebanese commercial register and under number 74 in the list of banks published by the Central Bank of Lebanon. The Bank was established in Lebanon in 1963 and provides a full range of banking services and operates through a network of 74 branches throughout Lebanon with a focus in the city of Beirut and its suburbs. The Bank has a branch in Cyprus and 5 branches in the Sultanate of Oman, two subsidiary banks in the United Kingdom and Australia and representative offices in Dubai in the United Arab Emirates, Nigeria and Ghana. Further information on the Group's structure is provided in Note 3(A). Information on other related party transactions of the Group is provided in Note 47.

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

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

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

The following new and revised IFRSs and amendments to IFRSs and Interpretations, which became effective for annual periods beginning on or after January 1, 2018, have been adopted in these consolidated financial statements.

### *2.1.1 IFRS 9 Financial Instruments*

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are mandatorily effective for an accounting period that begins on or after January 1, 2018. Transition provisions of IFRS 9 allow an entity not to restate comparatives. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

**a. Classification and measurement of financial assets**

The Group early adopted IFRS 9 (2009) and IFRS 9 (2010) with respect to classification and measurement requirements of its financial assets and financial liabilities. On January 1, 2018 the Group adopted IFRS 9 (July 2014) and therefore reassessed the classification and measurement of its financial assets and financial liabilities that have not been derecognised as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018.
All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently 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. Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below. The impact on the classification of financial assets and their carrying amounts is disclosed under section (d).

**b. Impairment of financial assets**

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
The new impairment model applies to all financial assets measured at amortised cost (including debt instruments measured at FVTOCI). It also applies to certain loan commitments and financial guarantee contracts but not to equity investments.
The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVTOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

**Stage 1: 12 months ECL**

Stage 1 includes financial assets that did not experience a significant increase in credit risk since the initial recognition or that have low credit risk. For these assets, ECL are recognised on the gross carrying amount of the asset based on the expected credit losses that result from default events that are possible within 12 months after the reporting date. Interest is computed on the gross carrying amount of the asset.

**Stage 2: Lifetime ECL**

Stage 2 includes financial assets that have had a significant increase in credit risk (SICR) since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

**Stage 3: Lifetime ECL**

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised. The impact of the adoption of IFRS 9 impairment model on the Group's financial assets and their carrying values and equity is disclosed in section (d) below.

**c. Hedge accounting**

IFRS 9 incorporates new hedge accounting rules that align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.
The existing hedging relationships continue

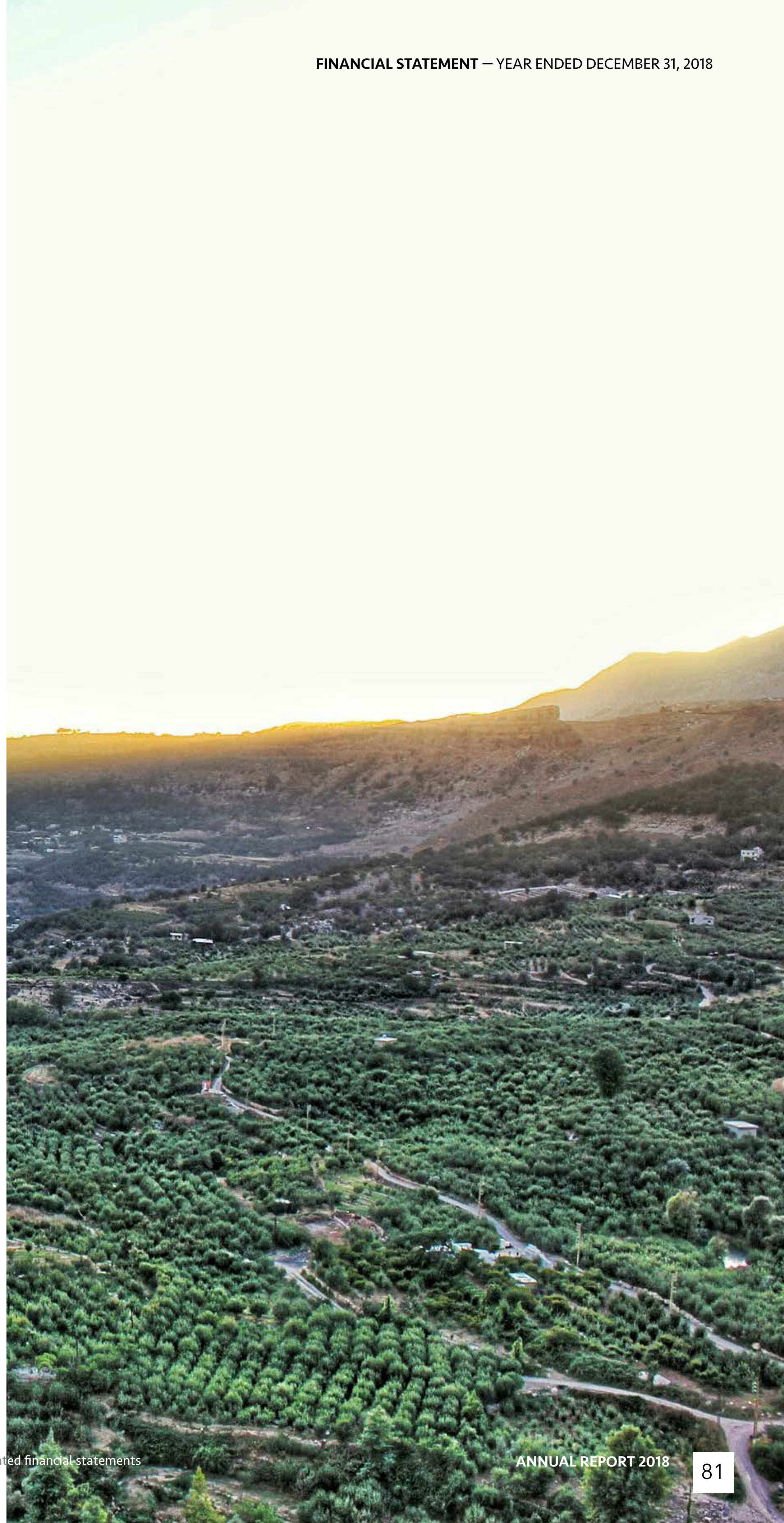
to qualify and be effective under the IFRS 9 hedge accounting provisions and did not have any transition impact on the Group financial statements.

**d. Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVTOCI.
  - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Impact of change in classification and measurement

Except for the financial statement captions listed in the below table, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 (2014) as at January 1, 2018.

| LBP'000 | Classification under IFRS 9 (2010) (December 31, 2017) | | Re-measurement | | | Classification under IFRS 9 (2014) (January 1, 2018) | |
|---|---|---|---|---|---|---|---|
| | Category | Net Carrying Amount | Reclassification | ECL | Deferred Tax | Category | Net Carrying Amount |
| **Financial assets:** | | | | | | | |
| Cash and deposits at central banks | Amortized cost | 6,576,913,590 | - | 27,423,852 | - | Amortized cost | 6,549,489,738 |
| Deposits with banks and financial institutions | Amortized cost | 1,547,299,126 | - | 815,375 | - | Amortized cost | 1,546,483,751 |
| Financial assets at fair value through profit or loss | FVTPL | 1,507,433,409 | - | - | - | FVTPL | 1,507,433,409 |
| Loans to banks | Amortized cost | 292,410,807 | - | 2,006,296 | - | Amortized cost | 290,404,511 |
| Loans and advances to customers | Amortized cost | 8,445,100,947 | - | 149,088,957 | - | Amortized cost | 8,296,011,990 |
| Loans and advances to related parties | Amortized cost | 128,160,657 | - | 1,411,971 | - | Amortized cost | 126,748,686 |
| Financial assets at amortized cost | Amortized cost | 8,162,185,826 | - | 52,767,196 | - | Amortized cost | 8,109,418,630 |
| Financial assets at fair value through other comprehensive income | FVOCI | 10,711,082 | - | - | - | FVOCI | 10,711,082 |
| Customers' liability under acceptances | Amortized cost | 357,494,071 | - | 601,432 | - | Amortized cost | 356,892,639 |
| Other assets | Amortized cost | 73,049,675 | - | 1,036,472 | (1,904,576) | Amortized cost | 73,917,779 |
| | | **27,100,759,190** | **-** | **235,151,551** | **(1,904,576)** | | **26,867,512,215** |
| **Non-Financial liabilities:** | | | | | | | |
| Provision for expected credit losses for off-balance sheet commitments | | - | | 7,196,937 | - | | 7,196,937 |
| **Net impact on equity** | | | | **(242,348,488)** | **1,904,576** | | **(240,443,912)** |

The increase in impairment allowances when measured in accordance with IFRS 9 expected credit loss model compared to IAS 39 incurred loss model amounts to LBP240.43billion.

### *2.1.2 IFRS 15 Revenue from contracts with customers*

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 introduced a 5-step approach to revenue recognition. The impact of IFRS 15 is not material on the consolidated financial statements of the Group.

### *2.1.3 Other IFRSs and amendments*

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

- Annual Improvements to IFRS Standards 2014 2016 – Cycle amending IFRS 1 and IAS 28.
- Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.
- Amendments to IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.
- In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.
- Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*: The interpretation

addresses foreign currency transactions or parts of transactions where:
- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after January 1, 2018.

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

At the date of authorisation of these 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 |
|---|---|
| Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23. | January 1, 2019 |
| Amendments to IFRS 9 *Financial Instruments*:<br>Relating 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. | January 1, 2019 |
| IFRS 16 *Leases*<br>IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. | January 1, 2019 |
| 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. | January 1, 2019 |
| IFRIC 23 *Uncertainty over Income Tax Treatments*<br>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:<br>• Whether tax treatments should be considered collectively;<br>• Assumptions for taxation authorities› examinations;<br>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and<br>• The effect of changes in facts and circumstances. | January 1, 2019 |
| Amendment to IFRS 3 *Business Combinations* relating to definition of a business | January 1, 2020 |
| Amendments to IAS 1 and IAS 8 relating to definition of material | January 1, 2020 |

| New and revised IFRSs | Effective for Annual Periods Beginning on or After |
|---|---|
| IFRS 17 Insurance Contracts | January 1, 2020 |
| IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021. | January 1, 2021 |
| Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011): Relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. | Effective date deferred indefinitely. Adoption is still permitted. |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, except for IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application. Management is still in the process of assessing the impact of IFRS 16 and therefore an estimate of any impact on the consolidated financial statements as of January 1, 2019 cannot be reasonably determined at present.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Statement of Compliance**

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

**Basis of Preparation and Measurement:**

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

- Land and building acquired prior to 1993 are measured at their revalued amounts based on market prices prevailing in 1996, to compensate for the effect of the Upper – inflationary economy prevailing in the earlier years.
- Financial assets and liabilities at fair value through profit or loss are measured at fair value.
- Equity securities at fair value through other comprehensive income are measured at fair value.
- Derivative financial instruments measured at fair value.

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

The principal accounting policies adopted are set out below:

### A. Basis of Consolidation

The consolidated financial statements of Bank of Beirut S.A.L. incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

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

The Bank reassesses 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 listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The consolidated subsidiaries consist of the following:

| | Country of Business Incorporation | Year of Acquisition or Incorporation | Date of Ownership 2018 | 2017 | Percentage of Activity |
|---|---|---|---|---|---|
| Bank of Beirut UK LTD | United Kingdom | 2002 | 100 | 100 | Banking |
| Bank of Beirut Invest S.A.L. | Lebanon | 2007 | 100 | 100 | Investment Banking |
| Beirut Broker Company S.A.R.L. | Lebanon | 1999 | 100 | 100 | Insurance brokerage |
| BOB Finance S.A.L. | Lebanon | 2006 | 100 | 100 | Money Transfer |
| Cofida Holding S.A.L. | Lebanon | 2008 | 100 | 100 | Holding |
| Beirut Life S.A.L. | Lebanon | 2010 | 90 | 90 | Insurance (Life) |
| Bank of Sydney Ltd | Australia | 2011 | 100 | 100 | Banking |
| Optimal Investment Fund | Lebanon | 2010 | - | - | Mutual Fund |
| Beirut Preferred Fund II | Cayman Island | 2013 | 1.23 | 1.17 | Mutual Fund |
| BOB LBP Growth Fund | Lebanon | 2015 | - | - | Mutual Fund |
| Medawar 247 S.A.L. | Lebanon | 2015 | 100 | 100 | Real Estate |
| Medawar 1216 S.A.L. | Lebanon | 2015 | 100 | 100 | Real Estate |

## *B. Business Combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.
Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries and associates are identified separately from the Group's equity therein.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by- transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## C. Goodwill

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates and other instruments".

## D. Foreign Currencies

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

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity›s functional 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 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, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, 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.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re- attributed to non-controlling interests and are not recognized in profit or loss.

Cash flows provided by and used in foreign currencies under various activities, as included in the statement of cash flows, are converted into Lebanese Pounds at year-end exchange rates, except for cash and cash equivalents at the beginning of the year which is converted at the prior year closing exchange rates and the effect of currency fluctuation, if any, is disclosed separately.

## *E. 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.

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

If the transaction price differs from fair value at initial recognition, the 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).

Central Bank of Lebanon Circular # 143 dated November 7, 2017 prohibits recognition of day one profits on designated non-conventional transactions concluded between the Central Bank of Lebanon and banks and whose purpose is to secure yield adjustment to maturity on certain designated financial assets as part of the Central Bank's monetary policy. The Group recognized the designated financial assets at amortized cost. These non-conventional transactions with the Central Bank of Lebanon consist of non-transferable non-negotiable arrangements.

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.

## *F. 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).



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**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**

*Policy applicable up to December 31, 2017:*

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- significant or prolonged decline in fair value beyond one business cycle that occurred after the initial recognition of the financial asset or group of financial assets which impacted the estimated future cash flows of the investment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For certain categories of financial asset, such as loans and advances, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information, as well as observable changes in national or local economic conditions that correlate with default on loans and advances.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*Policy applicable effective January 1, 2018:*

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 a financial asset to be in default when:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

**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.

## *G. Financial Liabilities and Equity Instruments*

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

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

**Equity instruments**

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

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

**Financial liabilities**

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

**Financial liabilities at FVTPL**

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

A financial liability is classified as held for trading if:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a 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 IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

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

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

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

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

Fair value is determined as described under note 54 below.

### Other financial liabilities

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

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

### Derecognition of financial liabilities

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## *H. Offsetting*

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

## *I. Derivative financial instruments*

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

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

**Embedded derivatives**

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

## *J. 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.

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

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

## *K. 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.

*Policy applicable up to December 31, 2017:*

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting.
A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated statement of profit or loss in

"Net results on financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

in cash flows that could ultimately affect the consolidated statement of profit or loss.

*Policy applicable effective January 1, 2018:*

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.

## *L. Investments in Associates*

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

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

The results and assets and liabilities of associates, except where the Group has control over the associates' financial and operating policies, are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The financial statements of the associates are prepared for the same reporting period of the Group.

## *M. Property and Equipment*

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

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

| | Rate | Years |
|---|---|---|
| Buildings | 2% | 50 |
| Furniture and equipment | 8% | 12.5 |
| Computer equipment | 20% | 5 |
| Vehicles | 10% | 10 |
| Installation and improvement | 25% | 4 |

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized under "Other operating income" in the consolidated statement of profit or loss in the year the asset is derecognized.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## N. Intangible Assets Other than Goodwill

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

## O. Assets acquired in satisfaction of loans

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

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

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

## P. Impairment of Tangible and Intangible Assets (Other than Goodwill)

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

Recoverable amount is defined as the higher of:

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Q. Provision for Employees' End-of-Service Indemnity / Staff Retirement Benefits

*Employees' End-of-service Indemnities*:
*(Under the Lebanese Jurisdiction)*

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.

*Defined Benefit Plans: (Under other jurisdictions)*

Obligations in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted.

### R. Provisions

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

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

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

### S. Interest Income and Expense

*Policy applicable up to December 31, 2017:*

Interest income and expense are recognized on an accrual basis, taking into account the amount of the principal outstanding and the rate applicable, except for non-performing loans and advances for which interest income is only recognized upon realization. Interest income and expense include discount and premium amortization.

Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and liabilities at amortized cost.
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

*Policy applicable effective January 1, 2018:*

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

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

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

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

### T. 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.

### U. Netincome/(loss) from financial assets at fair valuet hrough 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.

### V. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## W. Income Tax

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

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

Up to October 26, 2017, part of the debt securities invested by the Group is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

During 2017, Lebanese tax amendments and new taxes and duties were issued as per Law No. 64 dated October 26, 2017. These amendments include, but are not limited to, an increase in the Lebanese corporate income tax from 15% to 17% to be applied effective on October 27, 2017 onwards. In addition, the above mentioned withheld tax by the issuer is not allowed anymore to be deducted from the annual corporate income tax amount and is considered as a deductible expense for the purpose of calculating the corporate taxable income.

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

## X. Fiduciary Accounts:

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

## Y. Operating lease agreements:

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

## Z. Cash and Cash Equivalents:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## *AA. Earnings per Share:*

The Group presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential common shares.

## *AB. Dividends:*

Dividends paid on common, priority and preferred shares are recognized as a liability and deducted from equity when they are approved by the General Assembly of the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.
Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

## *AC. 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.

## *AD. Insurance Contracts:*

The Group issues contracts that transfer insurance risk.

*Recognition and measurement:*

Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect the ability of their dependents to maintain their current level of income. Long-term life insurance contracts issued by the Group insure human life events (for example death or survival). Premiums are shown before deduction of commission and are recognized as revenue when they become payable by the contract holder. Benefits are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is based on assumptions as to mortality, persistency and maintenance expenses that are established at the time the contract is issued.

*Mathematical reserves for life insurance contracts:*

Provisions for term life products are calculated as the difference between the actuarial present value of the Group's future liabilities and the actuarial present value of the policyholders' future premiums based on the tables of mortality and the actuarial interest rates as per the original tariffs. In case losses arise from liability adequacy tests, an additional provision is raised.
At each reporting date, an actuarial valuation of the life portfolio is carried out by a professional independent actuary and a technical assessment is performed in respect of mathematical reserves. Prevailing laws require that such actuarial valuation be carried out annually.

*Outstanding claims reserves:*

The outstanding claims reserves are made for all claims reported to the Group and still unpaid at the reporting date including an estimate for the cost of claims incurred but not reported (IBNR). Claims are recognized in the income statement when incurred based on estimated benefits.

*Liability Adequacy Test:*

Liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

*Deferred Acquisition Cost:*

Commissions that are related to securing new contracts and renewing existing contracts are capitalized as Deferred Acquisition Cost («DAC»). All other costs are recognized as expenses when incurred. Deferred acquisition costs are subsequently amortized over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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

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

*Going Concern:*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore the consolidated financial statements continue to be prepared on the going concern basis.

*Business Model Assessment:*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (Refer to the financial assets sections of note 3). The 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:*

As explained in note 3, ECL are measured as an allowance equal to -12month 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 3 and note 53 for more details.

*Establishing groups of assets with similar credit risk characteristics:*

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

*Models and assumptions used:*

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 and note 53 for more details on ECL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## B. Key Sources of Estimation Uncertainty:

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

The Group based their assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur

*Impairment Losses on Financial Instruments (Applicable up to December 31, 2017)*

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios, etc...), concentrations of risks, economic data and the performance of different individual groups.

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

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

*Probability of default:*

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

*Loss Given Default:*

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

*Impairment of Goodwill:*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash- generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

*Impairment of investment in an associate:*

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

*Determining Fair Values:*

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 54. For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. CASH AND DEPOSITS AT CENTRAL BANKS

| December 31st - LBP'000 | 2018 | 2017 |
|---|---|---|
| Cash on hand | 63,610,268 | 57,354,047 |
| Non-interest earning accounts: | | |
| Compulsory reserves with the Central Bank of Lebanon | 382,903,022 | 378,769,847 |
| Interest earning accounts: | | |
| Current accounts with the Central Bank of Lebanon | 94,877,860 | 74,510,133 |
| Current accounts with other central banks | 1,086,956,560 | 1,252,928,345 |
| Term placements with the Central Bank of Lebanon (Note 6) | 5,471,684,411 | 4,765,779,122 |
| Term placements with other central banks | 97,890 | 97,890 |
| Accrued interest receivable, net of tax | 70,825,923 | 47,474,206 |
| | **7,170,955,934** | **6,576,913,590** |
| Allowance for expected credit losses – Note 53 | (32,976,484) | - |
| | **7,137,979,450** | **6,576,913,590** |

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

Current accounts with other central banks also include the equivalent in Euro of LBP962million as at December 31, 2018 (LBP802million as at December 31, 2017) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (1% as at December 31, 2017) of banks' and customers' deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

Current accounts with other central banks also include as at December 31 2018 the equivalent in Omani Riyal (OMR) of LBP1.96billion (LBP1.96billion as at December 31, 2017) as minimum reserve requirements at Central Bank of Oman.

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

Term placements with the Central Bank of Lebanon include as of December 2018 ,31 and 2017, the equivalent in foreign currencies of LBP1,834billion and LBP1,717billion, respectively deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions.

Accrued interest receivable as at December 31, 2018, is stated net of tax in the amount of LBP5.2billion on accrued interest on deposits with the Central Bank of Lebanon (LBP1.9billion as at December 31, 2017, effective October 2017 ,27).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. ASSETS UNDER LEVERAGE ARRANGEMENT WITH THE CENRAL BANK OF LEBANON

| December 31st - LBP'000 | 2018 | 2017 |
|---|---|---|
| Term placements with the Central Bank of Lebanon | 475,616,000 | 6,027,050 |
| Lebanese treasury bills classified at amortized cost | 347,423,258 | 146,021,700 |
| | **823,039,258** | **152,048,750** |

As at December 31, 2018, assets under leverage arrangement consisting of term placements with the Central Bank of Lebanon and Lebanese Treasury bills classified at amortized cost in LBP earning coupon rates ranging between 6.74% per annum and 10.5% per annum and having maturities ranging between 2022 and 2033 (2017: coupon rates ranging between 6.74% per annum and 7.46% per annum and having maturities ranging between 2022 and 2027) originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP, bearing interest at the rate of 2% per annum and carrying same maturities, purpose of which is to provide yield adjustment on certain transactions related to either fresh deposits in foreign currency or sale of foreign currency against LBP placed in term deposits at the Central Bank of Lebanon. The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

| December 31st - LBP'000 | 2018 | 2017 |
|---|---|---|
| Term placements with the Central Bank of Lebanon | 604,658,250 | 122,258,250 |
| Term placement with the Central bank of Lebanon in LBP originated from sale of foreign currency | 51,476,000 | - |
| | **656,134,250** | **122,258,250** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

| December 31st - LBP'000 | 2018 | 2017 |
|---|---|---|
| Checks in course of collection | 60,256,537 | 77,256,891 |
| Current accounts | 428,536,797 | 371,585,916 |
| Current accounts - associate bank (Note 47) | 7,426,776 | 14,081,443 |
| Overnight placements | 342,697,420 | 282,916,303 |
| Term placements | 625,441,679 | 726,925,177 |
| Pledged deposits (Note 50) | 176,013,275 | 72,854,829 |
| Accrued interest receivable | 1,799,125 | 1,678,567 |
| | **1,642,171,609** | **1,547,299,126** |
| Allowance for expected credit losses – Note 53 | (202,995) | - |
| | **1,641,968,614** | **1,547,299,126** |

The Group has current accounts and term placements with banks amounting to LBP97.7billion and LBP41.2billion as of December 31, 2018 and 2017, respectively, subject to right of set-off against trade finance exposures related to financial institutions in the form of letters of credit, acceptances and letter of guarantee.

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

| December 31st 2018 - LBP'000 | LBP | C/V of F/Cy | Total |
|---|---|---|---|
| Quoted equity securities | - | 10,872,005 | 10,872,005 |
| Unquoted equity securities | - | 48,540,304 | 48,540,304 |
| Lebanese treasury bills | 432,760,030 | - | 432,760,030 |
| Lebanese Government bonds | - | 235,285,861 | 235,285,861 |
| Certificates of deposit issued by the Central Bank of Lebanon | 246,164,268 | 247,131,383 | 493,295,651 |
| Foreign Government treasury bills | - | 77,533,343 | 77,533,343 |
| Accrued interest receivable, net of tax | 10,680,816 | 6,954,840 | 17,635,656 |
| | **689,605,114** | **626,317,736** | **1,315,922,850** |

| December 31st 2017 - LBP'000 | LBP | C/V of F/Cy | Total |
|---|---|---|---|
| Quoted equity securities | - | 14,799,007 | 14,799,007 |
| Unquoted equity securities | - | 48,521,521 | 48,521,521 |
| Lebanese treasury bills | 658,381,693 | - | 658,381,693 |
| Lebanese Government bonds | - | 298,462,316 | 298,462,316 |
| Certificates of deposit issued by the Central Bank of Lebanon | 238,927,931 | 176,186,541 | 415,114,472 |
| Foreign Government treasury bills | - | 52,742,949 | 52,742,949 |
| Accrued interest receivable, net of tax | 13,080,965 | 6,330,486 | 19,411,451 |
| | **910,390,589** | **597,042,820** | **1,507,433,409** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Net interest income, gains and losses on financial assets' portfolio at fair value through profit or loss are detailed under Note 36.

Accrued interest receivable as at December 31, 2018, is stated net of tax in the amount of LBP35million on interest from Lebanese Treasury bills in LBP and certificates of deposits issued by the Central Bank of Lebanon (LBP42million as at December 31, 2017, effective October 27, 2017).

## 9. LOANS TO BANKS

| December 31st - LBP'000 | 2018 | 2017 |
|---|---|---|
| Loans to a resident housing bank (a) | 9,278,800 | 13,303,200 |
| Discounted acceptances (b) | 101,264,112 | 137,216,049 |
| Short term loans (c) | 145,757,198 | 133,126,450 |
| Short term loans – associate bank (c) – (Note 47) | - | 9,179,430 |
| Accrued interest receivable | 1,037,102 | 847,574 |
| Less: Deferred interest | (673,049) | (1,261,896) |
| | **256,664,163** | **292,410,807** |
| Less: Allowance for expected credit losses – Note 53 | (1,347,939) | - |
| | **255,316,224** | **292,410,807** |

(a) Loans to a resident housing bank represent 12 year LBP loans granted to this bank. Interest is collected semi-annually and reset every 3 years. The loans are payable after a grace period of 2 years from the withdrawal date in 10 annual equal installments. As a guarantee for these loans, the borrower has pledged in favour of the Group bills related to the housing loans granted to its customers.

(b) Discounted acceptances represent facilities derived from trade finance activity (discounted letters of credit) mainly granted to Middle Eastern and African banks. These balances are denominated in foreign currencies.

(c) Short term loans represent short term financing provided banks mainly against trade finance operations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. LOANS AND ADVANCES TO CUSTOMERS

| December 31st 2018 - LBP'000 | Gross Amount | Expected Credit Loss | Carrying Amount |
|---|---|---|---|
| **Performing loans:** | | | |
| Retail | 3,475,043,029 | (4,404,002) | 3,470,639,027 |
| Corporate and SME | 4,985,330,996 | (150,006,332) | 4,835,324,664 |
| **Credit impaired:** | | | |
| Retail | 47,121,798 | (14,667,799) | 32,453,999 |
| Corporate and SME | 342,717,906 | (134,399,760) | 208,318,146 |
| Accrued interest receivable | 8,767,547 | - | 8,767,547 |
| | **8,858,981,276** | **(303,477,893)** | **8,555,503,383** |

| December 31st 2017 - LBP'000 | Gross Amount | Impairment Allowance | Carrying Amount |
|---|---|---|---|
| **Performing loans:** | | | |
| Retail | 3,299,919,466 | (1,603,497) | 3,298,315,969 |
| Corporate and SME | 4,925,359,416 | (24,432,154) | 4,900,927,262 |
| **Credit impaired:** | | | |
| Retail | 73,704,156 | (24,722,050) | 48,982,106 |
| Corporate and SME | 295,121,116 | (105,712,812) | 189,408,304 |
| Accrued interest receivable | 7,467,306 | - | 7,467,306 |
| | **8,601,571,460** | **(156,470,513)** | **8,445,100,947** |

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

Loans and advances to customers as at December 31, 2017, include advances denominated in USD and Arab Emirates Dirham (AED) in the equivalent amount of LBP724billion and LBP35billion, respectively, granted to certain customers against credit balances in the same currencies under "Customers' and related parties' deposits". Subsequent to the date of the statement of the financial position, the customers settled the advances against the credit balances.

Performing loans and advances to customers as at December 31, 2018, include loan balances in U.S. Dollar aggregating to LBP6.8billion (LBP12billion as at December 31, 2017) granted to customers against credit balances in Lebanese Pounds aggregating LBP8.6billion (LBP14billion as at December 2017 ,31) and margins in U.S. Dollar aggregating LBP3.7billion (LBP6billion as at December 31 2017) reflected under "Customers' and related parties' deposits".

Loans and advances to customers include creditors accidentally debtors' balances aggregating to LBP10.4billion as at December 2018 ,31 (LBP13.6billion in 2017).

Loans and advances to customers as at December 31, 2018 are stated net of advances related to multi- currency trading in the aggregate of LBP2.8billion (LBP6.8billion in 2017) which are offset against the corresponding credit balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The movement allowance for expected credit losses during 2018 is summarized under Note 53.

The movement of allowance for impairment during 2017 is summarized as follows:

| LBP'000 | 2017 |
|---|---|
| Balance, January 1 | (132,319,123) |
| Additions to allowance for impairment (Note 38) | (26,794,499) |
| Write-back to profit or loss (Note 38) | 3,794,966 |
| Write-off | 154,634 |
| Effect of exchange rate changes and other movements | (1,306,491) |
| **Balance, December 31** | **(156,470,513)** |

## 11. LOANS AND ADVANCES TO RELATED PARTIES

| December 31st 2018 - LBP'000 | Gross Amount | Expected Credit Loss | Carrying Amount |
|---|---|---|---|
| **Performing loans:** | | | |
| Retail | 11,591,066 | (38,330) | 11,552,736 |
| Corporate and SME | 116,420,549 | (2,805,906) | 113,614,643 |
| Accrued interest receivable | 110,067 | - | 110,067 |
| | **128,121,682** | **(2,844,236)** | **125,277,446** |

| December 31st 2017 - LBP'000 | Gross Amount | Expected Credit Loss | Carrying Amount |
|---|---|---|---|
| **Performing loans:** | | | |
| Retail | 17,600,262 | - | 17,600,262 |
| Corporate and SME | 110,435,339 | - | 110,435,339 |
| Accrued interest receivable | 125,056 | - | 125,056 |
| | **128,160,657** | **-** | **128,160,657** |

Loans and advances to related parties are partially covered by collaterals (Refer to Note 47).

Loans and advances to related parties as at December 31, 2018 are stated net of advances related to multi-currency trading in the aggregate of LBP1.9billion (LBP2billion in 2017) which are offset against the corresponding credit balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## *12. INVESTMENT SECURITIES*

| December 31st 2018 - LBP'000 | Fair Value through Other Comprehensive Income | | | Amortized Cost | | | |
|---|---|---|---|---|---|---|---|
| | LBP | C/V of F/Cy | Total | LBP | C/V of F/Cy | Total | **Grand total** |
| Unquoted equity securities | 9,916,114 | 5,765,316 | 15,681,430 | - | - | - | 15,681,430 |
| Lebanese treasury bills | - | - | - | 972,387,429 | - | 972,387,429 | 972,387,429 |
| Lebanese Government bonds | - | - | - | - | 3,364,782,151 | 3,364,782,151 | 3,364,782,151 |
| Foreign Government bonds | - | - | - | - | 98,405,690 | 98,405,690 | 98,405,690 |
| Certificates of deposit issued by Central Bank of Lebanon | - | - | - | 1,891,435,870 | 842,687,088 | 2,734,122,958 | 2,734,122,958 |
| Certificates of deposit issued by financial private sector | - | - | - | - | 19,020,225 | 19,020,225 | 19,020,225 |
| Bonds issued by financial private sector | - | - | - | - | 405,713,158 | 405,713,158 | 405,713,158 |
| | **9,916,114** | **5,765,316** | **15,681,430** | **2,863,823,299** | **4,730,608,312** | **7,594,431,611** | **7,610,113,041** |
| Accrued interest receivable, net of tax | - | - | - | 59,171,413 | 54,903,120 | 114,074,533 | 114,074,533 |
| Allowance for expected credit losses – Note 53 | **9,916,114** | **5,765,316** | **15,681,430** | **2,922,994,712** | **4,785,511,432** | **7,708,506,144** | **7,724,187,574** |
| credit losses – Note 53 | - | - | - | (4,947,942) | (41,523,321) | (46,471,263) | (46,471,263) |
| | **9,916,114** | **5,765,316** | **15,681,430** | **2,918,046,770** | **4,743,988,111** | **7,662,034,881** | **7,677,716,311** |

| December 31st 2017 - LBP'000 | Fair Value through Other Comprehensive Income | | | Amortized Cost | | | |
|---|---|---|---|---|---|---|---|
| | LBP | C/V of F/Cy | Total | LBP | C/V of F/Cy | Total | **Grand total** |
| Unquoted equity securities | 5,319,359 | 5,391,723 | 10,711,082 | - | - | - | 10,711,082 |
| Lebanese treasury bills | - | - | - | 1,453,485,198 | - | 1,453,485,198 | 1,453,485,198 |
| Lebanese Government bonds | - | - | - | - | 3,534,612,705 | 3,534,612,705 | 3,534,612,705 |
| Foreign Government bonds | - | - | - | - | 89,622,830 | 89,622,830 | 89,622,830 |
| Certificates of deposit issued by Central Bank of Lebanon | - | - | - | 1,531,817,844 | 843,384,233 | 2,375,202,077 | 2,375,202,077 |
| Certificates of deposit issued by financial private sector | - | - | - | - | 904,500 | 904,500 | 904,500 |
| Bonds issued by financial private sector | - | - | - | - | 593,376,444 | 593,376,444 | 593,376,444 |
| | **5,319,359** | **5,391,723** | **10,711,082** | **2,985,303,042** | **5,061,900,712** | **8,047,203,754** | **8,057,914,836** |
| Accrued interest receivable, net of tax | - | - | - | 57,867,969 | 57,114,103 | 114,982,072 | 114,982,072 |
| | **5,319,359** | **5,391,723** | **10,711,082** | **3,043,171,011** | **5,119,014,815** | **8,162,185,826** | **8,172,896,908** |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Investments at fair value through other comprehensive income include an amount of LBP5.5billion as at December 31, 2018 representing the Group's share in startups/incubators established based on co-sharing agreements with the regulator providing the funding (LBP5.1billion as at December 31, 2017).

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

December 31st 2018 - LBP'000

| | LBP | | | | F/Cy | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Accrued Interest Receivable | Expected Credit Loss | Fair Value | Amortized Cost | Accrued Interest Receivable | Expected Credit Loss | Fair Value |
| Lebanese treasury bills | 972,387,429 | 16,009,826 | (4,947,942) | 989,552,820 | - | - | - | - |
| Lebanese Government bonds | - | - | - | - | 3,364,782,151 | 38,238,541 | (36,636,890) | 2,883,538,995 |
| Foreign Government bonds | - | - | - | - | 98,405,690 | 917,954 | - | 99,618,563 |
| Certificates of deposit issued by the CentralBank of Lebanon | 1,891,435,870 | 43,161,587 | - | 1,888,161,587 | 842,687,088 | 13,043,176 | (4,747,153) | 859,136,717 |
| Certificates of deposit issued by financial private sector | - | - | - | - | 19,020,225 | 72,699 | - | 19,094,638 |
| Bonds issued by financial private sector | - | - | - | - | 405,713,158 | 2,630,750 | (139,278) | 409,580,673 |
| | **2,863,823,299** | **59,171,413** | **(4,947,942)** | **2,877,714,407** | **4,730,608,312** | **54,903,120** | **(41,523,321)** | **4,270,969,586** |

December 31st 2017 - LBP'000

| | LBP | | | F/Cy | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Accrued Interest Receivable | Fair Value | Amortized Cost | Accrued Interest Receivable | Fair Value |
| Lebanese treasury bills | 1,453,485,198 | 22,974,175 | 1,468,680,568 | - | - | - |
| Lebanese Government bonds | - | - | - | 3,534,612,705 | 39,003,696 | 3,372,905,813 |
| Foreign Government bonds | - | - | - | 89,622,830 | 935,642 | 89,811,267 |
| Certificates of deposit issued by the CentralBank of Lebanon | 1,531,817,844 | 34,893,794 | 1,559,969,599 | 843,384,233 | 13,323,675 | 844,737,273 |
| Certificates of deposit issued by financial private sector | - | - | - | 904,500 | 58,510 | 904,500 |
| Bonds issued by financial private sector | - | - | - | 593,376,444 | 3,792,580 | 591,495,225 |
| | **2,985,303,042** | **57,867,969** | **3,028,650,167** | **5,061,900,712** | **57,114,103** | **4,899,854,078** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The above transactions resulted in aggregate losses in the amount of LBP38.1billion which are deferred as a yield adjustment to be amortized to profit or loss over the period remaining to maturity of the acquired securities. An amount of LBP1.2billion was amortized and recorded under "Interest income" in the consolidated statement of profit or loss for the year ended December 31, 2018.
During 2017, the Group entered into several exchange transactions of Lebanese Government bonds in U.S. Dollars classified at amortized cost with a nominal value of LBP227.6billion against Lebanese Government bonds in U.S. Dollars with a nominal value of LBP227.6billion.

The above transactions resulted in aggregate capital gains in the amount of LBP6.14billion which are deferred as a yield enhancement to be amortized to profit or loss over the period remaining to maturity of the acquired securities. An amount of LBP596million was amortized and recorded under "Interest income" in the consolidated statement of profit or loss for the year ended December 31, 2018 (LBP414million for the year ended December 31, 2017).

During 2018 and 2017, the Group entered into several exchange and sales transactions of investment securities at amortized cost that resulted in net gains of LBP641million in 2018 (LBP428million in 2017) recorded under the consolidated statement of profit or loss as shown below:

Gains on derecognition of financial assets at amortized cost resulted from the following:

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Lebanese Government bonds | 299,958 | (142,264) |
| Lebanese treasury bills | 174 | 6,223 |
| Bonds issued by financial private sector | 341,251 | 563,829 |
| | **641,383** | **427,788** |

The sales transactions were entered into for the purpose of liquidity management upon withdrawal of earmarked deposits.

Certain investment securities at amortized cost are pledged against facilities (Note 50).

## 13. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Customers' liability under acceptance | 400,305,358 | 357,494,071 |
| Allowance for expected credit losses - Note 53 | (701,213) | - |
| | **399,604,145** | **357,494,071** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. INVESTMENT IN AN ASSOCIATE

The movement of the investment balance during 2018 and 2017 is as follows:

| C/V in LBP'000 | 2018 | | 2017 | |
|---|---|---|---|---|
| | USD | C/V | USD | C/V |
| Balance at January 1 | 27,552,463 | 46,749,318 | 30,574,390 | 46,090,894 |
| Share in net profit (Note 37) | 733,080 | 1,105,118 | 597,667 | 900,983 |
| Distribution of dividends | ( 68,072) | (102,419) | (160,901) | (242,559) |
| **Balance at December 31** | **28,217,471** | **47,752,017** | **31,011,156** | **46,749,318** |
| Less: Allowance for impairment | (12,954,415) | (24,742,960) | (3,458,693) | (5,213,980) |
| **Balance at December 31** | **15,263,056** | **23,009,057** | **27,552,463** | **41,535,338** |

The movement of allowance for impairment during 2018 and 2017 is summarized as follows:

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Balance, January 1 | 5,213,980 | 5,213,980 |
| Additions (Note 37) | 11,300,000 | - |
| Transfer from "provision for risk and charges" (Note 24) | 8,228,980 | - |
| **Balance, December 31** | **24,742,960** | **5,213,980** |

The following tables illustrate summarized financial information of the Group's investment in an African bank:

December 31, 2018 LBP'000

| Total Assets | Total Liabilities | Net Assets | Net Profit | Share in Ownership (%) | Group's share of net Assets | Group's share in Profit |
|---|---|---|---|---|---|---|
| 305,377,843 | 198,661,122 | 106,716,721 | 5,525,592 | 20 | 21,343,344 | 1,105,118 |

December 31, 2017 LBP'000

| Total Assets | Total Liabilities | Net Assets | Net Profit | Share in Ownership (%) | Group's share of net Assets | Group's share in Profit |
|---|---|---|---|---|---|---|
| 405,915,896 | 267,049,018 | 138,866,878 | 4,504,913 | 20 | 27,773,376 | 900,983 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15. ASSETS ACQUIRED IN SATISFACTION OF LOANS

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

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

| LBP'000 | Real Estate |
|---|---|
| **Gross Amount:** | |
| Balance January 1, 2017 | 25,793,595 |
| Additions | 168,593 |
| Disposals | (2,193,218) |
| **Balance December 31, 2017** | **23,768,970** |
| Additions | 2,264,891 |
| Disposals | (440,877) |
| **Balance December 31, 2018** | **25,592,984** |
| **Allowance for impairment:** | |
| Balance December 31, 2017 | (1,026,266) |
| **Balance December 31, 2018** | **(1,026,266)** |
| **Carrying Amount:** | |
| Balance December 31, 2018 | 24,566,718 |
| **Balance December 31, 2017** | **22,742,704** |

During 2018, the Group sold assets acquired in satisfaction of loans with an aggregate cost of LBP441million (LBP2.2billion during 2017). The sales resulted in a gain in the amount of LBP652million during 2018 (LBP370million during 2017) recorded in the consolidated statement of profit or loss under "Other operating income (net)" (Note 37).

The fair value of assets acquired in satisfaction of loans amounted to LBP36.7billion as at December 31, 2018 (LBP35.8billion as at December 31 2017). The valuation is made by Bank's internal experts and/or external experts.

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and should be liquidated within 2 years. Up to July 20, 2018, in case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non-performing loans are met and subject to the approval of the Central Bank of Lebanon. Effective July 20, 2018, the regulatory reserve of all assets acquired in satisfaction of loans where the 2 years grace period for disposal elapses on or after July 20, 2018 should be appropriated from profit over a period of 20 years. This regulatory reserve is reflected under equity. In this connection, an amount of LBP2.29billion was appropriated in 2018 (LBP1.37billion in 2017). An amount of LBP367million was transferred during 2018 to retained earnings upon the sale of the related foreclosed assets (LBP106million in 2017) (Note 28).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2018 and 2017 was as follows:

| LBP'000 | Buildings and Real Estate | Furniture | Equipment | Vehicles | Installations and Improvement | Advance Payments on Capital Expenditure | Total |
|---|---|---|---|---|---|---|---|
| **Gross Amount:** | | | | | | | |
| Balance, January 1, 2018 | 250,635,545 | 42,539,441 | 59,228,318 | 830,620 | 78,908,949 | 11,083,829 | 443,226,702 |
| Additions | 17,445,749 | 2,904,254 | 5,494,013 | - | 900,033 | 15,313,886 | 42,057,935 |
| Disposals | - | (22,885) | (649,282) | (70,480) | (1,211,314) | (534,823) | (2,488,784) |
| Transfers between categories | - | 165,223 | 109,444 | - | 10,449,728 | (10,724,395) | - |
| Transfers to intangible assets | - | - | - | - | - | (1,704,528) | (1,704,528) |
| Write-off to general and administrative | (673,676) | - | - | - | - | (735,793) | (1,409,469) |
| Other | - | - | - | - | - | (334,666) | (334,666) |
| Effect of exchange rate changes | (2,376,064) | (109,853) | (684,573) | (6,906) | (869,099) | (25,885) | (4,072,380) |
| **Balance, December 31, 2018** | **265,031,554** | **45,476,180** | **63,497,920** | **753,234** | **88,178,297** | **12,337,625** | **475,274,810** |
| **Accumulated depreciation:** | | | | | | | |
| Balance, January 1, 2018 | (29,696,259) | (25,204,404) | (44,480,116) | (486,192) | (62,356,146) | - | (162,223,117) |
| Additions (Note 42) | (3,073,781) | (3,073,562) | (5,354,526) | (95,721) | (8,788,576) | - | (20,386,166) |
| Disposals | - | 3,479 | 320,807 | 70,480 | 1,236,380 | - | 1,631,146 |
| Effect of exchange rate changes | 16,285 | 59,571 | 434,361 | 2,045 | 663,701 | - | 1,175,963 |
| **Balance, December 31, 2018** | **(32,753,755)** | **(28,214,916)** | **(49,079,474)** | **(509,388)** | **(69,244,641)** | **-** | **(179,802,174)** |
| **Impairment allowance:** | | | | | | | |
| **Balance, December 31, 2018** | **(300,000)** | **-** | **-** | **-** | **-** | **-** | **(300,000)** |
| **Carrying amount:** | | | | | | | |
| **Balance, December 31, 2018** | **231,977,799** | **17,261,264** | **14,418,446** | **243,846** | **18,933,656** | **12,337,625** | **295,172,636** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| LBP'000 | Buildings and Real Estate | Furniture | Equipment | Vehicles | Installations and Improvement | Advance Payments on Capital Expenditure | Total |
|---|---|---|---|---|---|---|---|
| **Gross Amount:** | | | | | | | |
| Balance, January 1, 2017 | 182,235,080 | 40,839,053 | 52,034,601 | 734,401 | 71,341,848 | 16,207,927 | 363,392,910 |
| Additions | 55,736,067 | 1,723,073 | 3,092,283 | 239,750 | 646,829 | 17,813,830 | 79,251,832 |
| Disposals | - | (269,793) | (380,865) | (148,802) | (153,046) | - | (952,506) |
| Transfers between categories | 11,434,492 | 183,807 | 4,011,606 | - | 6,358,199 | (21,988,104) | - |
| Transfers to intangible assets | - | - | - | - | - | (180,900) | (180,900) |
| Write-off to general and administrative | - | - | - | - | - | (788,311) | (788,311) |
| Effect of exchange rate changes | 1,229,906 | 63,301 | 470,693 | 5,271 | 715,119 | 19,387 | 2,503,677 |
| **Balance, December 31, 2017** | **250,635,545** | **42,539,441** | **59,228,318** | **830,620** | **78,908,949** | **11,083,829** | **443,226,702** |
| **Accumulated depreciation:** | | | | | | | |
| Balance, January 1, 2017 | (26,919,656) | (22,158,956) | (39,872,440) | (486,774) | (54,055,413) | - | (143,493,239) |
| Additions (Note 42) | (2,774,193) | (3,180,214) | (4,619,922) | (84,869) | (7,959,551) | - | (18,618,749) |
| Disposals | - | 190,443 | 352,278 | 86,148 | 122,346 | - | 751,215 |
| Effect of exchange rate changes | (2,410) | (55,677) | (340,032) | (697) | (463,528) | - | (862,344) |
| **Balance, December 31, 2017** | **(29,696,259)** | **(25,204,404)** | **(44,480,116)** | **(486,192)** | **(62,356,146)** | **-** | **(162,223,117)** |
| **Impairment allowance:** | | | | | | | |
| **Balance, December 31, 2017** | **(300,000)** | **-** | **-** | **-** | **-** | **-** | **(300,000)** |
| **Carrying amount:** | | | | | | | |
| **Balance, December 31, 2017** | **220,639,286** | **17,335,037** | **14,748,202** | **344,428** | **16,552,803** | **11,083,829** | **280,703,585** |

Additions during 2018 to "Buildings and Real Estates" include LBP9.5billion represent mainly costs incurred in connection with the aquisition of new premises for the purpose of expanding, existing or opening branches in the future.

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

During 2017, the Group acquired a plot of land adjacent to previously acquired plots in Medawar area for a consideration of LBP25.8billion fully settled in 2017. These plots were acquired for the purpose of building a new head office.

Furthermore, during 2017 the Group transferred from advance payments on capital expenditures to Buildings and real estate an amount of LBP11.43billion representing the acquisition cost of premises to be used by the Group as branches in several areas in the Greater Beirut area.

In addition, during 2017, the Group acquired a building in the city of London for a consideration of GBP15million (LBP29.85billion) fully settled in 2017. The purpose of this building is to relocate the offices of the Group's subsidiary in London.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. GOODWILL

| LBP'000 | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | LBP | C/V of F/Cy | Total | LBP | C/V of F/Cy | Total |
| Beirut Life S.A.L. | 452,265 | - | 452,265 | 452,265 | - | 452,265 |
| Bank of Sydney Ltd | - | 86,582,170 | 86,582,170 | - | 86,582,170 | 86,582,170 |
| Bank of Beirut (UK) Ltd | - | 1,432,269 | 1,432,269 | - | 1,529,819 | 1,529,819 |
| | **452,265** | **88,014,439** | **88,466,704** | **452,265** | **88,111,989** | **88,564,254** |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The Group has determined that each subsidiary constitutes a single cash generating unit and tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash generating unit is determined from value in use calculations or market comparability approach, as applicable. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to net interest margin during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Business. The growth rates are based on industry growth forecasts. Changes in net interest margin are based on expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the subsidiary and extrapolates cash flows for the review period based on the assumption that the cash flows will remain relatively stable throughout the period under review.

The market average multiple of equity for acquisitions of similar sized cash generating units is used to determine the recoverable amount of the cash generating unit when using the market comparability approach.

## 18. OTHER ASSETS

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Medical costs receivable from National Social security Fund (a) | 9,117,490 | 7,162,860 |
| Intangible assets (b) | 19,130,194 | 14,600,240 |
| Fair value of derivatives assets (c) | 19,431,077 | 8,764,514 |
| Premium on forward deals (net) | - | 305,826 |
| Deferred tax asset (d) | 3,177,302 | 2,088,806 |
| Prepayments | 13,496,784 | 13,424,644 |
| Regulatory blocked deposit (e) | 4,500,000 | 4,500,000 |
| Sundry accounts receivable | 23,940,021 | 20,395,290 |
| Other | 1,774,825 | 1,807,495 |
| | **94,567,693** | **73,049,675** |
| Allowance for expected credit losses – Note 53 | (1,105,366) | - |
| | **93,462,327** | **73,049,675** |

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| LBP'000 | Software | Key Money | Payments on Purchase of Intangible Assets | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance, January 1, 2017 | 25,647,880 | 1,658,250 | 2,138,824 | 29,444,954 |
| Additions | 5,405,601 | - | - | 5,405,601 |
| Transfers from property and equipment | 180,900 | - | - | 180,900 |
| Transfer to prepayments | - | - | (2,072,812) | (2,072,812) |
| Write-off to profit or loss | - | - | (66,012) | (66,012) |
| Effect of exchange rate changes | 832,051 | - | - | 832,051 |
| **Balance, December 31, 2017** | **32,066,432** | **1,658,250** | **-** | **33,724,682** |
| Additions | 7,918,885 | - | - | 7,918,885 |
| Transfers from property and equipment | 1,704,528 | - | - | 1,704,528 |
| Disposals | (77,538) | - | - | (77,538) |
| Effect of exchange rate changes | (129,942) | - | - | (129,942) |
| **Balance, December 31, 2018** | **41,482,365** | **1,658,250** | **-** | **43,140,615** |
| **Amortization:** | | | | |
| Balance, January 1, 2017 | (14,669,402) | - | - | (14,669,402) |
| Amortization for the year (Note 42) | (3,955,949) | - | - | (3,955,949) |
| Effect of exchange rate changes | (499,091) | - | - | (499,091) |
| **Balance, December 31, 2017** | **(19,124,442)** | **-** | **-** | **(19,124,442)** |
| Amortization for the year (Note 42) | (5,042,144) | - | - | (5,042,144) |
| Disposals | 77,538 | - | - | 77,538 |
| Effect of exchange rate changes | 78,627 | - | - | 78,627 |
| **Balance, December 31, 2018** | **(24,010,421)** | **-** | **-** | **(24,010,421)** |
| **Net Book Value:** | | | | |
| **Balance, December 31, 2018** | **17,471,944** | **1,658,250** | **-** | **19,130,194** |
| **Balance, December 31, 2017** | **12,941,990** | **1,658,250** | **-** | **14,600,240** |

(c) The fair value of derivative assets consists of the following:

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Interest rate swap | 63,623 | 723,947 |
| Forward contracts | 19,367,454 | 8,040,567 |
| | **19,431,077** | **8,764,514** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(d) Deferred tax asset consists of deferred tax on the following:

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Depreciation of property and equipment | 845,036 | 739,759 |
| Provisions | 1,793,940 | 1,306,357 |
| Other | 538,326 | 42,690 |
| | **3,177,302** | **2,088,806** |

(e) The regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the inception of investment banks in accordance with Article 132 of the Lebanese Code of Money and Credit, and is refundable in case of cease of operations.

## 19. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Current accounts from banks and financial institutions | 505,459,552 | 571,645,700 |
| Current accounts - associate bank (Note 47) | 621,830 | 2,773,895 |
| Short term deposits (a) | 1,956,839,929 | 1,193,081,844 |
| Pledged deposits (b) | 3,007,873 | 314,544,237 |
| Pledged deposits - associate bank (c) (Note 47) | - | 6,411,052 |
| Accrued interest payable | 9,925,030 | 6,554,480 |
| | **2,475,854,214** | **2,095,011,208** |

(a) Short-term deposits include withdrawals from the Arab Trade Finance Program facility in the amount of LBP10.9billion (USD7,225,535) as of December 31, 2018 (LBP7.6billion (USD5,046,948) in 2017). This facility was granted to the Group to finance imports and exports among Arab countries.

Short-term deposits also include as at December 31, 2018 deposits in the amount of LBP323billion (LBP53billion in 2017) secured by pledged securities at amortized cost and pledged deposits with banks amounting to LBP800billion and LBP67billion, respectively, as at December 31, 2018 (LBP135billion in 2017) (Note 50).

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

(c) Pledged deposits from an associate bank represent collateral received by the Group against short term loans granted (Note 9).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. CUSTOMERS' AND RELATED PARTIES' DEPOSITS

| December 31, 2018 LBP'000 | LBP | F/Cy | Total |
|---|---|---|---|
| **Deposits from customers:** | | | |
| Current and demand deposits | 370,194,234 | 1,586,958,992 | 1,957,153,226 |
| Term deposits | 4,380,692,968 | 11,584,267,444 | 15,964,960,412 |
| Credit accounts against loans and advances | 370,943,431 | 1,101,250,418 | 1,472,193,849 |
| Margins for irrevocable import letters of credit | - | 103,578,011 | 103,578,011 |
| Margins on letters of guarantee | 11,533,036 | 96,125,892 | 107,658,928 |
| Other margins | 6,752,869 | 22,150,828 | 28,903,697 |
| | **5,140,116,538** | **14,494,331,585** | **19,634,448,123** |
| Accrued interest payable | 51,550,182 | 75,300,524 | 126,850,706 |
| | **5,191,666,720** | **14,569,632,109** | **19,761,298,829** |
| **Deposits from related parties:** | | | |
| Current and demand deposits | 1,948,334 | 31,665,782 | 33,614,116 |
| Term deposits | 28,389,754 | 321,393,017 | 349,782,771 |
| Credit accounts against loans and advances | 278,482 | 72,401,111 | 72,679,593 |
| Margins on letters of guarantee | 4,936 | 9,981 | 14,917 |
| Other margins | - | 754 | 754 |
| | **30,621,506** | **425,470,645** | **456,092,151** |
| Accrued interest payable | 156,454 | 1,098,667 | 1,255,121 |
| | **30,777,960** | **426,569,312** | **457,347,272** |
| **Total deposits** | **5,222,444,680** | **14,996,201,421** | **20,218,646,101** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| December 31, 2017 LBP'000 | LBP | F/Cy | Total |
|---|---|---|---|
| **Deposits from customers:** | | | |
| Current and demand deposits | 349,310,617 | 1,897,332,338 | 2,246,642,955 |
| Term deposits | 4,793,211,089 | 10,916,116,276 | 15,709,327,365 |
| Credit accounts against loans and advances | 381,392,848 | 953,189,444 | 1,334,582,292 |
| Margins for irrevocable import letters of credit | - | 28,382,941 | 28,382,941 |
| Margins on letters of guarantee | 11,940,108 | 116,191,990 | 128,132,098 |
| Other margins | 6,044,340 | 21,828,543 | 27,872,883 |
| | **5,541,899,002** | **13,933,041,532** | **19,474,940,534** |
| Accrued interest payable | 46,731,617 | 61,331,710 | 108,063,327 |
| | **5,588,630,619** | **13,994,373,242** | **19,583,003,861** |
| **Deposits from related parties:** | | | |
| Current and demand deposits | 1,493,642 | 35,737,248 | 37,230,890 |
| Term deposits | 35,082,301 | 379,664,355 | 414,746,656 |
| Credit accounts against loans and advances | 359,479 | 71,162,746 | 71,522,225 |
| Margins on letters of guarantee | 46,067 | 9,887 | 55,954 |
| Other margins | 171 | 1,847 | 2,018 |
| | **36,981,660** | **486,576,083** | **523,557,743** |
| Accrued interest payable | 158,474 | 861,226 | 1,019,700 |
| | **37,140,134** | **487,437,309** | **524,577,443** |
| **Total deposits** | **5,625,770,753** | **14,481,810,551** | **20,107,581,304** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| December 31, 2018. LBP'000 | LBP | F/Cy | | |
|---|---|---|---|---|
| | Total Deposits | Total Deposits | % of Customers | % of Deposits |
| **Deposits from customers:** | | | | |
| Less than LBP 500 million | 2,459,971,253 | 3,743,776,773 | 96.43 | 31.60 |
| From LBP 500 million to LBP 1.5 billion | 901,838,318 | 2,525,269,921 | 2.55 | 17.45 |
| From LBP 1.5 billion to LBP 5 billion | 562,605,859 | 2,366,528,611 | 0.78 | 14.92 |
| Over LBP 5 billion | 1,215,701,108 | 5,858,756,280 | 0.24 | 36.03 |
| | **5,140,116,538** | **14,494,331,585** | **100.00** | **100.00** |
| **Deposits from related parties:** | | | | |
| Less than LBP 500 million | 2,758,415 | 9,190,190 | 75.31 | 2.02 |
| From LBP 500 million to LBP 1.5 billion | 1,526,191 | 9,661,396 | 9.76 | 1.89 |
| From LBP 1.5 billion to LBP 5 billion | 3,392,400 | 16,646,837 | 5.88 | 4.25 |
| Over LBP 5 billion | 22,944,500 | 389,972,222 | 9.05 | 91.84 |
| | **30,621,506** | **425,470,645** | **100.00** | **100.00** |
| | **5,170,738,044** | **14,919,802,230** | | |

| December 31, 2017. LBP'000 | LBP | F/Cy | | |
|---|---|---|---|---|
| | Total Deposits | Total Deposits | % of Customers | % of Deposits |
| **Deposits from customers:** | | | | |
| Less than LBP 500 million | 2,702,663,422 | 3,301,097,444 | 96.27 | 30.83 |
| From LBP 500 million to LBP 1.5 billion | 1,008,212,148 | 2,311,156,793 | 2.61 | 17.04 |
| From LBP 1.5 billion to LBP 5 billion | 622,199,141 | 2,439,502,272 | 0.85 | 15.72 |
| Over LBP 5 billion | 1,208,824,291 | 5,881,285,023 | 0.27 | 36.41 |
| | **5,541,899,002** | **13,933,041,532** | **100.00** | **100.00** |
| **Deposits from related parties:** | | | | |
| Less than LBP 500 million | 3,977,540 | 7,939,654 | 80.56 | 2.28 |
| From LBP 500 million to LBP 1.5 billion | 1,180,174 | 19,596,522 | 9.43 | 3.97 |
| From LBP 1.5 billion to LBP 5 billion | 3,780,965 | 31,851,381 | 6.08 | 6.81 |
| Over LBP 5 billion | 28,042,981 | 427,188,526 | 3.93 | 86.94 |
| | **36,981,660** | **486,576,083** | **100.00** | **100.00** |
| | **5,578,880,662** | **14,419,617,615** | | |


The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deposits from customers include as at December 31, 2018 coded deposit accounts in the aggregate of LBP33.1billion (LBP31.3billion as at December 31, 2017). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include as at December 31, 2018 deposits of fiduciary nature received from resident and non-resident banks for a total amount of LBP167billion and LBP512billion respectively (LBP159billion and LBP704billion in 2017).

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

LBP'000

| Year | Average Balance of Deposits | Allocation of Deposits LBP % | F/Cy % | Cost of Funds | Average Cost of Funds % |
|---|---|---|---|---|---|
| Year 2018 | 18,296,340,042 | 30 | 70 | 862,091,142 | 4.71 |
| Year 2017 | 17,384,842,902 | 32 | 68 | 748,608,580 | 4.31 |
| Year 2016 | 16,665,078,049 | 34 | 66 | 711,280,296 | 4.27 |

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

LBP'000

| Year | Average Balance of Deposits | Allocation of Deposits LBP % | F/Cy % | Cost of Funds | Average Cost of Funds % |
|---|---|---|---|---|---|
| Year 2018 | 426,418,898 | 9 | 91 | 16,209,134 | 3.80 |
| Year 2017 | 452,767,828 | 8 | 92 | 16,509,477 | 3.65 |
| Year 2016 | 371,664,306 | 10 | 90 | 14,500,037 | 3.90 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21. OTHER BORROWINGS

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Borrowings from Central Bank of Lebanon (a) | 556,311,685 | 532,162,953 |
| Short term borrowing from Central Bank of Lebanon (b) | - | 188,437,500 |
| Borrowings from other central banks (Note 50) | - | 100,330,387 |
| Borrowings from the European Investment Bank (c) | 5,784,294 | 12,469,372 |
| | **562,095,979** | **833,400,212** |
| Accrued interest payable | 5,853,863 | 7,332,462 |
| | **567,949,842** | **840,732,674** |

(a) Borrowings from Central Bank of Lebanon as of December 31, 2018 and 2017 represent facilities in accordance with Central Bank of Lebanon Basic Decision No.6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans that the Group granted at its own risk to customers pursuant to certain conditions, rules and mechanism.

(b) During November 2017, the Group was granted a short term loan in the amount of USD125million (LBP188.4billion) by the Central Bank of Lebanon for a period of 3 months. The loan was fully settled during 2018 upon maturity.

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

| December 31, 2018 | December 31, 2017 | | |
|---|---|---|---|
| C/V | C/V | Final Maturity Year | Average Interest Rate % |
| - | 2,232,098 | 2018 | 3.87 |
| 1,870,370 | 4,949,590 | 2019 | 4.03 |
| 748,174 | 1,217,434 | 2020 | 4.93 |
| 3,165,750 | 4,070,250 | 2022 | 4.84 |
| **5,784,294** | **12,469,372** | | |

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



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The movement of borrowings is detailed as follows:

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Balance, January 1 | 833,400,212 | 583,395,387 |
| Financing cash flows | 24,148,732 | 300,577,575 |
| Settlements | (295,452,965) | (50,572,750) |
| **Balance, December 31** | **562,095,979** | **833,400,212** |

## 22. CERTIFICATES OF DEPOSIT

| December 31. LBP'000 | 2018 | | 2017 | |
|---|---|---|---|---|
| | C/V of F/Cy | Average Interest Rate % | C/V of F/Cy | Average Interest Rate % |
| Certificates of deposit | 604,066 | 2.25 | 630,933 | 2.25 |
| Accrued interest payable | 2,979 | | 3,111 | |
| | **607,045** | | **634,044** | |

## 23. OTHER LIABILITIES

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Checks and incoming payment orders in course of settlement | 50,277,018 | 49,004,410 |
| Fair value of derivative financial liabilities (a) | 8,578,459 | 10,399,431 |
| Dividends payable | 8,587,066 | 6,603,457 |
| Deferred tax liability (b) | 9,652,227 | 7,827,907 |
| Accrued expenses | 33,714,573 | 35,781,862 |
| Deferred income | 6,609,603 | 6,486,973 |
| Income tax payable (c) | 46,618,111 | 24,018,425 |
| Withheld taxes | 13,041,331 | 11,791,259 |
| Fair value of financial guarantees | 3,897,789 | 2,491,182 |
| Margins on letters of credit - banks | 121,345,948 | 94,279,503 |
| Margins on letters of credit - associate bank (Note 47) | 264 | 1,016,559 |
| Margins on letters of guarantee - banks | 9,766,405 | 6,289,592 |
| Sundry accounts payable | 36,609,657 | 33,139,256 |
| Unfavorable exchange difference on fixed currency position (Note 25) | 49,082 | 175,833 |
| Regulatory deferred liability (d) | - | 238,777,401 |
| Discount on forward deals (net) | 16,215,657 | - |
| | **364,963,190** | **528,083,050** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Fair value of derivative financial liabilities consists of the following:

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Interest rate swap (Note 45) | 1,152,989 | 44,169 |
| Forward contracts | 7,425,470 | 10,355,262 |
| | **8,578,459** | **10,399,431** |

The Group uses interest rate swaps, and forward contracts for hedging purposes only. These represent commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.

(b) The deferred tax liability consists of the following:

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Deferred tax liability on undistributed profits from subsidiaries | 9,652,227 | 7,749,040 |
| Other | - | 78,867 |
| | **9,652,227** | **7,827,907** |

The movement of deferred tax liability which relates to undistributed profits from subdiaries during 2018 and 2017 was as follows:

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Balance at January 1 | 7,749,040 | 6,571,071 |
| Additions | 3,453,187 | 3,377,969 |
| Settlements | (1,550,000) | (2,200,000) |
| | **9,652,227** | **7,749,040** |

During 2018, four of the Group's subsidiaries paid cash dividends in the amount of LBP15.5billion (four of the Group's subsidiaries paid cash dividends in the amount of LBP22billion during 2017). The related distribution tax amount of LBP1.55billion (LBP2.2billion during 2017) was settled from the deferred tax liability in 2018.

At December 31, 2018, a deferred tax liability for temporary differences related to the undistributed profits of foreign subsidiaries was not recognized on the grounds that management has committed to retain the profits in two of its foreign subsidiaries for purpose of permanent capitalization of profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Income before income tax | 369,067,771 | 355,638,961 |
| Income from subsidiaries, managed funds and foreign branches | (101,127,769) | (117,217,192) |
| | **267,940,002** | **238,421,769** |
| **Add**: Non-deductible expenses | 35,892,352 | 26,327,906 |
| **Less**: Non-taxable revenues or revenues subject to tax in previous periods | (54,110,467) | (63,635,833) |
| Taxable income | 249,721,887 | 201,113,842 |
| Income tax (17% for 2018; 15.36% for 2017) | 42,452,721 | 30,891,086 |
| **Add**: Income tax expense on subsidiaries and foreign branches | 11,514,484 | 13,214,253 |
| Tax expense for the year | 53,967,205 | 44,105,339 |
| Less: Tax paid during the year in the form of withholding tax | - | (13,316,663) |
| Less: Subsidiaries and foreign branches income tax paid | (7,349,094) | (6,770,251) |
| **Income tax payable as at December 31** | **46,618,111** | **24,018,425** |

The tax returns of the Bank and most of its Lebanese subsidiaries for the years 2015 to 2018 remain subject to examination and final tax assessment by the tax authorities. Any additional liability depends on the result of these reviews.

Oman branch's tax assessments for the years 2015 to 2018 have yet to be finalized by the Secretariat General for Taxation.
The management believes that additional taxes, if any, in respect of open tax assessments would not be material to the Group's results and financial position as of the reporting date.

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

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Group received a surplus of LBP238.8billion, net of tax in the amount of LBP42billion, which was credited to "Regulatory deferred liability" under other liabilities and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above.

During 2017, the tax payable on regulatory deferred liability amounting to LBP42billion was settled in full.
In light with the above, the Group appropriated on January 1, 2018 an amount of LBP227.5billion, net of tax, out of this surplus to equity under "Reserves and Retained Earnings" to offset the expected loss provisions resulted from the application of IFRS 9 and transferred an amount of LBP11.3billion net of tax to income (Note 37) against impairment loss of investment in an associate (Note 14),
in accordance with the Central Bank of Lebanon requirements as indicated above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. PROVISIONS

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Provision for staff and executive management termination indemnity (a) | 36,279,094 | 33,824,892 |
| Provision for risks and charges (b) | 1,281,375 | 9,495,355 |
| Provision for loss on foreign currency position | 194,000 | 194,000 |
| Provision for expected credit losses on off-balance sheet commitments – Note 53 | 4,934,559 | - |
| Provision for insurance contracts liabilities | 21,022,993 | 14,587,290 |
| Other | 123,191 | 125,828 |
| | **63,835,212** | **58,227,365** |

(a) The movement of provision for staff termination indemnity is as follows:

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Balance January 1 | 33,824,892 | 29,625,825 |
| Additions (Note 40) | 5,137,271 | 4,376,454 |
| Settlements | (2,683,069) | (177,387) |
| **Balance December 31** | **36,279,094** | **33,824,892** |

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

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Balance January 1 | 9,495,355 | 6,556,059 |
| Additions (Note 39) | - | 3,000,000 |
| Prior year adjustments | 15,000 | (60,704) |
| Transfer to provision for investment in an associate (Note 14) | (8,228,980) | - |
| **Balance December 31** | **1,281,375** | **9,495,355** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25. Share Capital

At December 31, 2018, the authorized ordinary share capital of Bank of Beirut S.A.L. was LBP82.1billion consisting of 56,234,900 fully paid shares of LBP1,460 par value each (LBP77.65billion consisting of 53,184,900 fully paid of LBP1,460 par value each, at December 31, 2017).

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

As of December 31, 2018 and 2017, the Group had 4,762,000 Series 2014 priority shares (common shares) in the amount of USD100,002,000 with an issue price of USD21 and a par value of LBP1,460. These priority shares earn non-cumulative annual dividends of 4% of the issue price. Any dividends remaining after the payment of priority dividends following the payment of preferred shares dividends, shall be shared on a prorata basis exclusively among the holders of the priority and common shares of the Bank.
Subject to the absence of the Extension Period set below, the earning by the Series 2014 Priority Shares of the Priority Dividend will, automatically and without the need for the approval of, or consultation with, the holders of the Priority Shares, finally cease immediately following the Ordinary General Meeting of the Bank's shareholders that will examine the Bank's audited financial statements for the financial year 2019; without prejudice, however, to the right of the holders of such Priority Shares to receive the distribution of the Priority Dividend, if any, resolved by the Bank's Ordinary General Meeting of shareholders for the financial year 2019. As a result, the Series 2014 Priority Shares will cease to be identified as a special class within the Common Shares of the Bank and become mere Common Shares subject to the rights and obligations devolving on all the Bank's Common Shares.

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

As of December 31, 2018, the Bank's capital was partly hedged by maintaining a fixed currency position to the extent of USD13.17million (USD47.17million as at December 31, 2017). The revaluation of this position resulted in unfavorable exchange difference in the amount of LBP49million recorded under "Other liabilities" as at December 31, 2018 (LBP176million as at December 31, 2017) (Note 23).

As of December 30, 2018 and 2017, the Group had a fixed foreign currency position for an amount of GBP13.6million to partially hedge its investment in a foreign subsidiary in the United Kingdom. The revaluation of this position as of December 31, 2018 resulted in unfavorable variance of LBP5.44billion (unfavorable variance of LBP3.96billion in 2017) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

Moreover, as of December 31, 2018 and 2017, the Group had a fixed spot position for an amount of AUD98million to partially hedge its investment in a foreign Australian subsidiary bank. The revaluation of this position as of December 31, 2018 resulted in an unfavorable variance of LBP46.68billion (unfavorable variance of LBP35.30billion in 2017) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

## 26. PREFERRED SHARES

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Non-cumulative perpetual redeemable Series "G" preferred shares | 188,362,125 | 188,362,125 |
| Non-cumulative perpetual redeemable Series "H" preferred shares | 203,512,500 | 203,512,500 |
| Non-cumulative perpetual redeemable Series "I" preferred shares | 188,437,500 | 188,437,500 |
| Non-cumulative perpetual redeemable Series "J" preferred shares | 113,062,500 | 113,062,500 |
| Non-cumulative perpetual redeemable Series "K" preferred shares | 150,750,000 | 150,750,000 |
| | **844,124,625** | **844,124,625** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| Non-cumulative perpetual redeemable preferred shares | Number of Shares | Share's issue price | Benefits | Listed on Beirut Stock Exchange |
|---|---|---|---|---|
| Series "G" | 3,570,000 | USD 35 | 6.75% per year | No |
| Series "H" | 5,400,000 | USD 25 | 7% per year | Yes |
| Series "I" | 5,000,000 | USD 25 | 6.75% per year | Yes |
| Series "J" | 3,000,000 | USD 25 | 6.5% per year | Yes |
| Series "K" | 4,000,000 | USD 25 | 6.5% per year | Yes |

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

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

## 27. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is for a total amount of LBP20.98billion (USD13,916,000) as at December 31, 2018 and 2017 and it is non-interest bearing.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. RESERVES

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Legal reserve (a) | 197,558,615 | 174,851,872 |
| Reserve for general banking risks (b) | - | 289,296,012 |
| Special reserves setup from net release of provision for credit losses | 2,096,757 | 2,134,330 |
| Reserves restricted for capital increase (c) | 32,168,878 | 31,427,755 |
| General reserve for performing loans (d) | - | 7,286,200 |
| Issue premiums on common shares (e) | 385,505,908 | 303,518,858 |
| Non-distributable general reserves (f) | 296,582,212 | - |
| Owned buildings' revaluation surplus | 1,668,934 | 1,668,934 |
| Regulatory reserve for assets acquired in satisfaction of loans (Note 15) | 11,557,395 | 9,629,526 |
| | **927,138,699** | **819,813,487** |

(a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit for Lebanese entities. This reserve is not available for distribution. During 2018, an amount of LBP22.7billion was appropriated to legal reserves (LBP22.2billion during 2017).

(b) The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Lebanese bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution. During 2018, this reserve was transferred to non-distributable general reserves in accordance with BDL Basic circular # 143.

(c) The movement of reserves restricted for capital increase during 2018 and 2017 was as follows :

| December 31, LBP'000 | 2018 | 2017 |
|---|---|---|
| Opening balance | 31,427,755 | 30,211,523 |
| Additions | 741,123 | 1,216,232 |
| **Ending balance** | **32,168,878** | **31,427,755** |

During 2018, in compliance with BCC circular no. 173, the Group appropriated an amount of LBP370million (LBP1.2billion in 2017) representing gains from disposals of assets acquired in satisfaction of debts from net income of the previous year to reserves restricted for capital increase (Note 15).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(d) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Bank and its local banking subsidiaries are required to transfer from net profit to general reserve for performing loans the equivalent of:

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.
- 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision is not less than 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

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

(e) The movement of issue premiums on common shares during 2018 and 2017 was as follows:

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Opening balance | 303,518,858 | 303,518,858 |
| Additions (Note 25) | 81,987,050 | - |
| **Ending balance** | **385,505,908** | **303,518,858** |

(f) The movement of non-distributable general reserves during 2018 and 2017 was as follows:

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Opening balance | - | - |
| Transfer from reserve for general banking risk (b) | 289,296,012 | - |
| Transfer from general reserve for performing loans (d) | 7,286,200 | - |
| | **296,582,212** | **-** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29. TREASURY SHARES

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

| December 31, USD | 2018 | 2017 |
|---|---|---|
| **Common Shares** | 1,420,809 | 29,963,283 |
| **Priority Shares** | 1,021,545 | 241,521 |
| | **2,442,354** | **30,204,804** |
| **Preferred Shares** | | |
| Series "G" | 20,429,872 | 20,041,372 |
| Series "H" | 6,360,017 | 6,287,963 |
| Series "I" | 12,366,987 | 10,304,725 |
| Series "J" | 3,023,162 | 1,845,340 |
| Series "K" | 2,000,259 | 1,518,809 |
| | **44,180,297** | **39,998,209** |
| Total | 46,622,651 | 70,203,013 |
| **C/V LBP'000** | **70,283,647** | **105,831,043** |

The preferred shares classified as treasury shares are held by the non-controlling interests related to the consolidated funds.
During 2018, The Group sold 2,131,788 common shares with an aggregate carrying value of USD30million.

## 30. NON-CONTROLLING INTERESTS

| December 31, 2018. LBP'000 | Beirut Life SAL | Managed Funds | Total |
|---|---|---|---|
| **Share in:** | | | |
| Capital | 225,000 | 929,439,969 | 929,664,969 |
| Retained earnings | 3,086,111 | (61,466,106) | (58,379,995) |
| Profit for the year | 818,402 | 50,932,731 | 51,751,133 |
| | **4,129,513** | **918,906,594** | **923,036,107** |

| December 31, 2017. LBP'000 | Beirut Life SAL | Managed Funds | Total |
|---|---|---|---|
| **Share in:** | | | |
| Capital | 225,000 | 1,137,183,116 | 1,137,408,116 |
| Retained earnings | 2,438,492 | (60,369,029) | (57,930,537) |
| Profit for the year | 647,619 | 71,982,993 | 72,630,612 |
| | **3,311,111** | **1,148,797,080** | **1,152,108,191** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. DIVIDENDS PAID

| LBP'000 | 2018 | 2017 |
|---|---|---|
| LBP1,150 (LBP1,000 for 2017) per ordinary share (common and priority) | 66,638,935 | 57,946,900 |
| LBP1,266.3 priority shares Series 2014 | 6,030,121 | 6,030,121 |
| LBP3,561.47 (LBP3,561.47 for 2017) per preferred share Series "G" | 12,714,443 | 12,714,443 |
| LBP2,638.13 (LBP2,638.13 for 2017) per preferred share Series "H" | 14,245,875 | 14,245,875 |
| LBP2,543.91 (LBP2,543.91 for 2017) per preferred share Series "I" | 12,719,531 | 12,719,531 |
| LBP2,449.69 (LBP2,449.69 for 2017) per preferred share Series "J" | 7,349,063 | 7,349,063 |
| LBP2,449.69 (LBP856.72 for 2017) per preferred share Series "K" | 9,798,750 | 3,426,885 |
| | **129,496,718** | **114,432,818** |

Subsequent to the date of the consolidated statement of financial position, the following dividends were proposed by the board of directors in respect of 2018. These dividends have not been provided for in the consolidated financial statements for the year ended December 31, 2018.

| | LBP'000 |
|---|---|
| LBP1,150 per ordinary share (common and priority) | 70,146,435 |
| LBP1,266.3 priority shares Series 2014 | 6,030,121 |
| LBP3,561.47 per preferred share Series "G" | 12,714,443 |
| LBP2,638.13 per preferred share Series "H" | 14,245,875 |
| LBP2,543.91 per preferred share Series "I" | 12,719,531 |
| LBP2,449.69 per preferred share Series "J" | 7,349,063 |
| LBP2,449.69 per preferred share Series "K" | 9,798,750 |
| | **133,004,218** |

## 32. INTEREST INCOME

| LBP'000 | 2018 | | |
|---|---|---|---|
| | Interest Income | Withheld Tax | Net Interest Income |
| Interest income from: | | | |
| Deposits with central banks | 414,788,961 | (26,635,999) | 388,152,962 |
| Deposits with banks and financial institutions | 23,984,160 | (124,809) | 23,859,351 |
| Loans to banks | 8,656,217 | - | 8,656,217 |
| Investment securities at amortized cost | 530,717,920 | (24,556,430) | 506,161,490 |
| Loans and advances to customers | 470,563,996 | - | 470,563,996 |
| Loans and advances to related parties | 5,667,940 | - | 5,667,940 |
| | **1,454,379,194** | **(51,317,238)** | **1,403,061,956** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| LBP'000 | 2017 | | |
|---|---|---|---|
| | Interest Income | Withheld Tax | Net Interest Income |
| Interest income from: | | | |
| Deposits with central banks | 261,674,857 | (3,129,301) | 258,545,556 |
| Deposits with banks and financial institutions | 21,284,101 | - | 21,284,101 |
| Loans to banks | 8,929,797 | - | 8,929,797 |
| Investment securities at amortized cost | 528,704,943 | (3,424,070) | 525,280,873 |
| Loans and advances to customers | 409,851,400 | - | 409,851,400 |
| Loans and advances to related parties | 5,153,485 | - | 5,153,485 |
| Interest recognized on non-performing loans and advances to customers | 15,673,998 | - | 15,673,998 |
| | **1,251,272,581** | **(6,553,371)** | **1,244,719,210** |

## 33. INTEREST EXPENSE

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Interest expense on: | | |
| Deposits from banks and financial institutions | 63,707,958 | 34,863,897 |
| Deposits from customers | 862,091,142 | 748,608,580 |
| Deposits from related parties | 16,209,134 | 16,509,477 |
| Other borrowings | 10,593,685 | 8,202,061 |
| Certificates of deposit issued by the Group | 14,141 | 13,476 |
| | **952,616,060** | **808,197,491** |

## 34. FEE AND COMMISSION INCOME

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Commissions on documentary credits | 44,334,747 | 44,923,517 |
| Commissions on letters of guarantee | 12,765,535 | 13,272,118 |
| Commissions on money transfers' transactions | 7,281,593 | 8,779,869 |
| Insurance brokerage and service fees | 37,954,665 | 38,707,089 |
| Commissions on fiduciary accounts | 1,703,952 | 1,316,289 |
| Commissions on banking services | 31,423,042 | 26,851,212 |
| Commissions on credit cards | 13,592,451 | 13,752,476 |
| Commissions on capital market transactions | 13,093,404 | 12,577,233 |
| Other | 5,145,030 | 3,251,426 |
| | **167,294,419** | **163,431,229** |

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35. FEE AND COMMISSION EXPENSE

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Commissions on transactions with banks and financial institutions | 648,372 | 1,237,248 |
| Commissions on credit cards | 5,432,053 | 4,758,793 |
| Commissions on fiduciary deposits | 1,558,746 | 1,263,600 |
| Commissions on loans | 2,951,355 | 2,577,566 |
| Commissions on money transfers transactions | 1,940,545 | 2,228,169 |
| Commissions on insurance transactions | 8,776,214 | 9,752,501 |
| Other | 5,349,455 | 4,290,903 |
| | **26,656,740** | **26,108,780** |

## 36. NET INCOME ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Interest income, net of tax | 104,673,535 | 96,449,822 |
| Change in fair value (net) | (36,198,841) | (4,261,166) |
| Gain on sale | 6,930,782 | 3,365,376 |
| Dividends received | 4,242,695 | 4,479,441 |
| | **79,648,171** | **100,033,473** |

## 37. OTHER OPERATING INCOME (NET)

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Share in profits of an associate (Note 14) | 1,105,118 | 900,983 |
| Impairment loss on investment in an associate (Note 14) | (11,300,000) | - |
| Transfer from regulatory deferred liability (Note 23) | 11,300,000 | - |
| Foreign exchange gain | 19,896,410 | 20,643,885 |
| Gain/(loss) on forward contracts | 4,851,901 | (4,239,384) |
| Gain on sale of assets acquired in satisfaction of loans (Note 15) | 651,803 | 369,532 |
| Loss on sale of property and equipment | (25,063) | (54,052) |
| Dividends on other investments | 8,613 | 316,145 |
| Other (net) | 8,265,119 | 771,877 |
| | **34,753,901** | **18,708,986** |

## 38. ALLOWANCE FOR CREDIT LOSSES (NET)

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Net impairment loss on financial assets | (2,335,435) | 22,999,533 |
| Loss from write-off of loans | 768,708 | 34,078 |
| Collections on loans transferred to the off-balance sheet | - | (22,577) |
| | **(1,566,727)** | **23,011,034** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39. OTHER PROVISION (NET)

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Provision for insurance liabilities (Note 24) | 7,169,570 | 6,059,415 |
| Provision for risks and charges (Note 24) | - | 3,000,000 |
| Other (net) | - | 493,849 |
| | **7,169,570** | **9,553,264** |

## 40. STAFF COSTS

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Salaries | 114,640,997 | 111,299,007 |
| Social Security contributions | 16,396,924 | 14,844,184 |
| Executive board members remunerations | 17,252,858 | 16,832,334 |
| Provision for end of service indemnities (Note 24) | 5,137,271 | 4,376,454 |
| Other staff benefits | 29,374,492 | 27,228,319 |
| | **182,802,542** | **174,580,298** |

## 41. GENERAL AND ADMINISTRATIVE EXPENSES

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Management fees | 6,935,322 | 8,409,374 |
| Cleaning | 2,783,599 | 2,433,747 |
| Telephone, mail and other communication expenses | 6,455,902 | 6,089,253 |
| Office supplies | 3,454,387 | 4,076,327 |
| Advertising and marketing expenses | 12,535,171 | 10,836,341 |
| Electricity and fuel | 3,852,757 | 3,510,494 |
| Maintenance and repair fees | 15,605,889 | 14,362,414 |
| Subscription fees | 2,492,389 | 2,406,052 |
| Donation and gifts | 1,519,311 | 1,659,040 |
| Reception and entertainment | 1,678,025 | 2,085,024 |
| Professional and regulatory fees | 12,513,610 | 9,923,802 |
| Research and development expenses | 1,849,285 | 1,330,705 |
| Rent expense under operating leases | 13,328,398 | 11,571,920 |
| Insurance expenses | 1,795,712 | 2,085,298 |
| Travel and related expenses | 4,032,664 | 3,668,893 |
| Centrale des risques | 697,791 | 673,193 |
| Taxes and fiscal charges | 9,592,424 | 6,700,870 |
| Miscellaneous expenses | 21,789,419 | 16,507,788 |
| | **122,912,055** | **108,330,535** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 42. DEPRECIATION AND AMORTIZATION

| LBP'000 | 2018 | 2017 |
|---|---|---|
| Depreciation of property and equipment (Note 16) | 20,386,166 | 18,618,749 |
| Amortization of deferred software charges (Note 18) | 5,042,144 | 3,955,949 |
| Amortization of deferred advertising charges | 313,509 | 327,663 |
| | **25,741,819** | **22,902,361** |

## 43. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The consolidated profit for the year attributable to the equity holders of the Bank is allocated as follows:

| LBP'000 | Year-Ended December 31, 2018 | | |
|---|---|---|---|
| | Profit before Tax | Current and Deferred Tax | Net Profit |
| Bank of Beirut S.A.L | 259,790,059 | (40,648,004) | 219,142,055 |
| Profit/(loss) of subsidiaries: | | | |
| Bank of Beirut UK LTD | 13,633,240 | (2,457,798) | 11,175,442 |
| Bank of Sydney Ltd | 18,068,439 | (5,463,171) | 12,605,268 |
| Bank of Beirut Invest S.A.L | 16,699,207 | (2,625,711) | 14,073,496 |
| BOB Finance S.A.L | 3,665,031 | (631,811) | 3,033,220 |
| Cofida Holding S.A.L | 2,054,166 | (4,980) | 2,049,186 |
| Beirut Broker Company S.A.L | 11,133,798 | (1,892,668) | 9,241,130 |
| Beirut Life S.A.L | 8,427,082 | (243,062) | 8,184,020 |
| Medawar 247 S.A.L | (15,581) | - | (15,581) |
| Medawar 1216 S.A.L | (350,246) | - | (350,246) |
| | **333,105,195** | **(53,967,205)** | **279,137,990** |
| Consolidation eliminations and adjustments | (15,788,557) | (3,453,187) | (19,241,744) |
| | **317,316,638** | **(57,420,392)** | **259,896,246** |

| LBP'000 | Year-Ended December 31, 2017 | | |
|---|---|---|---|
| | Profit before Tax | Current and Deferred Tax | Net Profit |
| Bank of Beirut S.A.L | 229,314,227 | (29,865,193) | 199,449,034 |
| Profit/(loss) of subsidiaries: | | | |
| Bank of Beirut UK LTD | 18,606,646 | (3,804,745) | 14,801,901 |
| Bank of Sydney Ltd | 17,879,017 | (5,532,741) | 12,346,276 |
| Bank of Beirut Invest S.A.L | 17,611,034 | (2,493,048) | 15,117,986 |
| BOB Finance S.A.L | 3,763,391 | (581,360) | 3,182,031 |
| Cofida Holding S.A.L | 2,248,644 | (4,965) | 2,243,679 |
| Beirut Broker Company S.A.L | 10,643,334 | (1,639,854) | 9,003,480 |
| Beirut Life S.A.L | 6,659,624 | (183,433) | 6,476,191 |
| Medawar 247 S.A.L | (16,632) | - | (16,632) |
| Medawar 1216 S.A.L | (15,500) | - | (15,500) |
| | **306,693,785** | **(44,105,339)** | **262,588,446** |
| Consolidation eliminations and adjustments | (23,685,436) | (3,377,969) | (27,063,405) |
| | **283,008,349** | **(47,483,308)** | **235,525,041** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 44. EARNINGS PER SHARE

The computation of the basic earnings per share is based on the Group's net income before non- recurring income and the weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

| December 31. LBP'000 | 2018 | 2017 |
|---|---|---|
| Earnings: | | |
| Earnings for the purpose of basic earnings per share (net income for the year attributable to equity holders of the Bank) | 259,896,246 | 235,525,041 |
| Less: Dividends proposed to non-cumulative preferred shares | (56,827,662) | (56,827,662) |
| Net income after distribution to non-cumulative preferred shares | 203,068,584 | 178,697,379 |
| Less: Dividends proposed to non-cumulative priority shares | (6,030,121) | (6,030,121) |
| Net earnings for the purpose of basic earnings per shares | 197,038,463 | 172,667,258 |
| Number of Shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 53,474,728 | 52,986,943 |
| Weighted average number of priority shares for the purpose of basic earnings per share | 4,734,779 | 4,677,788 |
| Weighted average number of shares for priority and ordinary shares | 58,209,507 | 57,664,731 |
| Effect of dilutive potential ordinary shares, preferred shares | - | - |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 58,209,507 | 57,664,731 |
| Basic earnings per common share | LBP 3,385 | LBP 2,994 |
| Basic earnings per priority common share | LBP 4,659 | LBP 4,283 |
| Diluted earnings per share | LBP 3,385 | LBP 2,994 |

The conversion effect of Series "G" preferred shares and Series 2014 priority shares was excluded from the calculation of diluted earnings per share for 2018 and 2017 since they have anti-dilutive effect.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 45. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the 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 balance sheet. 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.

Forward exchange contracts outstanding as of December 31, 2018 and 2017 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

As of December 31, 2018 and 2017, the Group had an interest rate swap outstanding to hedge cash flows detailed as follows:

| December 31 | 2018 | | 2017 | |
|---|---|---|---|---|
| | Original Currency AUD | C/V LBP'000 | Original Currency AUD | C/V LBP'000 |
| Principal amount | 98,000,000 | 104,064,240 | 9,200,000 | 10,837,232 |
| Fair value (Note 23) | 1,085,800 | 1,152,989 | 37,496 | 44,169 |

## 46. FIDUCIARY ACCOUNTS

Fiduciary accounts are invested as follows:

| December 31. LBP'000 | 2018 | 2017 |
|---|---|---|
| Back-to-back lending | 60,966,658 | 55,245,892 |
| Equity securities (long position) | 80,255,420 | 84,392,331 |
| Derivatives | (1,979,580) | (3,279,190) |
| Debt leverage | 26,180,038 | 33,427,967 |
| | **165,422,536** | **169,787,000** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 47. BALANCES / TRANSACTIONS WITH RELATED PARTIES

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

| December 31. LBP'000 | 2018 | 2017 |
|---|---|---|
| **Shareholders, directors and other key management personnel and close family members and their related companies:** | | |
| Direct facilities and credit balances: | | |
| Secured loans and advances | 85,649,848 | 89,609,711 |
| Unsecured loans and advances | 42,361,767 | 38,425,890 |
| Deposits | (456,092,147) | (523,557,743) |
| Accrued interest receivable | 110,067 | 125,056 |
| Accrued interest payable | (1,255,121) | (1,019,700) |
| Indirect facilities: | | |
| Letters of guarantee | 4,499,890 | 4,499,136 |
| **Associates** | | |
| Direct facilities and credit balances: | | |
| Current accounts – associate bank (Note 7) | 7,426,776 | 14,081,443 |
| Short term loans – associate bank (Note 9) | - | 9,179,430 |
| Deposits from associate (Note 19) | (621,830) | (9,184,947) |
| Acceptances | - | 1,309,845 |
| Margins on letters of credit (Note 23) | (264) | (1,016,559) |
| Indirect facilities: | | |
| Letters of credit | - | 130,985 |

Secured loans and advances are covered as of December 31, 2018 by real estate mortgages to the extent of LBP6.9billion (LBP6.3billion as of December 31, 2017), and pledged deposits of the respective borrowers to the extent of LBP79.9billion (LBP78.6billion as of December 31, 2017).

The remuneration of executive management amounted to LBP1.39billion during 2018 (LBP1.39billion during 2017) in addition to incentives linked to performance representing 6% of profit before tax.

General and administrative expenses for the year ended December 31, 2018 include rent expenses to related parties for USD165,750 (USD165,750 for the year ended December 31, 2017) and management expenses to related parties for USD900,000 (USD900,000 for the year ended December 31, 2017).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 48. NOTE TO THE CASH FLOW STATEMENT

### A. Cash and cash equivalents

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

| December 31. LBP'000 | 2018 | 2017 |
|---|---|---|
| Cash (Note 5) | 63,610,268 | 57,354,047 |
| Current accounts with central banks | 1,178,912,916 | 1,327,438,478 |
| Time deposits with central banks | 399,487,500 | 408,985,390 |
| Checks for collection | 60,256,537 | 77,256,891 |
| Current accounts with banks and financial institutions | 435,963,573 | 385,667,359 |
| Overnight placements | 342,697,420 | 282,916,303 |
| Term placements with banks and financial institutions | 583,621,034 | 559,779,242 |
| Current accounts from banks and financial institutions | (506,081,382) | (574,419,595) |
| Short term deposits from banks and financial institutions | (933,276,874) | (576,198,006) |
| | **1,625,190,992** | **1,948,780,109** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *B. Non-cash transactions*

The statement of cash flow is prepared after excluding the transactions:

| December 31. LBP'000 | 2018 | 2017 |
|---|---|---|
| **Operating Activities:** | | |
| Other Liabilities | 238,777,401 | - |
| Provisions | 701,582 | - |
| Loans to banks | (1,492,072) | - |
| Customers' liability under acceptance | (723,820) | - |
| Cash and deposits at central banks | (32,982,792) | - |
| Deposits with banks and financial institutions | (491,304) | - |
| Loans and advances to customers | (151,167,331) | (168,593) |
| Loans and advances related parties | (2,844,236) | - |
| Other assets | (11,390,237) | 10,914,053 |
| Retained earnings | 14,077,958 | - |
| Investment in associate | (19,528,780) | - |
| Cumulative change in fair value of fixed positions designated as hedging instruments | 12,855,298 | (10,733,153) |
| Investment securities | (46,351,497) | - |
| | **(559,830)** | **12,307** |
| **Investing Activities:** | | |
| Assets acquired in satisfaction of loans | 2,264,891 | 168,593 |
| Property and equipment | (1,705,061) | (180,900) |
| | **559,830** | **(12,307)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 49. CONTINGENCIES

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

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

## 50. COLLATERAL GIVEN

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

December 31, 2018. LBP'000

| | Pledged Amount | Nature of Facility | Amount of Facility | Nature of Facility | Amount of Facility |
|---|---|---|---|---|---|
| Pledged deposits with banks | 381,647 | Performance bonds | 4,231,757 | - | - |
| Pledged deposits with banks | 108,638,328 | Foreign currency (Bought) | 375,067,964 | Foreign currency (Sold) | 360,661,062 |
| Pledged deposits with banks | 66,993,300 | | | | |
| Lebanese government bonds and bonds issued by financial private sector | 800,254,868 | | | | |
| | 867,248,168 | Short term deposits | 322,642,688 | - | - |

December 31, 2017. LBP'000

| | Pledged Amount | Nature of Facility | Amount of Facility | Nature of Facility | Amount of Facility |
|---|---|---|---|---|---|
| Pledged deposits with banks | 386,417 | Performance bonds | 4,335,525 | - | - |
| Pledged deposits with banks | 71,747,266 | Foreign currency (Bought) | 517,476,768 | Foreign currency (Sold) | 521,420,063 |
| Pledged deposits with banks | 721,146 | | | | |
| Lebanese government bonds and bonds issued by financial private sector | 134,742,762 | | | | |
| | 135,463,908 | Short term deposits | 52,762,500 | - | - |
| Securities sold under repurchase agreement | 124,520,636 | Borrowings from other central banks | 100,330,387 | - | - |

As at December 31, 2018, the Group had deposits in guarantee in the amount of LBP1.53billion (LBP1.53billion as at December 31, 2017) blocked in favor of the Ministry of Economy and Trade in guarantee of the Group's insurance activities in Lebanon.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 51. CAPITAL MANAGEMENT

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

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

Pursuant to Central Bank of Lebanon decisions adopted with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

| Ratio | December 31, 2015 (%) | December 31, 2016 (%) | December 31, 2017 (%) | December 31, 2018 (%) |
|---|---|---|---|---|
| Common Equity Tier 1 ratio | 8.00 | 8.50 | 9.00 | 10.00 |
| Tier 1 ratio | 10.00 | 11.00 | 12.00 | 13.00 |
| Total Capital ratio | 12.00 | 14.00 | 14.50 | 15.00 |

The Group's capital is split as follows:

**Tier I capital:**

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

**Tier II capital:**

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

The Group has complied with the regulatory capital requirement throughout the period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's capital adequacy ratio according to Basle III as of December 31, 2018 and 2017, is as follows:

| December 31. LBP'000 | 2018 | 2017 |
|---|---|---|
| Common equity (net) | 1,602,929,251 | 1,380,365,773 |
| Additional Tier I capital (net) | 844,124,625 | 844,124,625 |
| | **2,447,053,876** | **2,224,490,398** |
| Net Tier II capital | 104,325,076 | 13,156,812 |
| Total regulatory capital (including remaining net profit after distribution of dividends) | 2,551,378,952 | 2,237,647,210 |
| Credit risk | 13,878,265,052 | 13,548,257,197 |
| Market risk | 69,854,594 | 105,951,546 |
| Operational risk | 1,143,598,125 | 1,056,678,737 |
| **Risk weighted assets and risk weighted off-balance sheet items** | **15,091,717,771** | **14,710,887,480** |
| Common equity Tier I ratio | 10.62% | 9.38% |
| Tier I ratio | 16.21% | 15.12% |
| Risk based capital ratio – Tier I and Tier II capital | 16.91% | 15.21% |

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 52. SEGMENT INFORMATION

The Group classifies its operating segments by geographical location and by activity.

Measurement of segment assets, liabilities, income and expenses is based on the Group's accounting policies.

Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.

The Group has three reportable business segments which reflect the basis on which senior management reviews operating activities, allocates capital and assesses performance.

The Group's operating segment information by geographical location is as follows:

| December 31, 2018. LBP'000 | Lebanon & Middle East | Europe | Australia | Inter-segment | Total |
|---|---|---|---|---|---|
| Total Assets | 26,482,658,178 | 1,313,405,548 | 2,449,037,370 | ( 1,788,095,973) | 28,457,005,123 |
| Total Liabilities | 22,743,114,256 | 1,119,910,960 | 2,146,738,590 | ( 1,094,563,586) | 24,915,200,220 |
| Total Equity | 3,739,543,922 | 193,494,588 | 302,298,780 | ( 693,532,387) | 3,541,804,903 |
| Profit for the year | 308,716,736 | 11,580,641 | 12,605,268 | ( 73,006,399) | 259,896,246 |
| **ASSETS** | | | | | |
| Financial assets at fair value through profit or loss | 1,311,347,937 | 77,533,343 | - | ( 72,958,430) | 1,315,922,850 |
| Loans and advances to customers | 6,493,097,549 | 210,099,471 | 1,852,306,363 | - | 8,555,503,383 |
| Loans and advances to related parties | 397,318,877 | 62,168 | 14,393,766 | (286,497,365) | 125,277,446 |
| Investment securities | 7,262,639,668 | 3,022,236 | 412,054,407 | - | 7,677,716,311 |
| **LIABILITIES** | | | | | |
| Customers' deposits at amortized cost | 17,447,784,957 | 254,092,885 | 2,059,420,987 | - | 19,761,298,829 |
| Related parties' deposits at amortized cost | 554,912,759 | 21,178,269 | 18,254,387 | (136,998,143) | 457,347,272 |

| December 31, 2017. LBP'000 | Lebanon & Middle East | Europe | Australia | Inter-segment | Total |
|---|---|---|---|---|---|
| Total Assets | 25,541,487,968 | 1,214,608,553 | 2,479,506,723 | (1,549,249,423) | 27,686,353,821 |
| Total Liabilities | 21,794,489,245 | 1,015,968,224 | 2,163,486,278 | (834,131,281) | 24,139,812,466 |
| Total Equity | 3,746,998,723 | 198,640,329 | 316,020,445 | (715,118,142) | 3,546,541,355 |
| Profit for the year | 306,913,925 | 16,997,031 | 12,346,276 | (100,732,191) | 235,525,041 |
| **ASSETS** | | | | | |
| Financial assets at fair value through profit or loss | 1,521,607,448 | 52,742,949 | - | (66,916,988) | 1,507,433,409 |
| Loans and advances to customers | 6,525,184,198 | 207,392,611 | 1,712,524,138 | - | 8,445,100,947 |
| Loans and advances to related parties | 349,868,841 | 40,548 | 24,311,916 | (246,060,648) | 128,160,657 |
| Investment securities | 7,621,677,340 | 6,136,247 | 545,083,321 | - | 8,172,896,908 |
| **LIABILITIES** | | | | | |
| Customers' deposits at amortized cost | 17,339,964,102 | 241,231,853 | 2,001,807,906 | - | 19,583,003,861 |
| Related parties' deposits at amortized cost | 567,539,237 | 20,951,605 | 39,213,938 | (103,127,337) | 524,577,443 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| December 31, 2018. LBP'000 | Lebanon & Middle East | Europe | Australia | Inter-segment | Total |
|---|---|---|---|---|---|
| Interest income | 1,359,446,403 | 32,882,027 | 93,317,831 | (31,267,067) | 1,454,379,194 |
| Less: tax on interest | (52,195,105) | - | - | 877,867 | (51,317,238) |
| **Interest income, net of tax** | **1,307,251,298** | **32,882,027** | **93,317,831** | **(30,389,200)** | **1,403,061,956** |
| Interest expense | (921,747,749) | (15,501,252) | (46,647,507) | 31,280,448 | (952,616,060) |
| **Net interest income** | **385,503,549** | **17,380,775** | **46,670,324** | **891,248** | **450,445,896** |
| Fee and commission income | 157,553,718 | 19,446,813 | 6,680,967 | (16,387,079) | 167,294,419 |
| Fee and commission expense | (28,017,071) | (661,015) | (222,505) | 2,243,851 | (26,656,740) |
| **Net fee and commission income** | **129,536,647** | **18,785,798** | **6,458,462** | **(14,143,228)** | **140,637,679** |
| Net interest and other gains on financial assets at fair value through profit or loss | 82,367,129 | 1,076,558 | - | (3,795,516) | 79,648,171 |
| Gain from derecognition of financial assets measured at amortized cost | 300,131 | - | 341,252 | - | 641,383 |
| Other operating income (net) | 46,545,817 | 958,868 | 2,156,466 | (14,907,250) | 34,753,901 |
| **Net financial revenues** | **644,253,273** | **38,201,999** | **55,626,504** | **(31,954,746)** | **706,127,030** |
| Write-back of provision for credit losses (net) | 797,546 | (3,499,745) | 4,268,926 | - | 1,566,727 |
| Other provisions (net) | (7,169,570) | - | - | - | (7,169,570) |
| **Net financial revenues after impairment** | **637,881,249** | **34,702,254** | **59,895,430** | **(31,954,746)** | **700,524,187** |
| Staff costs | (149,195,545) | (11,091,202) | (22,515,795) | - | (182,802,542) |
| General and administrative expenses | (111,220,976) | (7,862,991) | (17,080,068) | 13,251,980 | (122,912,055) |
| Depreciation and amortization | (22,201,664) | (1,309,027) | (2,231,128) | - | (25,741,819) |
| **Profit before income tax** | **355,263,064** | **14,439,034** | **18,068,439** | **(18,702,766)** | **369,067,771** |
| Income tax expense | (45,645,641) | (2,858,393) | (5,463,171) | - | (53,967,205) |
| **Profit for the year before withholding tax on profits from subsidiaries** | **309,617,423** | **11,580,641** | **12,605,268** | **(18,702,766)** | **315,100,566** |
| Deferred tax on undistributed profit | (3,453,187) | - | - | - | (3,453,187) |
| **Profit for the year** | **306,164,236** | **11,580,641** | **12,605,268** | **(18,702,766)** | **311,647,379** |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| December 31, 2017. LBP'000 | Lebanon & Middle East | Europe | Australia | Inter-segment | Total |
|---|---|---|---|---|---|
| Interest income | 1,159,342,676 | 28,623,791 | 87,257,905 | (23,951,791) | 1,251,272,581 |
| Less: tax on interest | (6,553,371) | - | - | - | (6,553,371) |
| **Interest income, net of tax** | **1,152,789,305** | **28,623,791** | **87,257,905** | **(23,951,791)** | **1,244,719,210** |
| Interest expense | (777,779,466) | (11,534,593) | (42,835,223) | 23,951,791 | (808,197,491) |
| **Net interest income** | **375,009,839** | **17,089,198** | **44,422,682** | **-** | **436,521,719** |
| Fee and commission income | 151,554,348 | 21,274,371 | 8,253,863 | (17,651,353) | 163,431,229 |
| Fee and commission expense | (27,356,407) | (616,859) | (222,391) | 2,086,877 | (26,108,780) |
| **Net fee and commission income** | **124,197,941** | **20,657,512** | **8,031,472** | **(15,564,476)** | **137,322,449** |
| Net interest and other gains on financial assets at fair value through profit or loss | 102,501,407 | 211,017 | - | (2,678,951) | 100,033,473 |
| Gain from derecognition of financial assets measured at amortized cost | (136,041) | - | 563,829 | - | 427,788 |
| Other operating income (net) | 41,980,614 | 1,065,415 | 1,733,207 | (26,070,250) | 18,708,986 |
| **Net financial revenues** | **643,553,760** | **39,023,142** | **54,751,190** | **(44,313,677)** | **693,014,415** |
| Provision for credit losses (net) | (27,401,072) | 4,426,238 | (36,200) | - | (23,011,034) |
| Write-back for loans to banks | - | 1,002,038 | - | - | 1,002,038 |
| Other provisions (net) | (9,553,264) | - | - | - | (9,553,264) |
| **Net financial revenues after impairment** | **606,599,424** | **44,451,418** | **54,714,990** | **(44,313,677)** | **661,452,155** |
| Staff costs | (142,706,035) | (10,460,178) | (21,414,085) | - | (174,580,298) |
| General and administrative expenses | (104,785,532) | (5,603,577) | (13,505,902) | 15,564,476 | (108,330,535) |
| Depreciation and amortization | (20,292,100) | (694,275) | (1,915,986) | - | (22,902,361) |
| **Profit before income tax** | **338,815,757** | **27,693,388** | **17,879,017** | **(28,749,201)** | **355,638,961** |
| Income tax expense | (34,282,633) | (4,289,965) | (5,532,741) | - | (44,105,339) |
| **Profit for the year before withholding tax on profits from subsidiaries** | **304,533,124** | **23,403,423** | **12,346,276** | **(28,749,201)** | **311,533,622** |
| Deferred tax on undistributed profit | (3,377,969) | - | - | - | (3,377,969) |
| **Profit for the year** | **301,155,155** | **23,403,423** | **12,346,276** | **(28,749,201)** | **308,155,653** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's operating segment information by activity during 2018 and 2017 was as follows:

| December 31, 2018. LBP'000 | Banking & Financial Institutions | Insurance and Brokerage | Managed Funds | Intersegment | Total |
|---|---|---|---|---|---|
| Total Assets | 28,888,549,678 | 92,225,483 | 1,264,325,935 | (1,788,095,973) | 28,457,005,123 |
| Total Liabilities | 25,634,504,541 | 36,133,649 | 339,125,616 | (1,094,563,586) | 24,915,200,220 |
| Total Equity | 3,254,045,137 | 56,091,834 | 925,200,319 | (693,532,387) | 3,541,804,903 |
| Profit for the year | 260,812,152 | 17,425,150 | 54,665,343 | (73,006,399) | 259,896,246 |
| Non - controlling interests | - | 818,402 | 50,932,731 | - | 51,751,133 |

| December 31, 2017. LBP'000 | Banking & Financial Institutions | Insurance and Brokerage | Managed Funds | Intersegment | Total |
|---|---|---|---|---|---|
| Total Assets | 27,696,031,243 | 74,394,912 | 1,465,177,089 | (1,549,249,423) | 27,686,353,821 |
| Total Liabilities | 24,635,833,381 | 28,521,124 | 309,589,242 | (834,131,281) | 24,139,812,466 |
| Total Equity | 3,060,197,862 | 45,873,788 | 1,155,587,847 | (715,118,142) | 3,546,541,355 |
| Profit for the year | 246,589,234 | 14,832,052 | 74,835,946 | (100,732,191) | 235,525,041 |
| Non - controlling interests | - | 647,619 | 71,982,993 | - | 72,630,612 |

## 53. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## *A. Credit Risk*

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

### Expected Credit Losses

*Governance and Oversight Of Expected Credit Losses*

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

- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the methods used to measure ECL, while also approving staging classifications for material exposures.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Regularly reviewing Impairment policy requirements to maintain adherence to accounting standards and evolving business models. Key judgments inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, and collateral information, among others. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs.

To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models were validated by a qualified independent risk consultant to the model development party, before first use and will be subject to annual review to perform required enhancements going forward in order to enhance the models accuracy and/or account for situations where known or expected risk factors and information have not been considered in the modelling process. Each model used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data, reconciliation with Finance data, and documentation of the calculation steps. ECL estimation takes into account a range of future economic scenarios, which are set using independent and qualified econometric models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum annually, to align with the Group's medium-term planning exercise, but also in the event of significant change in the prevailing economic conditions. The scenario probability weights are also updated when the scenarios are updated.

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

*Default Definition and Credit Curing*

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. As a part of a qualitative assessment of whether a customer is in default, the Group carefully considers whether the events listed above should result in classifying the exposures in Stage 3 for ECL calculations or whether Stage 2 is appropriate. It is the Group's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of significant increase in credit risk's criteria compared to initial recognition and is examined on a case by case basis.

*Internal Ratings and PD Mapping Process*

I) Treasury (Including Sovereign) and Interbank Exposures

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

II) Commercial Loans

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

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

iii) Retail Loans

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

*Significant Increase In Credit Risk*

As explained in note 3, the 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, using reasonable and supportable information that is relevant and available without undue cost or effort. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL. The Group assessment of significant increase in credit risk is being performed at least quarterly based on the following:

I) Commercial Borrowers

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

II) Retail Borrowers

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

To note that irrespective of the outcome of the above assessment, the 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.

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

(I) External ratings from approved credit rating agencies for financial institutions and financial assets.

(II) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing. These internal rating models include a "Corporate" model, "SME" model, "Project & Real Estate Financing" model and "High Net worth Individual" model.

(III) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.

(IV) Supervisory ratings, comprising six main categories:

1. "*Regular*" includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required.
2. "*Follow-up*" represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions.
3. "*Follow-up and Regularization*" includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilization above limit.
4. "*Substandard loans*" include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties.
5. "*Doubtful loans*" where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally,
6. "*Bad loans*" with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Commercial Loans' Grading:

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

The above Credit Quality descriptions can be summarized as follows:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*Measurement of ECL*

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

They key inputs into the measurements of ECL are:

- PD: the Probability of Default is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.
- LGD: the Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims.
- EAD: the Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

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

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

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

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period.

For such financial instruments, the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management, the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated, taking into account the credit risk management actions that the Group expects to take to mitigate ECL, i.e. reduction in limits or cancellation of the loan commitment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*Groupings based on shared risks characteristics*

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

*Write off*

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

*Incorporation Of Forward-Looking Information*

The 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.

The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios (i.e. upside & downside scenarios). The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

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

The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material. The changes were applied in isolation and to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

**Risk Mitigation Policies**

*Collateral*

The 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)

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

Other specific risk mitigation policies include:

*Netting Arrangements*

The Group 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Credit Quality**

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

| December 31. LBP'000 | | 2018 | 2017 |
|---|---|---|---|
| Common equity (net) | Notes | Gross Maximum Exposure | Gross Maximum Exposure |
| Deposits at central banks (excluding cash on hand) | 5 | 7,107,345,666 | 6,519,559,543 |
| Deposits with banks and financial institutions | 7 | 1,642,171,609 | 1,547,299,126 |
| Financial assets at fair value through profit or loss | 8 | 1,315,922,850 | 1,507,433,409 |
| Loans to banks | 9 | 256,664,163 | 292,410,807 |
| Loans and advances to customers | 10 | 8,858,981,276 | 8,445,100,947 |
| Loans and advances to related parties | 11 | 128,121,682 | 128,160,657 |
| Financial assets measured at amortized cost | 12 | 7,708,506,144 | 8,162,185,826 |
| Financial assets measured at fair value through other comprehensive income | 12 | 15,681,430 | 10,711,082 |
| Customers' liability under acceptances | 13 | 400,305,358 | 357,494,071 |
| Other financial assets | | 58,763,413 | 42,630,156 |
| **Total** | | **27,492,463,591** | **27,012,985,624** |
| Financial instruments with off-balance sheet risk | | 3,045,198,441 | 3,173,012,312 |
| Fiduciary accounts | 46 | 165,422,536 | 169,787,000 |
| **Total** | | **3,210,620,977** | **3,342,799,312** |
| **Total credit risk exposure** | | **30,703,084,568** | **30,355,784,936** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

| December 31, 2018. LBP'000 | Agriculture | Manufacturing and Industry | Financial Services | Real Estate and Construction | Trade and Services | Others | Total |
|---|---|---|---|---|---|---|---|
| BALANCE SHEET EXPOSURE | | | | | | | |
| Loans to banks | - | - | 256,664,163 | - | - | - | 256,664,163 |
| Loans and advances to customers | 29,432,709 | 746,343,264 | 518,330,322 | 2,562,246,989 | 2,359,112,715 | 2,643,515,277 | 8,858,981,276 |
| Loans and advances to related parties | - | 6,892,438 | 5,178,025 | 4,534,683 | 93,928,981 | 17,587,555 | 128,121,682 |
| | **29,432,709** | **753,235,702** | **780,172,510** | **2,566,781,672** | **2,453,041,696** | **2,661,102,832** | **9,243,767,121** |

| December 31, 2017. LBP'000 | Agriculture | Manufacturing and Industry | Financial Services | Real Estate and Construction | Trade and Services | Others | Total |
|---|---|---|---|---|---|---|---|
| BALANCE SHEET EXPOSURE | | | | | | | |
| Loans to banks | - | - | 292,410,807 | - | - | - | 292,410,807 |
| Loans and advances to customers | 35,583,203 | 693,070,981 | 411,478,759 | 2,712,596,913 | 1,933,802,112 | 2,658,568,979 | 8,445,100,947 |
| Loans and advances to related parties | - | 1,697,380 | 5,194,024 | 6,376,770 | 83,347,301 | 31,545,182 | 128,160,657 |
| | **35,583,203** | **694,768,361** | **709,083,590** | **2,718,973,683** | **2,017,149,413** | **2,690,114,161** | **8,865,672,411** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| December 31, 2018. LBP'000 | Lebanon | Middle East and Africa | Europe | North America | Australia | Others | total |
|---|---|---|---|---|---|---|---|
| FINANCIAL ASSETS | | | | | | | |
| Cash and deposits at central banks | 6,073,779,202 | 769,417,321 | 266,575,984 | - | 61,183,427 | - | 7,170,955,934 |
| Deposits with banks and financial institutions | 35,785,167 | 101,058,337 | 676,889,331 | 681,937,705 | 52,791,171 | 93,709,898 | 1,642,171,609 |
| Financial assets at fair value through profit or loss | 1,233,331,844 | 535,163 | 19,522,437 | 62,533,406 | - | - | 1,315,922,850 |
| Loans to banks | 42,424,170 | 210,846,795 | 1,541,222 | - | - | 1,851,976 | 256,664,163 |
| Loans and advances to customers | 5,897,174,419 | 864,282,652 | 212,655,343 | 36,475,685 | 1,847,913,320 | 479,857 | 8,858,981,276 |
| Loans and advances to related parties | 113,727,799 | - | 87 | 30 | 14,393,766 | - | 128,121,682 |
| Investment securities | 7,197,420,496 | 90,673,395 | 19,807 | - | 436,073,876 | - | 7,724,187,574 |
| Customers' liability under acceptances | 305,859,302 | 95,391,236 | (3,205,214) | 2,260,034 | - | - | 400,305,358 |
| Other financial assets | 51,133,550 | 808,513 | 16,467 | - | 6,804,883 | - | 58,763,413 |
| | **20,950,635,949** | **2,133,013,412** | **1,174,015,464** | **783,206,860** | **2,419,160,443** | **96,041,731** | **27,556,073,859** |
| FINANCIAL LIABILITIES | | | | | | | |
| Deposits from banks and financial institutions | 1,142,323,236 | 1,009,568,084 | 301,832,723 | - | 22,016,174 | 113,997 | 2,475,854,214 |
| Customers' and related parties' deposits at amortized cost | 14,563,180,632 | 2,121,983,155 | 1,310,191,511 | 157,962,962 | 2,034,518,174 | 30,809,667 | 20,218,646,101 |
| Liabilities under acceptance | 7,616,695 | 147,892,526 | 223,423,221 | 391,234 | - | 20,981,682 | 400,305,358 |
| Other borrowings | 628,229,797 | - | (60,279,955) | - | - | - | 567,949,842 |
| Certificates of deposit | - | - | 607,045 | - | - | - | 607,045 |
| Other financial liabilities | 113,225,627 | 1,190,690 | 109,784,167 | - | 10,964,333 | - | 235,164,817 |
| | **16,454,575,987** | **3,280,634,455** | **1,885,558,712** | **158,354,196** | **2,067,498,681** | **51,905,346** | **23,898,527,377** |
| Net position | **4,496,059,962** | **(1,147,621,043)** | **(711,543,248)** | **624,852,664** | **351,661,762** | **44,136,385** | **3,657,546,482** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| December 31, 2017. LBP'000 | Lebanon | Middle East and Africa | Europe | North America | Australia | Others | total |
|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | |
| Cash and deposits at central banks | 5,313,578,156 | 958,900,381 | 160,668,569 | - | 143,766,484 | - | 6,576,913,590 |
| Deposits with banks and financial institutions | 265,627,906 | 87,586,729 | 621,075,096 | 562,513,441 | 7,074,347 | 3,421,607 | 1,547,299,126 |
| Financial assets at fair value through profit or loss | 1,449,632,797 | 535,163 | 16,629,101 | 40,636,348 | - | - | 1,507,433,409 |
| Loans to banks | 40,728,142 | 245,995,963 | 3,996,151 | - | - | 1,690,551 | 292,410,807 |
| Loans and advances to customers | 5,656,560,899 | 928,545,743 | 114,973,296 | 36,785,859 | 1,708,165,902 | 69,248 | 8,445,100,947 |
| Loans and advances to related parties | 102,106,996 | 1,741,745 | - | - | 24,311,916 | - | 128,160,657 |
| Investment securities | 7,482,325,841 | 93,657,506 | - | - | 596,913,561 | - | 8,172,896,908 |
| Customers' liability under acceptances | 234,943,481 | 105,048,154 | 15,720,525 | 1,648,633 | - | 133,278 | 357,494,071 |
| Other financial assets | 33,219,800 | 458,399 | 21,368 | - | 8,930,589 | - | 42,630,156 |
| | **20,578,724,018** | **2,422,469,783** | **933,084,106** | **641,584,281** | **2,489,162,799** | **5,314,684** | **27,070,339,671** |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Deposits from banks and financial institutions | 744,878,548 | 1,114,225,364 | 222,124,053 | 9,689 | 13,759,079 | 14,475 | 2,095,011,208 |
| Customers' and related parties' deposits at amortized cost | 14,287,425,060 | 2,047,549,545 | 1,587,349,203 | 150,990,619 | 1,996,725,446 | 37,541,431 | 20,107,581,304 |
| Liabilities under acceptance | 20,695,857 | 121,128,921 | 204,941,409 | 232,862 | - | 10,495,022 | 357,494,071 |
| Other borrowings | 770,965,539 | - | (30,563,252) | - | 100,330,387 | - | 840,732,674 |
| Certificates of deposit | - | - | 634,044 | - | - | - | 634,044 |
| Other financial liabilities | 130,910,686 | 2,057,379 | 59,903,616 | - | 7,860,527 | - | 200,732,208 |
| | **15,954,875,690** | **3,284,961,209** | **2,044,389,073** | **151,233,170** | **2,118,675,439** | **48,050,928** | **23,602,185,509** |
| Net position | **4,623,848,328** | **(862,491,426)** | **(1,111,304,967)** | **490,351,111** | **370,487,360** | **(42,736,244)** | **3,468,154,162** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

An analysis of the Group's credit risk exposure per class of financial asset, and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables.

Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

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

| December 31, 2018. LBP'000 | Gross Exposure | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Cash and deposits at central banks | 7,170,955,934 | - | - | 7,170,955,934 |
| Deposits with banks and financial institutions | 1,641,375,564 | 796,045 | - | 1,642,171,609 |
| Loans to banks | 255,667,859 | 996,304 | - | 256,664,163 |
| Loans and advances to customers | 6,749,321,374 | 1,719,820,199 | 389,839,703 | 8,858,981,276 |
| Loans and advances to related parties | 52,398,546 | 75,723,136 | - | 128,121,682 |
| Investment securities at amortized cost | 7,708,506,144 | - | - | 7,708,506,144 |
| Customers' liability under acceptances | 330,996,552 | 69,308,806 | - | 400,305,358 |
| Other assets | 57,748,947 | - | 1,014,466 | 58,763,413 |
| Off-balance sheet commitments | 2,364,070,064 | 244,755,514 | 1,844,042 | 2,610,669,620 |
| | **26,331,040,984** | **2,111,400,004** | **392,698,211** | **28,835,139,199** |

| January 1, 2018. LBP'000 | Gross Exposure | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Cash and deposits at central banks | 6,576,913,590 | - | - | 6,576,913,590 |
| Deposits with banks and financial institutions | 1,547,299,126 | - | - | 1,547,299,126 |
| Loans to banks | 285,278,421 | 7,132,386 | - | 292,410,807 |
| Loans and advances to customers | 7,365,335,136 | 867,411,052 | 368,825,272 | 8,601,571,460 |
| Loans and advances to related parties | 127,434,311 | 726,346 | - | 128,160,657 |
| Investment securities at amortized cost | 8,162,185,826 | - | - | 8,162,185,826 |
| Customers' liability under acceptances | 332,030,285 | 25,463,786 | - | 357,494,071 |
| Other assets | 41,615,690 | - | 1,014,466 | 42,630,156 |
| Off-balance sheet commitments | 2,560,418,235 | 2,142,796 | 667,343 | 2,563,228,374 |
| | **26,998,510,620** | **902,876,366** | **370,507,081** | **28,271,894,067** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Impairment Allowance | | | | |
|---|---|---|---|---|
| Stage 1 | Stage 2 | Stage 3 | Total | Net Exposure |
| (32,976,484) | - | - | (32,976,484) | 7,137,979,450 |
| (200,933) | (2,062) | - | (202,995) | 1,641,968,614 |
| (1,345,996) | (1,943) | - | (1,347,939) | 255,316,224 |
| (9,957,923) | (144,453,330) | (149,066,640) | (303,477,893) | 8,555,503,383 |
| (2,384,499) | (459,737) | - | (2,844,236) | 125,277,446 |
| (46,471,263) | - | - | (46,471,263) | 7,662,034,881 |
| (557,726) | (143,487) | - | (701,213) | 399,604,145 |
| (90,900) | - | (1,014,466) | (1,105,366) | 57,658,047 |
| (4,634,270) | (221,178) | (79,111) | (4,934,559) | 2,605,735,061 |
| **(98,619,994)** | **(145,281,737)** | **(150,160,217)** | **(394,061,948)** | **28,441,077,251** |

| Impairment Allowance | | | | |
|---|---|---|---|---|
| Stage 1 | Stage 2 | Stage 3 | Total | Net Exposure |
| (27,423,852) | - | - | (27,423,852) | 6,549,489,738 |
| (815,375) | - | - | (815,375) | 1,546,483,751 |
| (1,991,812) | (14,484) | - | (2,006,296) | 290,404,511 |
| (18,321,191) | (156,803,417) | (130,434,862) | (305,559,470) | 8,296,011,990 |
| (1,127,434) | (284,537) | - | (1,411,971) | 126,748,686 |
| (52,767,196) | - | - | (52,767,196) | 8,109,418,630 |
| (518,390) | (83,042) | - | (601,432) | 356,892,639 |
| (22,006) | - | (1,014,466) | (1,036,472) | 41,593,684 |
| (6,269,096) | (839,860) | (87,981) | (7,196,937) | 2,556,031,437 |
| **(109,256,352)** | **(158,025,340)** | **(131,537,309)** | **(398,819,001)** | **27,873,075,066** |

**Credit risk exposure for loans and advance to customers per internal rating and stage**

| LBP'000 | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total | January 1, 2018 |
| Grades 1-3: low to fair risk | 6,749,321,374 | 858,491,839 | - | 7,607,813,213 | 7,843,474,380 |
| Grades 4-6: Monitoring | - | 861,328,360 | - | 861,328,360 | 389,271,808 |
| Grades 7-8: Substandard | - | - | 98,810,999 | 98,810,999 | 109,537,778 |
| Grade 9: Doubtful | - | - | 38,397,354 | 38,397,354 | 60,972,822 |
| Grade 10: Impaired | - | - | 252,631,350 | 252,631,350 | 198,314,672 |
| **Total gross carrying amount** | **6,749,321,374** | **1,719,820,199** | **389,839,703** | **8,858,981,276** | **8,601,571,460** |
| Loss allowance | (9,957,923) | (144,453,330) | (149,066,640) | (303,477,893) | (305,559,470) |
| **Carrying amount** | **6,739,363,451** | **1,575,366,869** | **240,773,063** | **8,555,503,383** | **8,296,011,990** |

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

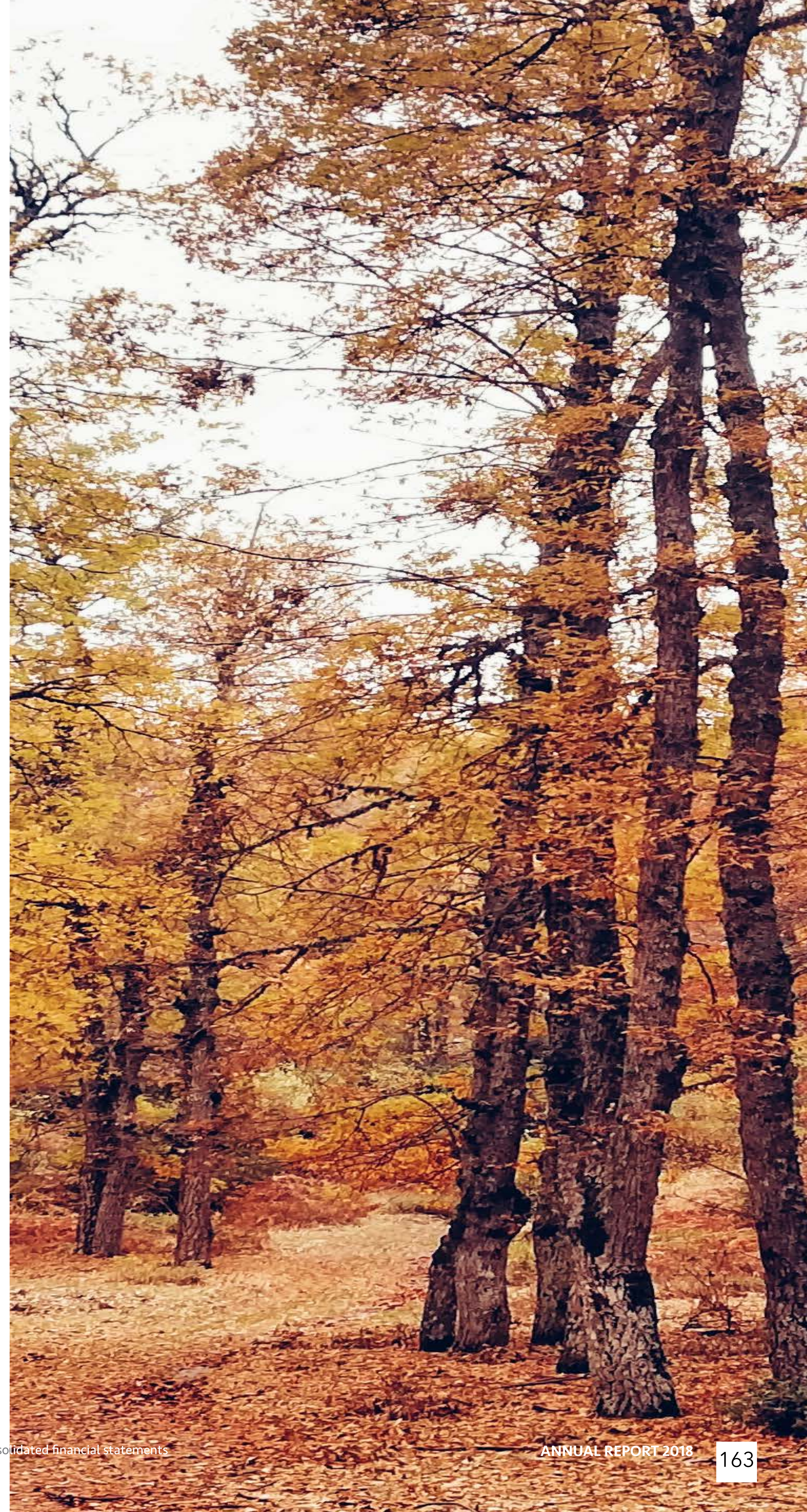
The movement of the allowance for expected credit losses for all class for financial assets during 2018 is summarized as follows:

| LBP'000 | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| Balance at January 1, 2018 | 109,256,352 | 158,025,340 | 131,537,309 | 398,819,001 |
| Net change in the loss allowance | (9,958,968) | (12,575,948) | 20,199,481 | (2,335,435) |
| Write-offs | - | - | (717,526) | (717,526) |
| Effect of exchange rate changes and other movements | (677,390) | (167,655) | (859,047) | (1,704,092) |
| **Balance at December 31, 2018** | **98,619,994** | **145,281,737** | **150,160,217** | **394,061,948** |

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

| LBP'000 | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| Balance at January 1, 2018 | 18,321,191 | 156,803,417 | 130,434,862 | 305,559,470 |
| Net change in the loss allowance | (8,082,549) | (12,301,447) | 19,725,678 | (658,318) |
| Write-offs | - | - | (717,526) | (717,526) |
| Effect of exchange rate changes and other movements | (280,719) | (48,640) | (376,374) | (705,733) |
| **Balance at December 31, 2018** | **9,957,923** | **144,453,330** | **149,066,640** | **303,477,893** |

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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LBP'000

| | | | | Fair Value of Collateral Received | | |
|---|---|---|---|---|---|---|
| | Gross Exposure | Expected Credit Loss | Net Exposure | Pledged Funds | First Degree Mortgage on Property | Debt Securities |
| Performing loans | 8,469,141,572 | (154,410,334) | 8,314,731,238 | 1,775,042,197 | 7,832,262,843 | 31,287,830 |
| Non-performing loans | 389,839,704 | (149,067,559) | 240,772,145 | 17,377,237 | 273,635,238 | 8,616,875 |
| | **8,858,981,276** | **(303,477,893)** | **8,555,503,383** | **1,792,419,434** | **8,105,898,081** | **39,904,705** |

| *(Continuation)* | Bank Guarantees | Vehicles | Other | Total |
|---|---|---|---|---|
| Performing loans | 110,616,323 | 229,800,083 | 3,211,624,215 | 13,190,633,491 |
| Non-performing loans | - | 7,721,719 | 40,013,120 | 347,364,189 |
| | **110,616,323** | **237,521,802** | **3,251,637,335** | **13,537,997,680** |

December 31, 2017.
LBP'000

| | | | | Fair Value of Collateral Received | | |
|---|---|---|---|---|---|---|
| | Gross Exposure | Allowance for Impairment | Net Exposure | Pledged Funds | First Degree Mortgage on Property | Debt Securities |
| Performing loans | 8,232,746,188 | (26,035,651) | 8,206,710,537 | 1,548,909,537 | 4,274,513,173 | 21,587,999 |
| Non-performing loans | 368,825,272 | (130,434,862) | 238,390,410 | 1,605,576 | 3,374,449,218 | - |
| | **8,601,571,460** | **(156,470,513)** | **8,445,100,947** | **1,550,515,113** | **7,648,962,391** | **21,587,999** |

| *(Continuation)* | Bank Guarantees | Vehicles | Other | Total |
|---|---|---|---|---|
| Performing loans | 103,165,405 | 269,947,635 | 2,641,348,190 | 8,859,471,939 |
| Non-performing loans | - | 8,324,392 | 6,931,077 | 3,391,310,263 |
| | **103,165,405** | **278,272,027** | **2,648,279,267** | **12,250,782,202** |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *B. Liquidity Risk*

Liquidity risk is the risk that the Group 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.

<u>*Management of liquidity risk*</u>

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

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

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

a) Liquidity Measurement

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

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

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

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

b) The Contingency Funding Plan

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The tables below show the Group's financial assets and liabilities in Lebanese Pounds and foreign currencies base accounts segregated by maturity:

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LBP'000

| | With No Maturity | Up to 3 Months | 3 Months to 1 Year | 1 to 3 Years | 3 to 5 Years | 5 to 10 Years | Over 10 Years | Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and deposits at central banks | 685,072,540 | 1,858,495,744 | 354,262,500 | 661,034,750 | 718,740,450 | 1,681,707,950 | 1,211,642,000 | 7,170,955,934 |
| Deposits with banks and financial institutions | 348,583 | 1,641,823,025 | - | - | - | - | - | 1,642,171,608 |
| Financial assets at fair value through profit or loss | 13,358,350 | 73,855,554 | 57,725,662 | 89,469,377 | 284,429,395 | 555,379,754 | 241,704,758 | 1,315,922,850 |
| Loans to banks | 10,510,914 | 217,857,489 | 19,914,161 | 8,381,600 | - | - | - | 256,664,164 |
| Loans and advances to customers | 299,473,588 | 2,530,040,420 | 2,911,290,360 | 883,249,553 | 379,646,784 | 355,889,111 | 1,499,391,460 | 8,858,981,276 |
| Loans and advances to related parties | 62,911 | 84,576,926 | 26,037,906 | 7,674,240 | 325,407 | 3,141,341 | 6,302,951 | 128,121,682 |
| Investment securities | 15,714,763 | 165,241,505 | 520,835,132 | 1,330,791,411 | 1,227,633,507 | 2,220,674,236 | 2,243,297,020 | 7,724,187,574 |
| Customers' liability under acceptances | - | 400,305,358 | - | - | - | - | - | 400,305,358 |
| Other financial assets | 58,699,791 | - | 30,136 | 33,486 | - | - | - | 58,763,413 |
| | **1,083,241,440** | **6,972,196,021** | **3,890,095,857** | **2,980,634,417** | **2,610,775,543** | **4,816,792,392** | **5,202,338,189** | **27,556,073,859** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Deposits from banks and financial institutions | - | 1,750,748,416 | 187,311,680 | 232,789,179 | 305,004,939 | - | - | 2,475,854,214 |
| Customers' and related parties' deposits | - | 14,963,109,378 | 3,972,991,503 | 947,542,246 | 98,591,503 | 44,454,526 | 191,956,945 | 20,218,646,101 |
| Liabilities under acceptance | - | 400,305,358 | - | - | - | - | - | 400,305,358 |
| Other borrowings | - | 75,420,542 | 492,529,300 | - | - | - | - | 567,949,842 |
| Certificates of deposit | - | - | 607,045 | - | - | - | - | 607,045 |
| Other financial liabilities | 152,822,137 | 61,767,909 | 8,743,812 | 10,753,426 | 874,078 | - | 203,455 | 235,164,817 |
| | **152,822,137** | **17,251,351,603** | **4,662,183,340** | **1,191,084,851** | **404,470,520** | **44,454,526** | **192,160,400** | **23,898,527,377** |
| **Net Maturity Gap** | **930,419,303** | **(10,279,155,582)** | **(772,087,483)** | **1,789,549,566** | **2,206,305,023** | **4,772,337,866** | **5,010,177,789** | **3,657,546,482** |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017.
LBP'000

| | With No Maturity | Up to 3 Months | 3 Months to 1 Year | 1 to 3 Years | 3 to 5 Years | 5 to 10 Years | Over 10 Years | Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | | |
| Cash and deposits at central banks | 605,836,412 | 1,705,439,378 | - | 939,136,350 | 1,333,814,100 | 1,174,310,350 | 818,377,000 | 6,576,913,590 |
| Deposits with banks and financial institutions | - | 1,509,865,192 | 37,433,934 | - | - | - | - | 1,547,299,126 |
| Financial assets at fair value through profit or loss | 32,298,178 | 68,709,547 | 101,726,223 | 143,876,385 | 191,501,299 | 743,970,009 | 225,351,768 | 1,507,433,409 |
| Loans to banks | 9,069,473 | 252,189,452 | 17,848,682 | 4,794,400 | 8,508,800 | - | - | 292,410,807 |
| Loans and advances to customers | 142,491,186 | 1,573,704,170 | 3,457,798,981 | 1,145,761,134 | 421,062,233 | 431,861,341 | 1,272,421,902 | 8,445,100,947 |
| Loans and advances to related parties | 40,548 | 75,114,885 | 19,560,521 | 11,228,230 | 3,409,334 | 4,029,150 | 14,777,989 | 128,160,657 |
| Investment securities | 10,711,083 | 205,016,927 | 491,595,941 | 1,828,909,856 | 1,435,604,493 | 3,201,380,089 | 999,678,519 | 8,172,896,908 |
| Customers' liability under acceptances | - | 353,604,597 | 3,889,474 | - | - | - | - | 357,494,071 |
| Other financial assets | 33,687,649 | 11,919 | 963,727 | 7,966,861 | - | - | - | 42,630,156 |
| | **834,134,529** | **5,743,656,067** | **4,130,817,483** | **4,081,673,216** | **3,393,900,259** | **5,555,550,939** | **3,330,607,178** | **27,070,339,671** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Deposits from banks and financial institutions | - | 1,879,152,425 | 115,759,339 | 100,099,444 | - | - | - | 2,095,011,208 |
| Customers' and related parties' deposits | - | 15,350,291,402 | 3,470,727,936 | 900,148,793 | 181,286,700 | 36,728,397 | 168,398,076 | 20,107,581,304 |
| Liabilities under acceptance | - | 353,604,597 | 3,889,474 | - | - | - | - | 357,494,071 |
| Other borrowings | - | 828,465,507 | 2,457,475 | 6,201,694 | 4,070,250 | - | (462,252) | 840,732,674 |
| Certificates of deposit | - | - | 634,044 | - | - | - | - | 634,044 |
| Other financial liabilities | 91,681,839 | 99,337,591 | 7,681,582 | 2,031,196 | - | - | - | 200,732,208 |
| | **91,681,839** | **18,510,851,522** | **3,601,149,850** | **1,008,481,127** | **185,356,950** | **36,728,397** | **167,935,824** | **23,602,185,509** |
| **Net Maturity Gap** | **742,452,690** | **(12,767,195,455)** | **529,667,633** | **3,073,192,089** | **3,208,543,309** | **5,518,822,542** | **3,162,671,354** | **3,468,154,162** |

## C. Market Risks

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

*Management of market risks*

a) Interest Rate Risk

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

b) Interest Rate Risk Measurement

Major concern is to be given to interest rates movements both in the local and international markets whenever hedging against rates rise should be undertaken as part of the Group's strategy. Interest rate risk is the risk that changes in interest rates will affect the Group's income or the value of its holdings group of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimizing the return on risk. Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

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

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

Interest Rate Sensitivity Balance Sheet

| December 31, 2018. LBP'000 | Floating | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-Interest Generating | Up to 3 Months | 3 Months to 1 Year | 1 to3 Years | 3 to 5 Years | Over 5 Years | Total |
| **FINANCIAL ASSETS** | | | | | | | |
| Cash and deposits at central banks | 591,119,883 | 322,040,406 | - | - | - | - | 322,040,406 |
| Deposits with banks and financial institutions | 108,727,163 | 377,152,740 | - | - | - | - | 377,152,740 |
| Financial assets at fair value through profit or loss | 13,836,608 | - | - | - | - | - | - |
| Loans to Banks | 1,435,877 | 1,112,722 | 8,381,600 | - | - | - | 9,494,322 |
| Loans and advances to customers | 437,882,143 | 2,577,255,073 | 177,665,932 | 16,365,913 | 4,751,340 | 1,369,888,219 | 4,145,926,477 |
| Loans and advances to related parties | 279,884 | 14,068,164 | 102,114 | - | - | 8,470,657 | 22,640,935 |
| Investment in securities | 232,402,635 | 27,093,364 | 51,729,857 | 188,250,637 | 58,812,939 | - | 325,886,797 |
| Customers' liability under acceptance | 400,305,358 | - | - | - | - | - | - |
| Other financial assets | 58,699,791 | - | 30,136 | 33,486 | - | - | 63,622 |
| | **1,844,689,342** | **3,318,722,469** | **237,909,639** | **204,650,036** | **63,564,279** | **1,378,358,876** | **5,203,205,299** |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Deposits from banks and financial institutions | 297,685,146 | 106,743,742 | 1,932,732 | - | - | - | 108,676,474 |
| Customers and related parties ' deposits at amortized cost | 182,374,770 | 541,779,451 | - | - | - | - | 541,779,451 |
| Liabilities under acceptance | 400,305,358 | - | - | - | - | - | - |
| Other borrowings | 8,690,899 | - | - | - | - | - | - |
| Certificates of deposit | - | - | - | - | - | - | - |
| Other financial liabilities | 90,341,802 | 42,837,910 | - | 75,457 | 874,078 | 203,454 | 43,990,899 |
| | **979,397,975** | **691,361,103** | **1,932,732** | **75,457** | **874,078** | **203,454** | **694,446,824** |
| Interest Rate Swap | - | 104,064,240 | - | - | - | - | 104,064,240 |
| Interest rate Gap | **865,291,367** | **2,731,425,606** | **235,976,907** | **204,574,579** | **62,690,201** | **1,378,155,422** | **4,612,822,715** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Interest Rate Sensitivity Balance Sheet

| Fixed | | | | | | |
|---|---|---|---|---|---|---|
| Up to 3 Months | 3 Months to 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years | Total | Grand Total |
| 1,993,359,695 | 354,262,500 | 403,608,050 | 613,215,450 | 2,893,349,950 | 6,257,795,645 | 7,170,955,934 |
| 1,161,183,000 | (4,891,294) | - | - | - | 1,156,291,706 | 1,642,171,609 |
| 56,826,125 | 59,584,135 | 89,520,877 | 295,565,515 | 800,589,590 | 1,302,086,242 | 1,315,922,850 |
| 226,763,653 | 18,970,311 | - | - | - | 245,733,964 | 256,664,163 |
| 1,684,542,338 | 1,432,891,678 | 482,107,719 | 282,186,847 | 393,444,074 | 4,275,172,656 | 8,858,981,276 |
| 80,773,293 | 17,659,245 | 6,343,955 | 424,370 | - | 105,200,863 | 128,121,682 |
| 42,712,090 | 466,868,593 | 1,098,905,625 | 1,155,591,813 | 4,401,820,021 | 7,165,898,142 | 7,724,187,574 |
| - | - | - | - | - | - | 400,305,358 |
| - | - | - | - | - | - | 58,763,413 |
| **5,246,160,194** | **2,345,345,168** | **2,080,486,226** | **2,346,983,995** | **8,489,203,635** | **20,508,179,218** | **27,556,073,859** |
| 1,409,763,798 | 141,220,816 | 216,668,791 | 301,839,189 | - | 2,069,492,594 | 2,475,854,214 |
| 14,230,779,468 | 3,981,167,193 | 947,542,246 | 98,591,503 | 236,411,470 | 19,494,491,880 | 20,218,646,101 |
| - | - | - | - | - | - | 400,305,358 |
| 66,719,958 | 492,538,985 | - | - | - | 559,258,943 | 567,949,842 |
| - | 607,045 | - | - | - | 607,045 | 607,045 |
| 94,876,554 | 5,955,562 | - | - | - | 100,832,116 | 235,164,817 |
| **15,802,139,778** | **4,621,489,601** | **1,164,211,037** | **400,430,692** | **236,411,470** | **22,224,682,578** | **23,898,527,377** |
| - | - | (12,742,560) | (84,950,400) | (6,371,280) | (104,064,240) | - |
| **(10,555,979,584)** | **(2,276,144,433)** | **903,532,629** | **1,861,602,903** | **8,246,420,885** | **(1,820,567,600)** | **3,657,546,482** |

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Interest rate sensitivity analyses for financial assets and financial liabilities as at December 31, 2017:

Interest Rate Sensitivity Balance Sheet

| December 31, 2017. LBP'000 | | Floating | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-Interest Generating | Up to 3 Months | 3 Months to 1 Year | 1 to3 Years | 3 to 5 Years | Over 5 Years | Total |
| **FINANCIAL ASSETS** | | | | | | | |
| Cash and deposits at central banks | 767,233,232 | - | - | - | - | - | - |
| Deposits with banks and financial institutions | 81,642,045 | 18,395,444 | - | - | - | - | 18,395,444 |
| Financial assets at fair value through profit or loss | 171,896,378 | - | - | - | - | - | - |
| Loans to Banks | (48,040) | 1,928,448 | 11,508,800 | - | - | - | 13,437,248 |
| Loans and advances to customers | 145,706,805 | 2,142,745,914 | 227,029,528 | 73,237,323 | 3,821,649 | 1,138,555,972 | 3,585,390,386 |
| Loans and advances to related parties | 277,214 | 20,116,687 | - | 296,015 | - | 18,807,139 | 39,219,841 |
| Investment in securities | 254,600,041 | 63,119,182 | 104,933,727 | 125,387,534 | 175,050,399 | - | 468,490,842 |
| Customers' liability under acceptance | 357,494,071 | - | - | - | - | - | - |
| Other financial assets | 38,591,774 | 3,376,657 | 46,425 | 71,001 | 544,299 | - | 4,038,382 |
| | **1,817,393,520** | **2,249,682,332** | **343,518,480** | **198,991,873** | **179,416,347** | **1,157,363,111** | **4,128,972,143** |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Deposits from banks and financial institutions | 203,523,249 | 9,096,912 | 2,908,546 | - | - | - | 12,005,458 |
| Customers and related parties ' deposits at amortized cost | 139,017,721 | 1,141,203,789 | - | - | - | - | 1,141,203,789 |
| Liabilities under acceptance | 357,494,071 | - | - | - | - | - | - |
| Other borrowings | 8,578,565 | 100,330,387 | - | - | - | - | 100,330,387 |
| Certificates of deposit | - | - | - | - | - | - | - |
| Other financial liabilities | 99,177,360 | - | - | - | - | - | - |
| | **807,790,966** | **1,250,631,088** | **2,908,546** | **-** | **-** | **-** | **1,253,539,634** |
| Interest Rate Swap | - | 10,837,232 | - | - | - | - | 10,837,232 |
| Interest rate Gap | **1,009,602,554** | **1,009,888,476** | **340,609,934** | **198,991,873** | **179,416,347** | **1,157,363,111** | **2,886,269,741** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Interest Rate Sensitivity Balance Sheet

| Fixed | | | | | | |
|---|---|---|---|---|---|---|
| Up to 3 Months | 3 Months to 1 Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years | Total | Grand Total |
| 1,929,830,008 | - | 723,600,000 | 1,163,563,000 | 1,992,687,350 | 5,809,680,358 | 6,576,913,590 |
| 1,419,518,425 | 27,743,181 | 31 | - | - | 1,447,261,637 | 1,547,299,126 |
| 2,137,845 | 85,555,062 | 118,362,690 | 176,988,993 | 952,492,441 | 1,335,537,031 | 1,507,433,409 |
| 261,172,917 | 17,848,682 | - | - | - | 279,021,599 | 292,410,807 |
| 2,180,705,215 | 1,274,606,521 | 503,875,140 | 303,280,123 | 451,536,757 | 4,714,003,756 | 8,445,100,947 |
| 71,427,499 | 4,902,825 | 8,923,946 | 3,409,332 | - | 88,663,602 | 128,160,657 |
| 79,369,673 | 363,739,504 | 1,636,901,183 | 1,246,056,306 | 4,123,739,359 | 7,449,806,025 | 8,172,896,908 |
| - | - | - | - | - | - | 357,494,071 |
| - | - | - | - | - | - | 42,630,156 |
| **5,944,161,582** | **1,774,395,775** | **2,991,662,990** | **2,893,297,754** | **7,520,455,907** | **21,123,974,008** | **27,070,339,671** |
| 1,478,879,668 | 275,880,008 | 124,722,825 | - | - | 1,879,482,501 | 2,095,011,208 |
| 14,236,309,992 | 3,459,645,264 | 756,074,038 | 170,204,027 | 205,126,473 | 18,827,359,794 | 20,107,581,304 |
| - | - | - | - | - | - | 357,494,071 |
| 719,717,811 | 1,868,637 | 6,167,024 | 4,070,250 | - | 731,823,722 | 840,732,674 |
| - | 634,044 | - | - | - | 634,044 | 634,044 |
| 96,960,789 | 4,594,059 | - | - | - | 101,554,848 | 200,732,208 |
| **16,531,868,260** | **3,742,622,012** | **886,963,887** | **174,274,277** | **205,126,473** | **21,540,854,909** | **23,602,185,509** |
| (1,413,552) | (3,533,880) | (5,889,800) | - | - | (10,837,232) | - |
| **(10,589,120,230)** | **(1,971,760,117)** | **2,098,809,303** | **2,719,023,477** | **7,315,329,434** | **(427,718,133)** | **3,468,154,162** |

Foreign Exchange Risk

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

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds.

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2018. LBP'000

| | LBP | USD | EUR | GBP | AUD | Other | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and deposits at central banks | 2,264,206,649 | 3,246,458,184 | 1,100,771,583 | 55,790,235 | 60,042,998 | 410,709,801 | 7,137,979,450 |
| Assets under leverage arrangement with the Central Bank of Lebanon | 823,039,258 | - | - | - | - | - | 823,039,258 |
| Deposits with banks and financial institutions | 14,235,944 | 1,189,421,170 | 110,700,268 | 210,464,479 | 13,276,424 | 103,870,329 | 1,641,968,614 |
| Financial assets at fair value through profit or loss | 686,701,133 | 613,991,238 | - | 15,230,479 | - | - | 1,315,922,850 |
| Loans to banks | 9,078,864 | 218,106,927 | 7,114,899 | 17,331,790 | - | 3,683,744 | 255,316,224 |
| Loans and advances to customers | 1,704,974,295 | 4,013,459,665 | 577,129,375 | 27,499,279 | 1,634,372,787 | 598,067,982 | 8,555,503,383 |
| Loans and advances to related parties | 2,282,831 | 94,929,799 | 1,014,600 | 62,293 | 14,393,766 | 12,594,157 | 125,277,446 |
| Investment securities | 2,927,962,886 | 4,222,901,303 | 253,723 | - | 436,052,213 | 90,546,186 | 7,677,716,311 |
| Customers' liability under acceptances | 79,176 | 345,251,189 | 19,025,262 | 2,491,986 | - | 32,756,532 | 399,604,145 |
| Investments in an associate | - | 23,009,057 | - | - | - | - | 23,009,057 |
| Assets acquired in satisfaction of loans | 995,683 | 23,571,035 | - | - | - | - | 24,566,718 |
| Property and equipment | 235,075,761 | 216,245 | 56,524 | 38,127,005 | 3,977,869 | 17,719,232 | 295,172,636 |
| Goodwill | 452,265 | - | - | 1,432,270 | 86,582,169 | - | 88,466,704 |
| Other Assets | 31,114,181 | 17,941,753 | 589,468 | 3,723,784 | 19,271,462 | 1,454,225 | 74,094,873 |
| | **8,700,198,926** | **14,009,257,565** | **1,816,655,702** | **372,153,600** | **2,267,969,688** | **1,271,402,188** | **28,437,637,669** |
| **LIABILITIES** | | | | | | | |
| Deposits from banks and financial institutions | 186,096,947 | 1,736,159,039 | 448,193,174 | 67,359,849 | 8,070,538 | 29,974,667 | 2,475,854,214 |
| Customers' and related parties' deposits at amortized cost | 5,222,289,333 | 10,892,407,296 | 910,630,940 | 233,122,344 | 2,104,555,449 | 855,640,739 | 20,218,646,101 |
| Liabilities under acceptance | 79,176 | 345,952,402 | 19,025,262 | 2,491,986 | - | 32,756,532 | 400,305,358 |
| Other borrowings | 564,930,674 | 3,019,168 | - | - | - | - | 567,949,842 |
| Leverage arrangement with the Central Bank of Lebanon | 823,039,258 | - | - | - | - | - | 823,039,258 |
| Certificates of deposit | - | - | - | 607,045 | - | - | 607,045 |
| Other liabilities | 117,364,621 | 181,967,153 | 19,428,239 | 6,449,558 | 8,018,499 | 8,093,993 | 341,322,063 |
| Provisions | 46,991,889 | 12,951,280 | 622,152 | 282,520 | 2,625,183 | 362,188 | 63,835,212 |
| | **6,960,791,898** | **13,172,456,338** | **1,397,899,767** | **310,313,302** | **2,123,269,669** | **926,828,119** | **24,891,559,093** |
| Currencies to be delivered | - | (1,093,646,222) | (223,044,776) | (92,449,533) | (1,407,983) | (33,322,389) | (1,443,870,903) |
| Currencies to be received | - | 908,953,823 | 221,823,519 | 90,982,288 | 201,663,812 | 32,389,445 | 1,455,812,887 |
| Discount (net) | - | (16,738,429) | 348,013 | (77,084) | - | 251,843 | (16,215,657) |
| | **-** | **(201,430,828)** | **(873,244)** | **(1,544,329)** | **200,255,829** | **(681,101)** | **(4,273,673)** |
| Net Exchange position | **1,739,407,028** | **635,370,399** | **417,882,691** | **60,295,969** | **344,955,848** | **343,892,968** | **3,541,804,903** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017. LBP'000

| | LBP | USD | EUR | GBP | AUD | Other | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and deposits at central banks | 2,176,419,508 | 2,563,398,087 | 841,458,476 | 2,831,883 | 142,604,353 | 850,201,283 | 6,576,913,590 |
| Assets under leverage arrangement with the Central Bank of Lebanon | 152,048,750 | - | - | - | - | - | 152,048,750 |
| Deposits with banks and financial institutions | 20,528,493 | 1,087,139,105 | 129,298,430 | 195,687,240 | 17,271,182 | 97,374,676 | 1,547,299,126 |
| Financial assets at fair value through profit or loss | 910,893,459 | 584,341,453 | - | 12,198,497 | - | - | 1,507,433,409 |
| Loans to banks | 13,476,516 | 180,408,806 | 35,054,714 | 18,267,919 | - | 45,202,852 | 292,410,807 |
| Loans and advances to customers | 1,811,814,328 | 3,980,706,438 | 283,872,002 | 41,936,648 | 1,550,565,320 | 776,206,211 | 8,445,100,947 |
| Loans and advances to related parties | 5,563,063 | 82,174,873 | 513,244 | 307,555 | 24,312,441 | 15,289,481 | 128,160,657 |
| Investment securities | 3,048,643,470 | 4,436,277,864 | 265,766 | - | 597,169,025 | 90,540,783 | 8,172,896,908 |
| Customers' liability under acceptances | - | 258,315,700 | 35,407,336 | 1,294,377 | - | 62,476,658 | 357,494,071 |
| Investments in an associate | - | 41,535,338 | - | - | - | - | 41,535,338 |
| Assets acquired in satisfaction of loans | 901,247 | 21,841,457 | - | - | - | - | 22,742,704 |
| Property and equipment | 191,053,871 | 34,126,674 | 58,128 | 31,763,177 | 4,192,360 | 19,509,375 | 280,703,585 |
| Goodwill | 452,265 | - | - | 1,529,820 | 86,582,169 | - | 88,564,254 |
| Other Assets | 26,146,160 | 20,102,085 | 344,199 | 1,892,012 | 15,014,623 | 1,204,203 | 64,703,282 |
| | **8,357,941,130** | **13,290,367,880** | **1,326,272,295** | **307,709,128** | **2,437,711,473** | **1,958,005,522** | **27,678,007,428** |
| **LIABILITIES** | | | | | | | |
| Deposits from banks and financial institutions | 113,753,048 | 1,243,642,703 | 355,847,731 | 37,300,631 | 6,796,564 | 337,670,531 | 2,095,011,208 |
| Customers' and related parties' deposits at amortized cost | 5,629,477,093 | 10,394,433,902 | 740,258,764 | 252,506,964 | 2,060,322,469 | 1,030,582,112 | 20,107,581,304 |
| Liabilities under acceptance | - | 258,315,700 | 35,407,336 | 1,294,377 | - | 62,476,658 | 357,494,071 |
| Other borrowings | 537,250,094 | 203,152,193 | - | - | 100,330,387 | - | 840,732,674 |
| Leverage arrangement with the Central Bank of Lebanon | 152,048,750 | - | - | - | - | - | 152,048,750 |
| Certificates of deposit | - | - | - | 634,044 | - | - | 634,044 |
| Other liabilities | 331,823,505 | 122,036,664 | 20,064,998 | 2,934,271 | 12,215,291 | 28,653,059 | 517,727,788 |
| Provisions | 42,398,641 | 12,362,536 | 616,067 | - | 2,603,471 | 246,650 | 58,227,365 |
| | **6,806,751,131** | **12,233,943,698** | **1,152,194,896** | **294,670,287** | **2,182,268,182** | **1,459,629,010** | **24,129,457,204** |
| Currencies to be delivered | - | (196,110,747) | (484,684,731) | (12,413,585) | (231,349,170) | (471,887,614) | (1,396,445,847) |
| Currencies to be received | - | 742,113,234 | 306,851,340 | 150,164,302 | 146,064,008 | 48,938,268 | 1,394,131,152 |
| Premium (net) | - | (284,831) | 205,395 | (61,576) | - | 446,838 | 305,826 |
| | - | 545,717,656 | (177,627,996) | 137,689,141 | (85,285,162) | (422,502,508) | (2,008,869) |
| Net Exchange position | **1,551,189,999** | **1,602,141,838** | **(3,550,597)** | **150,727,982** | **170,158,129** | **75,874,004** | **3,546,541,355** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 54. 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 Group 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 Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Directors consider that the carrying amounts of customers' acceptance liability, other assets, acceptances payable, certificates of deposit issued, and other liabilities approximate their fair values due to the short-term maturities of these instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The summary of the Group's classification of each class of assets and liabilities and their fair values are as follows:

| December 31, 2018. LBP'000 | Notes | Carrying Amount | Fair Value Level 1 | Fair Value Level 2 | Fair Value Level 3 | Total |
|---|---|---|---|---|---|---|
| **Financial assets measured at:** | | | | | | |
| *Fair value through profit or loss (excluding accrued interest receivable)* | | | | | | |
| Lebanese treasury bills | 8 | 432,760,030 | - | 432,760,030 | - | 432,760,030 |
| Lebanese Government bonds | 8 | 235,285,861 | - | 235,285,861 | - | 235,285,861 |
| Foreign government treasury bills | 8 | 77,533,343 | - | 77,533,343 | - | 77,533,343 |
| Certificates of deposit issued by the Central Bank of Lebanon | 8 | 493,295,651 | - | 493,295,651 | - | 493,295,651 |
| Quoted equity securities | 8 | 10,872,005 | 10,872,005 | - | - | 10,872,005 |
| Unquoted equity securities | 8 | 48,540,304 | - | 9,693,225 | 38,847,079 | 48,540,304 |
| | | **1,298,287,194** | **10,872,005** | **1,248,568,110** | **38,847,079** | **1,298,287,194** |
| *Financial assets Through other comprehensive income:* | | | | | | |
| Unquoted equity securities | 12 | 15,681,430 | - | - | 15,681,430 | 15,681,430 |
| | | **15,681,430** | **-** | **-** | **15,681,430** | **15,681,430** |
| *Amortized cost:* | | | | | | |
| Cash and deposits at central banks | 5 | 7,170,955,934 | - | 7,255,937,863 | - | 7,255,937,863 |
| Deposits with banks and financial | 7 | 1,642,171,609 | - | 1,642,171,609 | - | 1,642,171,609 |
| Loans to banks | 9 | 256,664,163 | - | 256,531,636 | - | 256,531,636 |
| Loans and advances to customers | 10 | 8,858,981,276 | - | 8,840,318,135 | - | 8,840,318,135 |
| Loans and advances to related parties | 11 | 128,121,682 | - | 126,463,390 | - | 126,463,390 |
| Lebanese treasury bills | 12 | 988,397,255 | - | 989,552,820 | - | 989,552,820 |
| Lebanese Government bonds | 12 | 3,403,020,692 | - | 2,883,538,995 | - | 2,883,538,995 |
| Foreign Government bonds | 12 | 99,323,642 | - | 99,618,563 | - | 99,618,563 |
| Certificates of deposit issued by the Central Bank of Lebanon | 12 | 2,790,327,721 | - | 2,747,298,304 | - | 2,747,298,304 |
| Certificates of deposit issued by private sector | 12 | 19,092,924 | - | 19,094,638 | - | 19,094,638 |
| Bonds issued by financial private sector | 12 | 408,343,908 | - | 409,580,673 | - | 409,580,673 |
| Customers' liabilities under acceptances | | 400,305,358 | - | 399,654,459 | - | 399,654,459 |
| Other financial assets | | 58,763,413 | - | 58,763,413 | - | 58,763,413 |
| | | **26,224,469,577** | **-** | **25,728,524,498** | **-** | **25,728,524,498** |
| **Financial liabilities measured at:** | | | | | | |
| *Amortized cost:* | | | | | | |
| Deposits from banks and financial institutions | 19 | 2,447,739,028 | - | 2,529,733,675 | - | 2,529,733,675 |
| Customers' and related parties› deposits | 20 | 20,218,248,952 | - | 20,248,136,205 | - | 20,248,136,205 |
| Liabilities under acceptance | | 400,305,358 | - | 400,305,358 | - | 400,305,358 |
| Other borrowings | 21 | 567,949,842 | - | 514,795,600 | - | 514,795,600 |
| Certificates of deposit | 22 | 607,045 | - | 607,045 | - | 607,045 |
| Other financial liabilities | | 235,164,817 | - | 235,164,817 | - | 235,164,817 |
| | | **23,870,015,042** | **-** | **23,928,742,700** | **-** | **23,928,742,700** |

The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| December 31, 2017. LBP'000 | | | Fair Value | | | |
|---|---|---|---|---|---|---|
| | Notes | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets measured at:** | | | | | | |
| *Fair value through profit or loss* | | | | | | |
| Lebanese treasury bills | 8 | 658,381,693 | - | 658,381,693 | - | 658,381,693 |
| Lebanese Government bonds | 8 | 298,462,316 | - | 298,462,316 | - | 298,462,316 |
| Foreign government treasury bills | 8 | 52,742,949 | - | 52,742,949 | - | 52,742,949 |
| Certificates of deposit issued by the Central Bank of Lebanon | 8 | 415,114,472 | - | 415,114,472 | - | 415,114,472 |
| Quoted equity securities | 8 | 14,799,007 | 14,799,007 | - | - | 14,799,007 |
| Unquoted equity securities | 8 | 48,521,521 | - | - | 48,521,521 | 48,521,521 |
| | | **1,488,021,958** | **14,799,007** | **1,424,701,430** | **48,521,521** | **1,488,021,958** |
| *Financial assets Through other comprehensive income:* | | | | | | |
| Unquoted equity securities | 12 | 10,711,082 | - | - | 10,711,082 | 10,711,082 |
| | | **10,711,082** | **-** | **-** | **10,711,082** | **10,711,082** |
| *Amortized cost:* | | | | | | |
| Cash and deposits at central banks | 5 | 6,576,913,590 | - | 6,713,132,697 | - | 6,713,132,697 |
| Deposits with banks and financial institutions | 7 | 1,547,299,126 | - | 1,547,579,550 | - | 1,547,579,550 |
| Loans to banks | 9 | 292,410,807 | - | 292,625,185 | - | 292,625,185 |
| Loans and advances to customers | 10 | 8,445,100,947 | - | 8,482,494,275 | - | 8,482,494,275 |
| Loans and advances to related parties | 11 | 128,160,657 | - | 103,150,606 | - | 103,150,606 |
| Lebanese treasury bills | 12 | 1,453,485,198 | - | 1,468,680,568 | - | 1,468,680,568 |
| Lebanese Government bonds | 12 | 3,534,612,705 | - | 3,367,180,428 | - | 3,367,180,428 |
| Foreign Government bonds | 12 | 89,622,830 | - | 89,622,830 | - | 89,622,830 |
| Certificates of deposit issued by the Central Bank of Lebanon | 12 | 2,375,202,077 | - | 2,404,706,872 | - | 2,404,706,872 |
| Certificates of deposit issued by private sector | 12 | 904,500 | - | 904,500 | - | 904,500 |
| Bonds issued by financial private sector | 12 | 593,376,444 | - | 597,986,515 | - | 597,986,515 |
| Customers' liabilities under acceptances | | 357,494,071 | - | 357,494,071 | - | 357,494,071 |
| Other financial assets | | 42,660,452 | - | 42,660,452 | - | 42,660,452 |
| | | **25,437,243,404** | **-** | **25,468,218,549** | **-** | **25,468,218,549** |
| **Financial liabilities measured at:** | | | | | | |
| *Amortized cost:* | | | | | | |
| Deposits from banks and financial institutions | 19 | 2,095,011,208 | - | 2,042,558,925 | - | 2,042,558,925 |
| Customers' and related parties› deposits | 20 | 20,107,581,304 | - | 20,133,549,500 | - | 20,133,549,500 |
| Liabilities under acceptance | | 357,494,071 | - | 357,494,071 | - | 357,494,071 |
| Other borrowings | 21 | 840,732,674 | - | 840,732,674 | - | 840,732,674 |
| Certificates of deposit | 22 | 634,044 | - | 634,044 | - | 634,044 |
| Other financial liabilities | | 200,732,210 | - | 200,732,210 | - | 200,732,210 |
| | | **23,602,185,511** | **-** | **23,575,701,424** | **-** | **23,575,701,424** |



The accompanying notes 1 to 55 form an integral part of the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

***Valuation techniques, significant unobservable inputs, and sensitivity of the input to the fair value***

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

| Financial Assets | Date of Valuation | Valuation Technique and key Inputs |
|---|---|---|
| **At fair value through profit or loss:** | | |
| Lebanese treasury bills | December 31, 2018 and 2017 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity |
| Lebanese Government bonds | December 31, 2018 and 2017 | Average market price in inactive market |
| Foreign government treasury bills | December 31, 2018 and 2017 | Average market price in inactive market |
| Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds | December 31, 2018 and 2017 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity |
| Certificates of deposit issued by the Central Bank of Lebanon in foreign currency | December 31, 2018 and 2017 | Average market price in inactive market |
| Unquoted equity securities | December 31, 2018 and 2017 | Management estimate based on unobservable input related to market volatility and liquidity treasury bonds, adjusted for illiquidity |
| **At fair value through other comprehensive income:** | | |
| Unquoted equity securities | December 31, 2018 and 2017 | Not valued |
| **At amortized cost:** | | |
| Deposits at central banks | December 31, 2018 and 2017 | DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater that one year and Libor based interbank rates for maturities less than one year by currency |
| Deposits with banks and financial institutions | December 31, 2018 and 2017 | DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency |
| Loans to banks | December 31, 2018 and 2017 | DCF at a discount rate determined based on banks yield curve by currency |
| Loans and advances to customers | December 31, 2018 and 2017 | DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates. |
| Loans and advances to related parties | December 31, 2018 and 2017 | DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates. |
| Lebanese treasury bills | December 31, 2018 and 2017 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity |
| Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds | December 31, 2018 and 2017 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity. |
| Certificates of deposit issued by the Central Bank of Lebanon in foreign currency | December 31, 2018 and 2017 | Average market price in inactive market |
| Certificates of deposit issued by the private sector | December 31, 2018 and 2017 | Management estimate based on observable input in inactive market |
| Bonds issued by financial private sector | December 31, 2018 and 2017 | Management estimate based on observable input in inactive market |
| Lebanese government bonds | December 31, 2018 and 2017 | Average market price in inactive market |
| Foreign government treasury bonds | December 31, 2018 and 2017 | Average market price in inactive market |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continuation)

| Financial Assets | Date of Valuation | Valuation Technique and key Inputs |
|---|---|---|
| **At amortized cost:** | | |
| Deposits from banks and financial institutions | December 31, 2018 and 2017 | DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency. |
| Customers' and related parties' deposits | December 31, 2018 and 2017 | DCF based on market rates by currency and maturity bands at amortized cost extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon. |
| Other borrowings | December 31, 2018 and 2017 | DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency. |
| Certificates of deposit | December 31, 2018 and 2017 | DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon. |

There have been no transfers between Level 1 and Level 2 during the period.

## 55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2018 were approved by the Board of Directors in its meeting held on April 12, 2019.

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