

**FRANSABANK S.A.L.**

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

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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders  
Fransabank S.A.L.  
Beirut, Lebanon

### **Disclaimer of Opinion**

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

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

### **Basis for Disclaimer of Opinion**

1. We draw attention to Notes 1 and 4 to the accompanying consolidated financial statements, concerning the Group’s ability to continue as a going concern. There is currently a high degree of uncertainty surrounding the Lebanese banking industry and Lebanese economy as a whole which has been triggered by the following events:
  - business disruption since the last quarter of 2019;

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

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

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

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

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

2.a We draw attention to Note 3 to the accompanying consolidated financial statements which states that these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Included in the consolidated statement of financial position at December 31, 2019, are financial assets measured at amortized cost and debt securities measured at fair value through other comprehensive income amounting to LBP11,024 billion net of impairment losses, which have significant exposure to sovereign debt in both Lebanese Pounds and foreign currencies, foreign currency deposits with and certificates of deposit issued by the Central Bank of Lebanon and deposits held with other Lebanese banks which are credit impaired as at December 31, 2019 due to the current uncertainty in the Lebanese banking industry and the Lebanese economy as a whole.

Consequently the Group has not recognized the appropriate level of impairment losses under the expected credit loss model in relation to these financial assets, which constitutes a significant departure from IFRS 9 *Financial Instruments*. It is not possible to determine with reasonable certainty the exact value of the impairment losses as the Group has not performed an updated expected credit loss assessment considering the factors noted above. In these circumstances, we are unable to quantify the effect of the departure from the accounting standard and in our opinion the effects would be both material and pervasive to the consolidated financial statements as a whole.

2.b Furthermore, as a result of the monetary and economic crisis, the credit quality of the loans and advances portfolio predominantly concentrated in Lebanon has deteriorated since the last quarter of 2019. Management is currently reviewing the credit staging of its loan portfolio taking into account the circumstances and available information at the reporting date, the impact of which cannot be determined at present but expected to be significant.

3.a The Group's financial assets at fair value, which are carried in the consolidated statement of financial position at LBP762billion include financial instrument at fair value of LBP646billion which are issued by the Central Bank of Lebanon, Lebanese Government as well as corporate entities domiciled in the Republic of Lebanon. Management has stated the aforementioned financial assets at fair value by using inputs into the determination of fair value which are not indicative of economic reality and market conditions existing at the reporting date, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount.

3.b Management has not disclosed in the consolidated financial statements the fair value of its financial assets and financial liabilities measured at amortized cost and the valuation techniques as required by IFRS 13 *Fair Value Measurement*, which constitutes a departure from IFRSs. We were unable to determine the fair value or the details which should be disclosed in the consolidated financial statements.

4. As disclosed under Note 16, the balance of goodwill derived from acquisition of control over Lebanese banking subsidiaries, which operations are mainly concentrated in Lebanon, amounted to LBP48billion as at December 31, 2019. This goodwill is impaired, however given the uncertainties described in Note 1 to the accompanying consolidated financial statements, the Group's management was unable to determine the amount of impairment. Therefore the Group has not recognized any such impairment. We were unable to determine the adjustments necessary to this amount.

### **Other Matter**

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

## **Responsibilities of the Board of Directors and Those Charged with Governance for the Consolidated financial Statements**

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

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

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

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

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

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

Beirut, Lebanon  
October 19, 2020

  
DFK Fiduciaire du Moyen Orient

  
Deloitte & Touche

**FRANSABANK S.A.L.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<b><u>ASSETS</u></b>	<b><u>Notes</u></b>	<b><u>December 31,</u></b>	
		<b><u>2019</u></b>	<b><u>2018</u></b>
		<b><u>LBP'000</u></b>	<b><u>LBP'000</u></b>
Cash and deposits with central banks	5	10,689,687,533	9,177,462,927
Deposits with banks and financial institutions	6	589,733,697	1,487,294,924
Loans to banks	7	34,513,960	37,109,306
Loans and advances to customers	9	8,811,805,014	10,159,824,897
Investments securities	10	7,380,354,443	9,346,131,507
Customers' liability under acceptances	11	452,045,372	916,875,239
Investments in associates	12	57,698,493	82,037,600
Assets acquired in satisfaction of loans	13	229,014,887	226,952,238
Property and equipment	14	469,309,061	445,329,021
Intangible assets	14	20,140,931	17,810,575
Right-of-use assets	15	63,962,251	-
Goodwill	16	48,903,653	48,903,653
Other assets	17	157,715,217	109,503,453
		<u>29,004,884,512</u>	<u>32,055,235,340</u>
Assets classified as held-for-sale	8	21,732,835	1,297,343,966
Total assets		<u>29,026,617,347</u>	<u>33,352,579,306</u>

**FINANCIAL INSTRUMENTS WITH  
OFF-BALANCE SHEET RISK**

Documentary and commercial letters of credit	40	240,854,340	424,315,892
Guarantees and standby letters of credit	40	832,848,410	888,359,231
Forward contracts	40	239,348,353	146,684,384

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED  
FINANCIAL STATEMENTS

**FRANSABANK S.A.L.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**(Continued)**

<b><u>LIABILITIES</u></b>	<b><u>Notes</u></b>	<b><u>December 31,</u></b>	
		<b><u>2019</u></b>	<b><u>2018</u></b>
		<b><u>LBP'000</u></b>	<b><u>LBP'000</u></b>
Deposits and borrowings from banks	18	271,776,863	308,975,112
Liabilities at fair value through profit or loss	19	100,464,432	110,462,963
Deposits from customers and related parties	20	23,610,757,902	25,551,478,737
Customers' acceptance liability	11	453,955,790	918,197,271
Other borrowings	21	1,507,621,241	1,616,716,970
Subordinated loan	22	6,375,006	12,749,832
Lease liabilities	15	63,833,195	-
Other liabilities	23	245,023,028	303,635,663
Provisions	24	<u>79,371,033</u>	<u>61,950,553</u>
Liabilities directly associated with assets classified as held-for-sale	8	<u>26,339,178,490</u> <u>769,393</u>	<u>28,884,167,101</u> <u>1,172,758,271</u>
<b>Total liabilities</b>		<b><u>26,339,947,883</u></b>	<b><u>30,056,925,372</u></b>
<b><u>EQUITY</u></b>			
Issued capital - Ordinary shares	25	438,500,000	438,500,000
Issued capital - Preferred shares	27	34,000,000	34,000,000
Share premium - Preferred shares	27	478,550,000	478,550,000
Shareholders' cash contribution to capital	26	17,113,885	17,113,885
Treasury shares		( 8,287,659)	-
Non-distributable reserves	28	907,187,851	701,080,148
Investment revaluation reserve	29	6,945,167	185,612,118
Foreign currency translation reserve		( 162,319,547)	( 170,251,508)
Retained earnings		893,384,166	952,225,112
(Loss)/profit for the year	31	<u>( 171,411,993)</u>	<u>243,027,727</u>
Equity attributed to the owners of the Bank		<u>2,433,661,870</u>	<u>2,879,857,482</u>
Non-controlling interests	30	<u>253,007,594</u>	<u>415,796,452</u>
<b>Total equity</b>		<b><u>2,686,669,464</u></b>	<b><u>3,295,653,934</u></b>
<b>Total liabilities and equity</b>		<b><u>29,026,617,347</u></b>	<b><u>33,352,579,306</u></b>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE  
CONSOLIDATED FINANCIAL STATEMENTS



**FRANSABANK S.A.L.**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

	<u>Notes</u>	<b>Year Ended</b>	
		<b>December 31,</b>	
		<b>2019</b>	<b>2018</b>
		<b>LBP'000</b>	<b>LBP'000</b>
<b>Continuing operations:</b>			
Interest income	33	2,180,793,151	1,992,459,681
Less: Tax on interest	33	( 103,404,773)	( 71,406,711)
Interest income, net of tax		2,077,388,378	1,921,052,970
Interest expense	34	( 1,693,420,549)	( 1,377,836,855)
Net interest income		<u>383,967,829</u>	<u>543,216,115</u>
Fee and commission income	35	117,359,103	117,838,473
Fee and commission expense	36	( 22,235,666)	( 22,287,901)
Net fee and commission income		<u>95,123,437</u>	<u>95,550,572</u>
Net income on financial assets at fair value through profit or loss	37	8,172,971	41,034,117
Interest expense on financial liabilities designated at fair value through profit or loss		( 5,919,125)	( 6,868,190)
Loss on derecognition of financial assets at amortized cost	10	-	( 41,082)
Other operating income (net)	38	8,898,986	53,055,612
Net financial revenues		<u>490,244,098</u>	<u>725,947,144</u>
Allowance for expected credit losses (net)	46	( 259,568,688)	( 16,822,555)
Direct write-offs of loans		-	( 19,822)
Net financial revenues after impairment charges		<u>230,675,410</u>	<u>709,104,767</u>
Staff costs		( 235,220,696)	( 253,907,027)
Administrative expenses		( 95,636,612)	( 115,446,561)
Depreciation and amortization	39	( 37,681,077)	( 29,702,446)
Provision for risks and charges (net)	24	( 4,591,448)	( 7,169,109)
(Loss)/profit from continuing activities before tax		( 142,454,423)	302,879,624
Income tax expense	23	( 18,635,755)	( 29,433,803)
Deferred tax on investees undistributed profits	31	( 4,500,208)	( 10,614,725)
Net (loss)/profit for the year		<u>( 165,590,386)</u>	<u>262,831,096</u>
<b>Discontinued operations:</b>			
Profit/(loss) from discontinued operations	8	-	10,606,424
Adjustments on disposal group carrying amount	8	-	( 10,606,424)
Net profit for the year from discontinued operations		<u>-</u>	<u>-</u>
Net (loss)/profit for the year		<u>( 165,590,386)</u>	<u>262,831,096</u>
<b>Attributable to:</b>			
Owners of the Bank	31	( 171,411,993)	243,027,727
Non-controlling interests	31	5,821,607	19,803,369
		<u>( 165,590,386)</u>	<u>262,831,096</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE  
CONSOLIDATED FINANCIAL STATEMENTS

**FRANSABANK S.A.L.**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	<u>Notes</u>	<b>Year Ended</b>	
		<b>December 31,</b>	
		<u>2019</u>	<u>2018</u>
		<b>LBP'000</b>	<b>LBP'000</b>
Net (loss)/profit for the year		( 165,590,386)	262,831,096
<b><u>Other comprehensive income:</u></b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Change in fair value of equity securities at FVTOCI	10	( 208,912,630)	20,662,123
Change in property revaluation		15,766	( 211,584)
Share in other comprehensive income of associates	12	-	5,680,676
Deferred tax		<u>35,790,002</u>	<u>( 4,774,774)</u>
		<u>( 173,106,862)</u>	<u>21,356,441</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in fair value of debt securities at FVTOCI		( 628,193)	( 9,245,874)
Currency translation adjustments		13,282,621	( 22,207,697)
Deferred tax		<u>233,432</u>	<u>1,957,932</u>
		<u>12,887,860</u>	<u>( 29,495,639)</u>
Total other comprehensive loss		( 160,219,002)	( 8,139,198)
Total comprehensive (loss)/income for the year		<u>( 325,809,388)</u>	<u>254,691,898</u>
<b>Attributable to:</b>			
Owners of the Bank		( 338,946,095)	236,776,089
Non-controlling interests		<u>13,136,707</u>	<u>17,915,809</u>
		<u>( 325,809,388)</u>	<u>254,691,898</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE  
CONSOLIDATED FINANCIAL STATEMENTS

**FRANSABANK S.A.L.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Equity Attributable to the Owners of the Bank												
	Capital Ordinary Shares	Preferred Shares	Share Premium on Preferred Shares	Shareholders' Cash Contribution to Capital	Treasury Shares	Non- distributable Reserves	Investment Revaluation Reserve	Foreign Currency Translation Reserve	Retained Earnings	(Loss)/ Profit For the Year	Total	Non- Controlling Interests	Total Equity
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1, 2018	438,500,000	34,000,000	478,550,000	17,113,885	-	725,565,643	175,962,132	( 161,373,898)	864,944,123	251,191,771	2,824,453,656	419,010,652	3,243,464,308
Effect of adoption of IFRS 9	-	-	-	-	-	( 316,889,789)	841,026	-	( 58,432,518)	-	( 374,481,281)	( 25,991,066)	( 400,472,347)
Appropriation from regulatory deferred liabilities (note 23)	-	-	-	-	-	218,754,440	-	-	77,373,578	-	296,128,018	26,025,564	322,153,582
Total comprehensive income for the year 2018	-	-	-	-	-	( 6,757,792)	8,808,960	( 8,302,806)	-	243,027,727	236,776,089	17,915,809	254,691,898
Dividends paid (note 32)	-	-	-	-	-	-	-	-	-	( 107,546,890)	( 107,546,890)	( 5,734,448)	( 113,281,338)
Allocation of 2017 profit	-	-	-	-	-	79,832,842	-	-	63,812,039	( 143,644,881)	-	-	-
Transfer to retained earnings upon liquidation of a subsidiary	-	-	-	-	-	-	-	-	( 781,173)	-	( 781,173)	( 2,949,107)	( 3,730,280)
Issuance of preferred shares by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	39,724,132	39,724,132
Redemption of preferred shares by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	( 52,762,500)	( 52,762,500)
Dilution of non-controlling interests share	-	-	-	-	-	-	-	-	1,568,436	-	1,568,436	( 1,568,436)	-
Effect of change in deferred taxes	-	-	-	-	-	-	-	-	4,150,304	-	4,150,304	-	4,150,304
Other movement	-	-	-	-	-	574,804	-	( 574,804)	( 409,677)	-	( 409,677)	2,125,852	1,716,175
Balance at December 31, 2018	438,500,000	34,000,000	478,550,000	17,113,885	-	701,080,148	185,612,118	( 170,251,508)	952,225,112	243,027,727	2,879,857,482	415,796,452	3,295,653,934
Total comprehensive loss for the year 2019	-	-	-	-	-	-	( 174,891,253)	7,357,150	-	( 171,411,993)	( 338,946,096)	13,136,707	( 325,809,389)
Dividends paid (note 32)	-	-	-	-	-	-	-	-	-	( 78,409,451)	( 78,409,451)	( 14,416,807)	( 92,826,258)
Allocation of 2018 profit	-	-	-	-	-	164,618,276	-	-	-	( 164,618,276)	-	-	-
Transfer to non-distributable reserves	-	-	-	-	-	41,489,427	( 5,733,545)	574,811	( 36,330,693)	-	-	-	-
Change in treasury shares (note 8)	-	-	-	-	( 74,403,762)	-	-	-	-	-	( 74,403,762)	-	( 74,403,762)
Effect of changes in ownership interests in subsidiaries (note 8)	-	-	-	-	65,923,250	-	-	-	( 30,943,304)	-	34,979,946	( 161,205,683)	( 126,225,737)
Effect of change in deferred taxes	-	-	-	-	-	-	-	-	3,913,148	-	3,913,148	100,084	4,013,232
Loss on disposal of equity security at FVTOCI	-	-	-	-	-	-	( 24,570)	-	( 952,231)	-	( 976,801)	-	( 976,801)
Other movement	-	-	-	-	192,853	-	1,982,417	-	5,472,134	-	7,647,404	( 403,159)	7,244,245
Balance as at December 31, 2019	438,500,000	34,000,000	478,550,000	17,113,885	( 8,287,659)	907,187,851	6,945,167	( 162,319,547)	893,384,166	( 171,411,993)	2,433,661,870	253,007,594	2,686,669,464

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

**FRANSABANK S.A.L.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Notes	<b>Year Ended December 31,</b>	
		<b>2019</b>	<b>2018</b>
		<b>LBP'000</b>	<b>LBP'000</b>
Cash flows from operating activities:			
(Loss)/profit for the year before tax		( 142,454,423)	302,879,624
Adjustments for:			
Unrealized loss/(gain) on investments at fair value through profit or loss	37	7,032,384	( 30,820,925)
Share in losses/(profits) of associates	38	13,515,968	( 19,232,095)
Depreciation and amortization	39	37,681,077	29,702,446
Allowance for expected credit losses	46	259,568,688	16,822,555
Loans written-off		97,157	19,822
Appropriation from regulatory deferred liability	23	-	( 165,833)
Gain on disposal of property and equipment	38	( 1,088,498)	( 741,984)
Gain on disposal of assets acquired in satisfaction of loans	38	( 284,369)	( 1,133,987)
Provisions	24	16,426,974	12,213,579
Dividend income	37, 38	( 5,642,747)	( 8,875,902)
		184,852,211	300,667,300
Net increase in placements with banks		( 3,471,421,969)	( 52,486,228)
Net decrease in loans to banks	7	4,876,859	69,631,819
Net decrease/(increase) in loans and advances to customers	9	1,197,102,412	( 667,972,276)
Net decrease in investment securities	10	1,793,501,404	981,119,992
Net increase in other assets	17	( 71,948,924)	( 18,504,937)
Net (decrease)/increase in deposits and borrowings from banks	18	( 35,993,277)	52,935,251
Net decrease in customers' deposits at FVTPL		( 9,972,236)	( 24,908,722)
Net (decrease)/increase in customers' deposits at amortized cost	20	( 1,968,535,737)	625,002,361
Net (decrease)/increase in other liabilities	23	( 49,198,343)	30,842,464
Proceeds from disposal of foreclosed assets		1,623,645	2,146,323
Settlements of provisions	24	( 6,716,696)	( 4,766,822)
		( 2,431,830,651)	1,293,706,525
Dividends received		16,101,680	18,875,419
Income tax paid		( 16,804,615)	( 32,390,216)
Net cash (used in)/generated by operating activities		( 2,432,533,586)	1,280,191,728
Cash flows from investing activities:			
Proceeds from disposal of tangible and intangible assets		1,707,865	2,642,655
Net cash outflows on acquisition of additional shares in subsidiaries		( 200,629,499)	-
Acquisition of tangible and intangible assets	14	( 57,298,094)	( 82,799,909)
Net cash used in investing activities		( 256,219,728)	( 80,157,254)
Cash flows from financing activities:			
Issuance of preferred shares by a subsidiary		-	39,724,132
Redemption of preferred shares by a subsidiary		-	( 52,762,500)
Decrease in subordinated loan		( 5,882,958)	( 6,004,545)
Net (decrease)/increase in other borrowings	21	( 113,130,177)	97,419,591
Settlement of lease liabilities	15	( 8,783,232)	-
Dividends paid	32	( 92,826,258)	( 113,281,338)
Net cash used in by financing activities		( 220,622,625)	( 34,904,660)
Net (decrease)/increase in cash and cash equivalents		( 2,909,375,939)	1,165,129,814
Unrealized currency translation adjustments		( 38,889,114)	29,856,410
Cash and cash equivalents at the beginning of year		4,336,930,236	3,141,944,012
Cash and cash equivalents at the end of year	42	1,388,665,183	4,336,930,236

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE  
CONSOLIDATED FINANCIAL STATEMENTS

**FRANSABANK S.A.L.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2019**

**1. GENERAL INFORMATION**

Fransabank S.A.L. (the “Bank”) is a Lebanese joint-stock company incorporated in 1921 registered in the Trade Register under Number 25699 and in the Central Bank of Lebanon list of banks under number 1. The consolidated financial statements of the Bank comprise the financial statements of the Bank and those of its subsidiaries collectively (the “Group”). The Group is primarily involved in investment, corporate and retail banking.

The Bank’s registered address is Fransabank Center, Hamra, P.O. Box 11-0393 Beirut, Lebanon.

No ultimate direct or indirect company controls the Group. The Group is controlled by individual shareholders of the Kassar family members.

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

<u>Investee</u>	<u>Country of Incorporation</u>	<u>Ownership Interest</u>		<u>Business Activity</u>
		<u>2019</u>	<u>2018</u>	
		<u>%</u>	<u>%</u>	
Fransa Invest Bank S.A.L.	Lebanon	99.99	99.99	Specialized Bank
Fransabank France S.A.	France	79.21	79.21	Banking
Lebanese Leasing Company S.A.L.	Lebanon	99.99	87.49	Financial Institution
Switch and Electronics Services S.A.L.	Lebanon	99.70	99.70	Financial Services
Sogefon S.A.L.	Lebanon	99.88	99.88	Real Estate Company
Fransabank Insurance Services Co. S.A.L.	Lebanon	99.70	99.70	Insurance
Fransabank El-Djazair SPA	Algeria	70.33	67.99	Banking
BLC Bank S.A.L. and its subsidiaries (BLC Services S.A.L. and BLC Finance S.A.L.)	Lebanon	97.92	74.83	Banking
Express S.A.R.L.	Lebanon	98.35	98.35	Restaurant
Fransabank OJSC	Belarus	93.17	93.17	Banking
The Kuwaiti Lebanese Company for Real Estate Services S.A.L.	Lebanon	100.00	100.00	Real Estate
F&B Holding S.A.L.	Lebanon	100.00	100.00	Holding
Al Maktab real estate	Lebanon	100.00	-	Real Estate

Financial information of subsidiaries that have material non-controlling interests is provided under Note 30.

The Group has ownership interest in the following associates:

<u>Investee</u>	<u>Country of Incorporation</u>	<u>Interests Held</u>		<u>Business Activity</u>
		<u>2019</u>	<u>2018</u>	
		<u>%</u>	<u>%</u>	
Bancassurance S.A.L.	Lebanon	60.00	60.00	Life Insurance
United Capital Bank PLC	Republic of Sudan	20.00	20.00	Islamic Banking
International Payment Network S.A.L.	Lebanon	20.30	20.30	Payment Network

Information on the Group's associates is provided under Note 12.

Information on other related party relationships is provided under Note 41.

### *The Macro Economic Environment*

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

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

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

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

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

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

### *The Group's Financial particulars*

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

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

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

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

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

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

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

As disclosed in Note 43 to these financial statements, the Group's capital adequacy ratio as at December 31, 2019, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties reflected above once these uncertainties become reasonably quantifiable. On September 2, 2020, the Bank obtained the final approval of the Central Bank of Lebanon on the first phase of the cash contribution to capital in the amount of USD82.1million (C/VLBP123.78billion), on the basis that the Bank will secure additional contributions for not less than USD156.79million by December 31, 2020 to meet the requirements of BDL intermediary circular 532 amended by intermediary circular 567 issued on August 26, 2020.

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

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

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

#### *2.1.1 IFRS 16 Leases*

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

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

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

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of the lease liability, using the interest rate at the time of first time application.

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

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



## **Impact on Lessee Accounting**

### *Former operating leases*

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

### *Right-of-use assets*

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

### *Lease liabilities*

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

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

### *Short-term leases*

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

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

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

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

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

- a) recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
- b) recognizes depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss; and
- c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

### **Financial impact of initial application of IFRS 16**

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

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

- Right-of-use assets of LBP71billion were recognized and presented within right-of-use assets.
- Lease liabilities of LBP67billion were recognized and presented within lease liability.
- Other assets of LBP6.6billion related to prepayments of previous operating leases were derecognized.

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

#### **Right of use of assets:**

	<b><u>LBP'000</u></b>
Balance at January 1, 2019	71,274,997
Depreciation expense	( 7,312,746)
Balance at December 31, 2019	<u>63,962,251</u>

#### **Lease Liability:**

	<b><u>LBP'000</u></b>
Balance at January 1, 2019	67,404,893
Interest expense	5,211,534
Settlement	( 8,783,232)
Balance at December 31, 2019	<u>63,833,195</u>

Moreover, depreciation charge for right-of-use assets presented within “Depreciation and amortization” in the consolidated financial statements. The interest charge on lease liabilities is presented within “interest expense” in the consolidated financial statements.

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

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

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

## 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:

<u>New and revised IFRSs</u>	<u>Effective for Annual Periods Beginning on or After</u>
Amendment to IFRS 3 <i>Business Combinations</i> relating to definition of a business	January 1, 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	January 1, 2020
IFRS 17 Insurance Contracts	January 1, 2023
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.	
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011):	Effective date deferred indefinitely. Adoption is still permitted.
Relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Statement of Compliance**

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

#### **Basis of Preparation**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value as explained in the accounting policies below.

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

The principal accounting policies applied are set out below:

#### **A. Basis of Consolidation:**

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

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

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

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

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

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

Consolidation of a subsidiary begins when the 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 consolidated statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

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

Adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the Bank.

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

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

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

## **B. 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 are expensed as incurred in profit or loss.

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, a bargain purchase gain is recognized immediately in profit or loss. Where applicable, adjustments are made to provisional values of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

Non-controlling interests that 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. Non-controlling interests in business acquisitions transacted so far by the Group were initially measured at the non-controlling interests' proportionate share of net assets acquired.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

### **C. Foreign Currencies:**

The consolidated financial statements are presented in Lebanese Pound (LBP) which is the reporting currency of the Group. The primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar. The Lebanese Pound official rate has been constant to the U.S. Dollar since many years.

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

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

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

### **D. 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).

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.

#### *Exchange of debt securities:*

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

#### *Repurchase and Reverse Repurchase Agreements:*

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

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

### **E. Financial assets**

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

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

Specifically:

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

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

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

#### Debt instruments at amortised cost or at FVTOCI

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

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

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

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

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



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

### Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

### Reclassifications

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

### Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

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

#### Credit-impaired financial assets

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

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

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

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

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

## Definition of default

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

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

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

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

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

## Significant increase in credit risk

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

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

## Modification and derecognition of financial assets

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

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

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

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

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

#### 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.

## **F. Equity and Financial Liabilities**

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.

### 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

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 unfavorable 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.

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.

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 48.

#### 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.

### **G. Offsetting**

Financial assets and liabilities are set-off and the net amount is presented in the statement of financial position when, and only when, the Group has a 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.

### **H. 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.

## **I. Financial guarantee contracts**

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

Financial guarantee contracts issued by the Group 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 statement of financial position and the remeasurement is presented in other revenue.

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

## **J. Hedge accounting**

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

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

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

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

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



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

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

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

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

#### Fair value hedges

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

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

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

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

### Cash flow hedges

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

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

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

### Hedges of net investments in foreign operations

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

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

### **K. 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 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.

#### **L. Property and Equipment:**

Property and equipment are stated at historical cost, less accumulated depreciation and any impairment loss.

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

Buildings	2% - 5%
Office improvements and installations	6% - 20%
Furniture, equipment and machines	8% - 20%
Computer equipment	20% - 33%
Vehicles	10% - 20%

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.

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

**M. Intangible Assets (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 expensed when incurred.

**N. Assets Acquired In Satisfaction Of Loans:**

Real estate properties acquired through the enforcement of collateral over loans and advances are stated at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities who require the liquidation of these assets within 2 years from the Banking Control Commission approval on the acquisition. In case of default of liquidation the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

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

**O. 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.

#### **P. Non-Current Assets Held for Sale:**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

#### **O. Investment Properties:**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gain or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss. Valuations are carried out by independent qualified valuers on the basis of current market values.

The Group's Cypriot entity acquires in its normal course of business properties in satisfaction of debts. These properties are directly held by the Group or by special purpose entities for the sole purpose of managing these properties. To reflect the substance of transactions, these are classified as investment properties and are consolidated without the entities being explicitly disclosed as subsidiaries.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to stock of property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

The fair value 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 statement of profit or loss.

#### **R. Provision for Employees' End-of-Service Indemnity / Staff Retirement Benefits:**

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.

#### **S. 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.

#### **T. Net Interest Income:**

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

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

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

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

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

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

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

#### **V. Income from financial assets at fair value through profit or loss**

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

#### **W. Dividend income**

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

#### **X. Income Tax:**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of the items that are never taxable or deductible. The 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.

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

## **Y. 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.

## **Z. Leasing**

### *Accounting policy applicable before January 1, 2019*

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

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

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

### *Accounting policy applied effective January 1, 2019*

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

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

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



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

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

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

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

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

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

#### **AA. Cash and Cash Equivalents:**

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

#### **AB. Dividends on ordinary shares**

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the General Assembly of the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

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 with the regulator are deferred until designated conditions for recognition are met. At the time income is received, it is deferred under “regulatory deferred liability” and applied to the designated purpose according to the regulator’s requirements.

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

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

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

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

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

#### **Going Concern:**

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

*Business model assessment:*

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

*Significant increase of credit risk:*

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

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

*Models and assumptions used:*

The Bank uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 3 and Note 42 for more details on ECL.

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

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

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

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

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

### *Probability of default:*

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

### *Loss Given Default:*

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

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

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

## 5. CASH AND DEPOSITS WITH CENTRAL BANKS

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Balance</u>	<u>of which</u>	<u>Balance</u>	<u>of which</u>
		<u>Compulsory/ Regulatory Deposits</u>		<u>Compulsory/ Regulatory Deposits</u>
<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	
Cash on hand	153,508,296	-	227,647,712	-
Current accounts with Central Bank of Lebanon (BDL)	796,009,210	492,218,855	819,679,219	612,346,929
Current accounts with other central banks	94,819,020	-	229,608,745	6,085,859
Term placements with BDL	5,908,046,556	2,258,360,653	6,150,545,133	2,311,906,236
Term placements with BDL subject to leverage arrangements	3,364,767,797	-	1,686,149,875	-
Term placements with other central banks	215,252,515	-	-	-
Accrued interest receivable	187,791,466	-	109,669,963	-
Allowance for expected credit losses (Note 46)	( 30,507,327)	-	( 45,837,720)	-
	<u>10,689,687,533</u>	<u>2,750,579,508</u>	<u>9,177,462,927</u>	<u>2,930,339,024</u>

Compulsory deposits under current accounts with Central Bank of Lebanon are in Lebanese Pounds and non-interest earning. These deposits are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds subject to certain exemptions, in accordance with the local banking regulations. These deposits are not available for use in the Group's day to day operations.

Regulatory deposits under term placements with Central Bank of Lebanon are in foreign currencies and made 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 borrowings acquired from non-resident financial institutions.

As at December 31, 2019, term placements with the Central Bank of Lebanon and Lebanese government bonds (Eurobonds) in the aggregate of LBP3,477billion (LBP1,799billion as of December 31, 2018) triggered investment in blocked deposits with the Central Bank in Lebanese Pound and collateralized investment in Lebanese Treasury bills in Lebanese Pound originated through soft leverage arrangement in Lebanese Pound for an amount of LBP4,337billion (LBP2,238billion in 2018), thus significantly enhancing the yield on the initial investment in U.S. Dollar. During 2019, the Group signed with Central Bank of Lebanon a netting agreement allowing to offset the "assets under leverage arrangement" versus the borrowing from the Central Bank. The agreement covered financial assets and liabilities resulting from transactions that took place before the netting agreement date that have not yet matured. Prior year figures were represented for comparative purpose. The related details are presented as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Term placements with Central Bank of Lebanon	3,871,069,625	1,771,949,000
Lebanese treasury bills	<u>466,138,297</u>	<u>466,136,922</u>
Total assets under leverage arrangements	4,337,207,922	2,238,085,922
Offsetting of the leverage arrangements with BDL	( 4,337,207,922)	( 2,238,085,922)
Net	<u>-</u>	<u>-</u>

The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Term placements with the Central Bank of Lebanon	3,154,245,847	1,653,199,875
Term placements with the Central bank of Lebanon in LBP originated from sale of foreign currency	190,839,950	13,268,000
Term placement with Central Bank of Lebanon in LBP originated from the swap of certificates of deposit in foreign currency	19,682,000	19,682,000
Lebanese government bonds	112,583,364	112,583,364
	<u>3,477,351,161</u>	<u>1,798,733,239</u>

#### **6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Checks in course of collection	234,135	3,344,188
Current accounts with banks and financial institutions	354,797,680	467,299,221
Term placements with banks and financial institutions	233,711,682	1,001,186,001
Term placements with related banks and financial institutions	2,751,185	10,422,557
Blocked margins with banks and financial institutions	1,059,452	4,859,804
Accrued interest receivable	125,818	4,848,870
Allowance for expected credit losses (Note 46)	( 2,946,255)	( 4,665,717)
	<u>589,733,697</u>	<u>1,487,294,924</u>

#### **7. LOANS TO BANKS**

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
<b>Performing:</b>		
Loans to banks	32,065,974	38,176,883
Accrued interest receivable	867,710	830,593
Allowance for expected credit losses (Note 46)	( 4,223,182)	( 1,898,170)
	<u>28,710,502</u>	<u>37,109,306</u>
<b>Credit Impaired:</b>		
Loan to a bank	40,956,796	32,856,839
Allowance for expected credit losses (Note 46)	( 35,153,338)	( 32,856,839)
	<u>5,803,458</u>	<u>-</u>
	<u>34,513,960</u>	<u>37,109,306</u>

## **8. SALE / ACQUISITION OF SHARES IN SUBSIDIARIES**

### **8.1 Sale of subsidiary**

During 2017, a term sheet was signed between the BLC Bank S.A.L. major shareholders, namely Fransabank S.A.L. and Sehnaoui group, whereby the subsidiary's investment in USB Bank PLC will be sold to Sehnaoui group who in turn will exit their investment at BLC Bank S.A.L. subject to certain terms and conditions including securing the regulators' approval in Cyprus and Lebanon. In its meeting held on August 16, 2018, the Board of Directors of BLC resolved to sell BLC's investment in USB Bank PLC to AstroBank Limited, a Cyprus registered bank, which is owned by a group of investors including Sehnaoui group. The sale transaction was approved by the regulators and completed in January 2019 for a total consideration of LBP98billion (EUR57million) representing the net assets of USB Bank PLC excluding its real estate properties which will be settled upon completion of certain formalities and thus remained classified as Assets held-for-sale as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Assets classified as held for sale	<u>21,732,835</u>	<u>1,297,343,966</u>
Liabilities directly associated with assets classified as held for sale	<u>769,393</u>	<u>1,172,758,271</u>

The major classes of assets and liabilities comprising the discontinued operations after the allocation of adjustments at the financial position date are as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Cash and Central Bank	-	349,945,680
Deposits with banks and financial institutions	-	31,257,384
Investment securities at amortized cost	-	5,265,192
Investment securities at fair value through profit or loss	-	187,468,507
Loans and advances to customers	-	535,505,836
Stock of property	-	103,458,337
Investment properties	20,814,615	22,094,380
Property and equipment	-	20,965,211
Intangible assets	-	1,287,286
Other assets	-	4,204,050
Deferred assets adjustments to reach fair value less cost to sell	<u>918,220</u>	<u>35,892,103</u>
Total Assets	<u>21,732,835</u>	<u>1,297,343,966</u>
Customers' accounts	-	1,143,614,288
Other liabilities	769,393	28,136,242
Provisions	-	1,007,741
Total Liabilities	<u>769,393</u>	<u>1,172,758,271</u>

The result of the discontinued operations of USB Bank PLC included in the statement of profit or loss is set out below. The comparative profit from discontinued operations has been re-presented in conformity with IFRS 5.

	<u>2018</u> <u>LBP'000</u>
<b>Profit for the year from discontinued operations</b>	
Net interest income	31,516,713
Net fee and commission income	3,740,331
(Loss)/income from securities at fair value through profit or loss	( 1,710,142)
Allowance for credit losses (net)	( 10,629,504)
Other expense (net)	( 33,523,822)
Loss for the year from discontinued operations	( 10,606,424)
Adjustments on disposal group carrying amount	<u>10,606,424</u>
	<u>-</u>

In conjunction with the sale, BLC Bank S.A.L. bought-back 10% of its own shares that were owned by Sehnaoui Holding for a total consideration of LBP74.4billion. The effect of BLC's treasury shares on the Group consolidated financial statements was LBP8.48billion reflected under Equity and calculated as follows:

	<u>BLC S.A.L.</u> <u>LBP'000</u>
Total equity at acquisition date (January 1, 2019)	659,232,505
Percentage of acquired shares	10%
Book value of acquired shares	65,923,251
Total consideration paid	( 74,403,763)
Effect of BLC's treasury shares	<u>( 8,480,512)</u>

### 8.2 Acquisition of additional shares in subsidiaries

a) Effective January 1, 2019, the Group acquired additional 13.09% ownership interest in BLC bank S.A.L. for a total consideration of LBP103.87billion of which LBP63billion will be settled over 5 years and subject to interest at the rate of 6% per annum, net of tax, reflected under "Other borrowings" (Note 21). The excess of total consideration paid over the book value of the acquired shares amounted to LBP17.6billion and was debited to retained earnings.



b) Effective January 1, 2019, the Group acquired additional 12.51% ownership interest in Lebanese Leasing Company S.A.L. for a total consideration of LBP2.56billion. The excess of total consideration paid over the book value of the acquired shares amounted to LBP182million and was debited to retained earnings.

c) During 2019, the Group subscribed in the capital increase of Fransabank El-Djazair SPA for a total consideration of LBP47.3billion increasing its ownership interest in the said subsidiary by an additional 2.34%. The excess of total consideration paid over the book value of the acquired shares amounted to LBP13.17billion and was debited to retained earnings.

d) During 2019, the Group acquired 100% ownership interest Al Maktab Real Estate S.A.L. for a total consideration of LBP4.5billion.

## **9. LOANS AND ADVANCES TO CUSTOMERS**

	<b>December 31, 2019</b>		
	<b>Gross Amount Net of Unrealized Interest</b>	<b>Allowance for Expected Credit Losses</b>	<b>Net Carrying Amount</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Performing Loans stages 1 and 2</b>			
Retail customers	2,732,793,679	( 20,571,680)	2,712,221,999
Corporates	4,457,607,868	( 151,401,770)	4,306,206,098
Small and medium enterprises	<u>1,015,545,379</u>	<u>( 15,563,494)</u>	<u>999,981,885</u>
	<u>8,205,946,926</u>	<u>( 187,536,944)</u>	<u>8,018,409,982</u>
<b>Credit Impaired Loans- Stage 3</b>			
Substandard	448,696,460	( 28,722,620)	419,973,840
Doubtful	644,012,622	( 317,140,669)	326,871,953
Bad	<u>69,699,460</u>	<u>( 56,712,363)</u>	<u>12,987,097</u>
	<u>1,162,408,542</u>	<u>( 402,575,652)</u>	<u>759,832,890</u>
Accrued interest receivable	<u>33,562,142</u>	<u>-</u>	<u>33,562,142</u>
	<u>9,401,917,610</u>	<u>( 590,112,596)</u>	<u>8,811,805,014</u>
	<b>December 31, 2018</b>		
	<b>Gross Amount Net of Unrealized Interest</b>	<b>Allowance for Expected Credit Losses</b>	<b>Net Carrying Amount</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Performing Loans stages 1 and 2</b>			
Retail customers	3,129,697,326	( 17,929,280)	3,111,768,046
Corporates	5,311,761,369	( 50,954,992)	5,260,806,377
Small and medium enterprises	<u>1,275,012,790</u>	<u>( 31,841,597)</u>	<u>1,243,171,193</u>
	<u>9,716,471,485</u>	<u>( 100,725,869)</u>	<u>9,615,745,616</u>
<b>Credit Impaired Loans- Stage 3</b>			
Substandard	290,068,119	( 21,653,213)	268,414,906
Doubtful	543,522,744	( 303,237,777)	240,284,967
Bad	<u>44,464,564</u>	<u>( 44,071,758)</u>	<u>392,806</u>
	<u>878,055,427</u>	<u>( 368,962,748)</u>	<u>509,092,679</u>
Accrued interest receivable	<u>34,986,602</u>	<u>-</u>	<u>34,986,602</u>
	<u>10,629,513,514</u>	<u>( 469,688,617)</u>	<u>10,159,824,897</u>

The carrying value of loans and advances to customers include unrealized interest amounting to LBP543billion as at December 31, 2019 (LBP755billion as at December 31, 2018).

The carrying value of loans and advances to customers include accidentally temporary debtors with carrying value amounting to LBP56.8billion as of December 31, 2019 (LBP90.1billion in 2018).

The carrying value of loans and advances to customers include loans to related parties in the aggregate of LBP30billion as of December 31, 2019 (LBP32billion in 2018).

## 10. INVESTMENT SECURITIES

The investment securities outstanding as at December 31, 2019 and 2018 are detailed as follows:

<b>December 31, 2019</b>				
<b>Fair Value through Profit or Loss LBP'000</b>	<b>Amortized Cost LBP'000</b>	<b>Fair Value through Other Comprehensive income LBP'000</b>	<b>Total LBP'000</b>	
Equity and preferred shares	11,186,090	-	226,084,597	237,270,687
Lebanese treasury bills	20,610,224	1,668,561,303	117,361,412	1,806,532,939
Lebanese government bonds	21,264,458	2,094,435,838	196,295,717	2,311,996,013
Certificates of deposit issued by BDL	-	2,782,186,361	4,081,606	2,786,267,967
Foreign Eurobonds	20,006,531	-	-	20,006,531
Corporate bonds	-	90,648,363	16,118,411	106,766,774
Bonds issued by banks	13,398,749	26,888,643	-	40,287,392
Asset-backed securities	-	13,245,528	-	13,245,528
Term placements with BDL	113,824,848	-	-	113,824,848
	<u>200,290,900</u>	<u>6,675,966,036</u>	<u>559,941,743</u>	<u>7,436,198,679</u>
Allowance for expected credit losses (Note 46)	-	( 173,854,779)	( 3,687,040)	( 177,541,819)
Accrued interest receivable	1,908,567	115,790,984	3,998,032	121,697,583
	<u>202,199,467</u>	<u>6,617,902,241</u>	<u>560,252,735</u>	<u>7,380,354,443</u>
<b>December 31, 2018</b>				
<b>Fair Value Through Profit or Loss LBP'000</b>	<b>Amortized Cost LBP'000</b>	<b>Fair Value Through Other Comprehensive Income LBP'000</b>	<b>Total LBP'000</b>	
Equity and preferred shares	22,769,331	52,724	447,453,939	470,275,994
Lebanese treasury bills	20,548,354	1,808,185,043	212,809,098	2,041,542,495
Lebanese government bonds	21,797,302	2,338,745,809	230,327,033	2,590,870,144
Certificates of deposit issued by the Central Bank of Lebanon	-	3,670,267,549	14,061,664	3,684,329,213
Foreign Eurobonds	39,623,424	6,375,000	-	45,998,424
Corporate bonds	199,856	118,589,953	4,873,305	123,663,114
Bonds issued by banks	-	142,129,102	-	142,129,102
Asset-backed securities	-	18,201,794	-	18,201,794
Term placements with BDL	121,754,991	-	-	121,754,991
	<u>226,693,258</u>	<u>8,102,546,974</u>	<u>909,525,039</u>	<u>9,238,765,271</u>
Allowance for expected credit losses (Note 46)	-	( 56,752,837)	( 4,503,370)	( 61,256,207)
Accrued interest receivable	2,132,908	159,243,942	7,245,593	168,622,443
	<u>228,826,166</u>	<u>8,205,038,079</u>	<u>912,267,262</u>	<u>9,346,131,507</u>

During 2019, 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 LBP573billion and in U.S. Dollar with a nominal value of LBP164billion against term placements issued by the Central Bank of Lebanon in Lebanese Pounds with a nominal value of LBP21billion and in US Dollar with a nominal value of LBP758billion. The above transactions resulted in aggregate losses in the amount of LBP27.87billion which are deferred as a yield adjustment to be amortized to profit or loss over the period remaining to maturity of the acquired term placements and reflected under “other assets” (Note 17). An amount of LBP1.03billion was amortized and recorded under “Interest income” in the consolidated statement of profit or loss for the year ended December 31, 2019.

The Group has Lebanese treasury bills, Lebanese government bonds and certificates of deposit issued by BDL classified at amortized cost with carrying value of LBP619billion as of December 31, 2019 that are pledged against soft loans and credit facilities granted by the Central Bank of Lebanon – (Notes 21 & 45) (LBP634billion in 2018).

*10.1 Investments at Fair Value through Other Comprehensive Income:*

	<b>December 31, 2019</b>		
	<b>Cost</b>	<b>Fair Value</b>	<b>Cumulative Change in Fair Value</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Equity and preferred shares	211,429,500	226,084,597	14,655,097
Lebanese treasury bills	116,137,857	117,361,412	1,223,555
Lebanese government bonds	202,613,364	196,295,717	( 6,317,647)
Certificates of deposits issued by the Central Bank of Lebanon	3,999,998	4,081,606	81,608
Corporate bonds	<u>16,118,411</u>	<u>16,118,411</u>	-
	<u>550,299,130</u>	<u>559,941,743</u>	9,642,613
Less: Deferred taxes			( 2,582,375)
			<u>7,060,238</u>
	<b>December 31, 2018</b>		
	<b>Cost</b>	<b>Fair Value</b>	<b>Cumulative Change in Fair Value</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Equity and preferred shares	210,224,880	447,453,939	237,229,059
Lebanese treasury bills	211,076,598	212,809,098	1,732,500
Lebanese government bonds	241,779,420	230,327,033	( 11,452,387)
Certificates of deposit issued by the Central Bank of Lebanon	14,376,490	14,061,664	( 314,826)
Corporate bonds	<u>4,873,305</u>	<u>4,873,305</u>	-
	<u>682,330,693</u>	<u>909,525,039</u>	227,194,346
Less: Deferred taxes			( 40,077,526)
			<u>187,116,820</u>

## 11. 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). These acceptances are presented net of their related expected loss allowance amounting to LBP1.9billion (Note 46) as at December 31, 2019 (LBP1.3billion as at December 31, 2018). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

## 12. INVESTMENTS IN ASSOCIATES

Investments in associates, which are not listed, are as follows:

	<u>Country of Incorporation</u>	<u>Interest Held</u>		<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
		<u>%</u>	<u>%</u>	<u>LBP'000</u>	<u>LBP'000</u>
Bancassurance S.A.L	Lebanon	60.00	60.00	40,234,260	66,022,769
United Capital Bank	Republic of Sudan	20.00	20.00	15,812,384	14,369,186
International payment Network	Lebanon	20.30	20.30	<u>1,651,849</u>	<u>1,645,645</u>
				<u>57,698,493</u>	<u>82,037,600</u>

Even though, the Group's interest in Bancassurance S.A.L. is 60%, the management determined that it does not control this entity on the basis that according to the shareholders' agreement, the relevant activities of Bancassurance are directed on the basis of 75% votes of the Board of Directors which does not give the Group power over the investee.

The following table summarizes the financial information of Bancassurance and United Capital Bank before intercompany eliminations:

	<u>Bancassurance</u>		<u>United Capital Bank</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Cash and banks	166,716,506	162,597,171	43,132,366	55,753,706
Loans and advances	-	-	99,271,122	96,701,006
Investment securities	437,972,431	481,636,417	461,302	551,100
Other assets	22,166,717	22,118,773	25,393,106	33,988,157
Deposits from banks	-	-	( 2,206,242)	( 5,131,106)
Deposits from customers	-	-	( 63,186,024)	( 56,908,374)
Equity of unrestricted investment account holders	-	-	( 41,724,858)	( 42,123,780)
Insurance contracts liabilities	( 559,480,570)	( 557,112,549)	-	-
Other liabilities and provisions	( 17,034,975)	( 15,919,409)	( 8,694,367)	( 10,993,141)
Net assets	<u>50,340,109</u>	<u>93,320,403</u>	<u>52,446,405</u>	<u>71,837,568</u>
Group's share in net assets (excluding Goodwill)	<u>30,204,065</u>	<u>55,992,242</u>	<u>10,489,281</u>	<u>14,367,513</u>
Net revenues	63,604,338	63,005,604	8,809,948	9,032,359
Net income from financial assets at FVTPL	( 1,574,808)	( 471,302)	-	-
Claims paid and change in insurance liabilities	( 18,497,471)	( 20,743,604)	-	-
Other income (net)	31,674	32,703	3,451,586	10,662,272
Operating expenses	( 8,045,747)	( 8,636,558)	( 6,968,411)	11,839,015
Income tax expense	( 1,327,445)	( 1,422,863)	( 2,137,248)	( 1,457,698)
Allowance for expected credit losses	( 58,446,634)	( 757,987)	-	-
Net (loss)/profit for the year	<u>( 24,256,093)</u>	<u>31,005,993</u>	<u>3,155,875</u>	<u>30,075,948</u>
Group's share in net (loss)/profit	<u>( 14,553,656)</u>	<u>18,603,596</u>	<u>631,175</u>	<u>6,015,190</u>

Below is the reconciliation of the carrying amount of investments in associates:

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Balance at January 1	82,037,600	79,301,461
Dividends received	( 10,458,933)	( 9,999,517)
Share in net (loss)/profit (Note 38)	( 13,515,968)	19,232,095
Board of directors' remuneration	( 74,747)	( 69,030)
Property revaluation surplus	-	5,680,676
Effect of adoption IFRS 9	-	( 3,921,634)
Currency translation adjustment	( 289,459)	( 8,186,451)
Balance at December 31	<u>57,698,493</u>	<u>82,037,600</u>

### 13. ASSETS ACQUIRED IN SATISFACTION OF LOANS

This caption represents foreclosed real estate properties acquired through enforcement of security over loans and advances to customers.

The movement of this caption is presented as follows:

	<u>Cost</u> <u>LBP'000</u>	<u>Impairment allowance</u> <u>LBP'000</u>	<u>Carrying Value</u> <u>LBP'000</u>
Balance at January 1, 2018	224,928,427	( 13,357,067)	211,571,360
Foreclosures	18,901,863	-	18,901,863
Disposals	( 1,238,962)	226,626	( 1,012,336)
Value adjustments	( 2,344,624)	-	( 2,344,624)
Transfer to property and equipment	( 164,025)	-	( 164,025)
Balance at December 31, 2018	240,082,679	( 13,130,441)	226,952,238
Foreclosures	3,666,270	-	3,666,270
Disposals	( 1,541,962)	202,686	( 1,339,276)
Currency translation adjustments	( 264,345)	-	( 264,345)
Balance at December 31, 2019	<u>241,942,642</u>	<u>( 12,927,755)</u>	<u>229,014,887</u>

According to the Lebanese banking regulations, the acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these are classified as “Assets acquired in satisfaction of loans” and should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 or 20 years as applicable. These assets are carried at cost less impairment allowance.

Gain on disposals amounted to LBP284million (LBP1.13billion in 2018) recorded under other income in the statement of profit or loss (Note 38).

## **14. TANGIBLE AND INTANGIBLE ASSETS**

### **14.1 Property and Equipment**

	<b>Balance at January 1, 2019</b>	<b>Additions and Transfers</b>	<b>Disposals</b>	<b>Currency Translation Adjustment</b>	<b>Balance at December 31, 2019</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Cost:</b>					
Owned properties	345,214,316	42,749,719	( 31,532)	( 440,304)	387,492,199
Furniture, equipment and computers	170,476,732	20,753,792	( 6,070,301)	( 426,068)	184,734,155
Vehicles	6,630,435	525,053	( 231,351)	3,091	6,927,228
Office improvements and installations	139,723,978	9,208,420	( 486,238)	( 69,051)	148,377,109
Advance payments	<u>39,528,930</u>	<u>( 21,433,045)</u>	<u>-</u>	<u>-</u>	<u>18,095,885</u>
	<u>701,574,391</u>	<u>51,803,939</u>	<u>( 6,819,422)</u>	<u>( 932,332)</u>	<u>745,626,576</u>
Accumulated depreciation	<u>(252,806,945)</u>	<u>( 26,260,720)</u>	<u>6,205,788</u>	<u>( 17,213)</u>	<u>( 272,879,090)</u>
Provision for impairment	<u>( 3,438,425)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 3,438,425)</u>
Net carrying value	<u>445,329,021</u>				<u>469,309,061</u>

	<b>Balance at January 1, 2018</b>	<b>Additions and Transfers</b>	<b>Disposals</b>	<b>Currency Translation Adjustment</b>	<b>Balance at December 31, 2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Cost:</b>					
Owned properties	338,479,256	11,811,334	( 1,142,685)	( 3,933,589)	345,214,316
Furniture, equipment and computers	114,555,822	49,528,539	( 5,105,879)	11,498,250	170,476,732
Vehicles	6,102,025	1,104,928	( 587,169)	10,651	6,630,435
Office improvements and installations	120,319,154	17,613,248	993,844	797,732	139,723,978
Advance payments	<u>62,323,237</u>	<u>( 5,661,553)</u>	<u>( 2,852,714)</u>	<u>( 14,280,040)</u>	<u>39,528,930</u>
	<u>641,779,494</u>	<u>74,396,496</u>	<u>( 8,694,603)</u>	<u>( 5,906,996)</u>	<u>701,574,391</u>
Accumulated depreciation	<u>(234,061,409)</u>	<u>( 25,771,291)</u>	<u>6,762,262</u>	<u>263,493</u>	<u>( 252,806,945)</u>
Provision for impairment	<u>( 3,438,425)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 3,438,425)</u>
Net carrying value	<u>404,279,660</u>				<u>445,329,021</u>

### **14.2 Intangible Assets**

	<b>Balance at January 1, 2019</b>	<b>Additions and Transfers from Advance Payments</b>	<b>Disposals</b>	<b>Currency Translation Adjustment and other Movements</b>	<b>Balance at December 31, 2019</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Cost:</b>					
Purchase software	33,042,490	4,418,354	( 152,645)	( 49,614)	37,258,585
Licenses	1,258,613	-	-	( 1,258,613)	-
Key money	<u>39,785</u>	<u>96,745</u>	<u>( 20,066)</u>	<u>346</u>	<u>116,810</u>
	<u>34,340,888</u>	<u>4,515,099</u>	<u>( 172,711)</u>	<u>( 1,307,881)</u>	<u>37,375,395</u>
Accumulated Depreciation:					
Purchase software	<u>( 21,033,252)</u>	<u>( 4,104,029)</u>	<u>158,378</u>	<u>33,279</u>	<u>( 24,945,624)</u>
Key money	<u>( 25,128)</u>	<u>( 3,582)</u>	<u>8,601</u>	<u>44</u>	<u>( 20,065)</u>
	<u>( 21,058,380)</u>	<u>( 4,107,611)</u>	<u>166,979</u>	<u>33,323</u>	<u>( 24,965,689)</u>
Advance payments	<u>4,528,067</u>	<u>3,203,158</u>	<u>-</u>	<u>-</u>	<u>7,731,225</u>
Carrying value	<u>17,810,575</u>				<u>20,140,931</u>

	<b>Balance at January 1, 2018</b>	<b>Additions and Transfers from Advance Payments</b>	<b>Disposals</b>	<b>Currency Translation Adjustment and other Movements</b>	<b>Balance at December 31, 2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Cost:</b>					
Purchase software	30,815,356	6,473,744	( 5,515,429)	1,268,819	33,042,490
Licenses	1,198,007	-	-	60,606	1,258,613
Key money	<u>196,017</u>	<u>5,175</u>	<u>( 29,592)</u>	<u>( 131,819)</u>	<u>39,781</u>
	<u>32,209,380</u>	<u>6,478,919</u>	<u>( 5,545,021)</u>	<u>1,197,606</u>	<u>34,340,884</u>
Accumulated Depreciation:					
Purchase software	( 22,417,084)	( 3,925,980)	5,448,005	( 138,193)	( 21,033,252)
Licenses	( 391,955)	-	-	391,955	-
Key money	<u>( 196,017)</u>	<u>( 5,175)</u>	<u>29,592</u>	<u>146,476</u>	<u>( 25,124)</u>
	<u>( 23,005,056)</u>	<u>( 3,931,155)</u>	<u>5,477,597</u>	<u>400,238</u>	<u>( 21,058,376)</u>
Advance payments	<u>2,956,833</u>	<u>1,924,490</u>	<u>-</u>	<u>( 353,256)</u>	<u>4,528,067</u>
Carrying value	<u>12,161,157</u>				<u>17,810,575</u>

## **15. RIGHT OF USE ASSETS / LEASE LIABILITY**

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

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

The movement of the Group's right-of-use assets and lease liabilities during the year ended December 31, 2019 is summarized as follows:

	<b>Right-of-use Assets</b>	<b>Lease Liabilities</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Balance at January 1, 2019	71,274,997	67,404,893
Depreciation expense	( 7,312,746)	-
Interest expense (Note 34)	-	5,211,534
Settlements	<u>-</u>	<u>( 8,783,232)</u>
Balance at December 31, 2019	<u>63,962,251</u>	<u>63,833,195</u>

Moreover, depreciation charge for right-of-use assets presented within "Depreciation and amortization". The interest charge on lease liabilities is presented within "interest expense"



## **16. GOODWILL**

Goodwill is derived from acquisition of control of subsidiaries as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Fransabank OJSC - Belarus	720,704	720,704
BLC Bank S.A.L.	44,095,440	44,095,440
Ahli International Bank S.A.L. (merger)	<u>4,087,509</u>	<u>4,087,509</u>
	<u>48,903,653</u>	<u>48,903,653</u>

## **17. OTHER ASSETS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Deferred assets on business acquisition (a)	7,160,625	15,521,543
Deferred interest on customers' deposits (b)	13,019,987	-
Derivative assets held for risk management (c)	5,741,163	2,553,079
Deferred tax asset	3,938,632	3,308,798
Regulatory blocked deposit (d)	7,409,636	7,313,454
Assets in process of acquisition in settlement of loans (e)	1,011,272	1,011,272
Deferred charges on long term placements with BDL (f)	1,122,599	1,521,495
Deferred losses on exchange of debt securities (Note 10)	27,872,405	-
Other deferred charges	1,222,724	259,297
Prepayments	16,590,372	28,777,272
Foreign exchange operations	211,119	36,324
Accrued income	1,400,937	1,734,826
Sundry accounts receivable	72,213,224	49,162,571
Allowance for expected credit losses (Note 46)	<u>( 1,199,478)</u>	<u>( 1,696,478)</u>
	<u>157,715,217</u>	<u>109,503,453</u>

- (a) Deferred assets on business acquisition represent what was compensated by the Central Bank of Lebanon in the form of future cash flows and benefits originated from the soft loans granted to the Group on acquisition of Al Ahli International Bank S.A.L. (refer to Note 21 f).

The Group is amortizing these deferred assets against the reduction of future economic benefits derived from the soft loans and thus the carrying value of these deferred assets corresponds to the present value of future cash flows expected to be derived from the soft loans.

The amortization charge for the year 2019 was LBP8.36billion (LBP5.96billion during 2018) and is treated as a yield adjustment to the interest income on the pledged Lebanese treasury bills acquired from the soft loan proceeds.

- (b) Deferred interest on customers' deposits represent upfront commission on certain customers' deposits that will be amortized over the period of the corresponding deposits as a yield adjustment to the interest expenses of these deposits.
- (c) The derivative assets held for risk management consist of the following:

	<b>Fair Value as at</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Over-the counter (OTC) structured derivative	<u>5,741,163</u>	<u>2,553,079</u>

The OTC structured derivative is designated as a fair value hedge. The OTC structured derivative represents an embedded derivative in two structured deposit product which guarantee a minimum redemption value of 100% (Note 19).

- (d) The regulatory blocked deposits represent non-interest earning compulsory deposits placed with the Lebanese Treasury during 2019 and 2018 and the Central Bank of Syria during 2016 upon the inception of banks according to Article 132 of the Lebanese Code of Money and Credit and Article 19 of the Syrian Law No.28 respectively and are refundable in case of cease of operations.
- (e) Foreclosed assets not yet registered represent the value of loans written-off against enforcement of real estate security held and will be reallocated to "Assets Acquired in Settlement of Loans" when the registration in the name of the Group is finalized.
- (f) Deferred charges on long term placements with BDL represent commissions paid by the Bank on long term placements with Central Bank of Lebanon. These commissions are amortized over the life of the corresponding placements as a yield adjustment to the interest income of these placements.

## **18. DEPOSITS AND BORROWINGS FROM BANKS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Current deposits of banks and financial institutions	75,938,013	45,716,408
Current deposits - related parties	31,718,656	10,912,588
Money market deposits - Banks and financial institutions	-	163,840,172
Money market deposits - related parties	26,563,746	22,411,442
Other short term borrowings	130,151,547	61,865,891
Repurchase agreements (a)	4,381,262	-
Accrued interest payable	2,642,556	2,255,499
Accrued interest payable - related parties	<u>381,083</u>	<u>1,973,112</u>
	<u>271,776,863</u>	<u>308,975,112</u>

- (a) During 2019, the Group entered into repurchase transactions with foreign financial institution to sell Lebanese Eurobonds under agreement to repurchase them. These transactions are subject to call margin to be deposited by the Group as collateral in case the securities decline in value. As at December 31, 2019, the carrying amount and the fair value of the Lebanese Eurobonds sold under agreements to repurchase was LBP324billion (USD215million) and LBP143billion (USD95million), respectively. Those securities are reflected in the statement of financial position under “debt securities at amortized cost” (Note 10). As a result of the decline in value of these collateralized Lebanese Eurobonds, the Group deposited a call margin in the amount of LBP109billion as of December 31, 2019 that was netted from the corresponding repurchase agreements as follows:

	<b>December 31, 2019</b>
	<b>LBP'000</b>
Proceeds from repurchase agreements:	
- 4.5% maturity January 8, 2020	113,062,500
Less: Cash margin	( 108,681,238)
Net	<u>4,381,262</u>

#### **19. LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Customers' deposits with guaranteed capital at fair value through profit or loss	99,710,838	109,683,074
Accrued interest payable	<u>753,594</u>	<u>779,889</u>
	<u>100,464,432</u>	<u>110,462,963</u>

Certain deposits from customers have been designated at fair value through profit or loss as they are matched with an embedded derivative. An accounting mismatch would arise if customers' deposits were accounted for at amortized cost, because the related derivative is measured at fair value with movements in the fair value taken through the statement of profit or loss. By designating those deposits from customers at fair value, the movements in the fair value of these deposits are recorded in the statement of profit or loss. These instruments provide notional amounts protection for customers equivalent to 100% of the initially invested amount.

Liabilities measured at fair value through profit or loss include related parties' deposits as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Customers' deposits with guaranteed capital at fair value through profit or loss	2,557,612	2,557,612
Accrued interest payable	<u>16,727</u>	<u>16,727</u>
	<u>2,574,339</u>	<u>2,574,339</u>

The fair value recognized on these deposits and the related derivatives is as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Customers' deposits at fair value through profit or loss	99,710,838	109,683,074
Related derivative contracts (Note 17)	5,741,163	2,553,079

## **20. DEPOSITS FROM CUSTOMERS AND RELATED PARTIES**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Deposits from customers:		
- Current / demand deposits	2,914,656,768	3,036,627,137
- Term deposits	18,928,110,926	19,722,865,475
- Collateral against loans and advances	1,077,227,678	2,021,247,974
Margins and other collateral:		
- Margins for irrevocable import letters of credit	171,227,646	251,245,522
- Margins on letters of guarantee	83,487,256	73,642,833
- Other margin	117,103,238	146,115,197
- Blocked accounts	95,924,245	104,529,356
Accrued interest payable	223,020,145	195,205,243
	<u>23,610,757,902</u>	<u>25,551,478,737</u>

Deposits from customers include deposits from related parties detailed as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Current assets	23,526,139	10,432,200
Term deposits	788,644,415	1,415,265,260
Collateral against loans and advances	1,473,184	14,108,181
Margins	3,218,782	27,049
Blocked accounts	-	2,632,393
Accrued interest payable	50,737,768	38,181,279
	<u>867,600,288</u>	<u>1,480,646,362</u>

Deposits from customers at amortized cost include coded deposit accounts totaling LBP436billion (LBP471billion in 2018). These accounts are subject to the provisions of Article 3 of the Lebanese 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 fiduciary deposits received from resident and non-resident banks for a total amount of LBP125billion (LBP418billion respectively in 2018).

## 21. OTHER BORROWINGS

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Borrowings from European Investment Bank (a)	92,250,970	108,675,233
Borrowings from Agence Française de Développement (b)	27,135,000	27,135,000
Borrowings from International Finance Corporation (c)	38,985,397	47,046,892
Borrowings from Arab Trade Financing Program (d)	6,208,469	16,750,265
Borrowings from Central Bank of Lebanon (e)	899,170,743	1,004,063,597
Soft loans from Central Bank of Lebanon (f)	243,634,643	261,391,256
Borrowings from Green for Growth Fund - GGF	6,852,273	7,537,500
Borrowings from SANAD (h)	30,150,000	30,150,000
Reconstruction and Development International Bank	1,100,845	1,100,475
Green bonds (g)	90,450,000	90,450,000
Payable on acquisition of additional shares in subsidiaries (note 8)	63,027,194	-
Other borrowings	<u>397,485</u>	<u>17,714,295</u>
	1,499,363,019	1,612,014,513
Accrued interest payable	<u>8,258,222</u>	<u>4,702,457</u>
	<u><u>1,507,621,241</u></u>	<u><u>1,616,716,970</u></u>

### **a) Borrowings from European Investment Bank:**

Borrowings from European Investment Bank consist of 3 credit lines for further on lending to SMEs and corporates customers operating in the productive sectors of the economy. These lines are as follows:

- 12-year EUR45 million credit line granted in 2014
- 7-year EUR75 million credit line granted in 2017

These borrowings will be settled in several installments maturing between 2020 and 2026.

### **(b) Borrowing from Proparco:**

The borrowing from Proparco, a subsidiary of Agence Française de Développement, represents a 7 years line of credit for a limit of USD18million (LBP27billion) that will enable the Group to support Lebanese SMEs and corporates in difficulty . This borrowing matures in 2025.

### **(c) Borrowing from International Finance Corporation:**

During 2014, a borrowing in the amount of USD10million was granted to the Bank to be used to finance eligible sustainable energy finance projects (SEF). This borrowing is to be settled semiannually starting June 2016. This borrowing matures in 2024. During 2016, new borrowing in the amount of USD20million was granted to the Bank. This borrowing is to be settled semiannually by an amount of LBP1.78billion. This borrowing matures in 2026.

**(d) Borrowing from Arab Trade Financing Program:**

The borrowing from Arab Trade Financing Program consists of a revolving line of credit for USD24million (LBP36billion) granted since 2000 to support Inter-Arab Trade exchanges. This line is being renewed every 2 years. The current line will mature in October 2020.

**(e) Borrowings from Central Bank of Lebanon:**

Borrowings from Central Bank of Lebanon represent facilities following Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans that the Bank has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. Part of these facilities is collateralized by Lebanese treasury bills amounting to LBP25.9billion (LBP25.9billion in 2018).

**(f) Soft Loans from Central Bank of Lebanon:**

This caption represents soft loans granted by the Central Bank of Lebanon as detailed below:

	<u>Date Granted</u>	<u>Maturity Date</u>	<u>Carrying Value</u>	
			<u>December 31,</u>	
			<u>2019</u>	<u>2018</u>
			<u>LBP'000</u>	<u>LBP'000</u>
Soft loan against merger with Al Ahli International Bank S.A.L.	December 26, 2014	December 21, 2020	243,589,400	243,589,400
Soft loan against subsidized loan	December 30, 2015	December 30, 2021	45,243	67,856
Soft loan against providing liquidity to cover 60% of the replacement value of buildings and equipment pertaining to four of the bank's clients who were directly damaged from the July 2006 Lebanon war:	March 29, 2012	March 21, 2019	-	17,734,000

Soft loans are secured by pledged Lebanese treasury bills for the same amount (Note 45).

**(g) Green Bonds:**

During 2018, the Bank issued bonds in the amount of USD60million for a period of 7 years. These bonds are subject to a fixed annual interest rate of 6.788% and mature in 2025.

**(h) Borrowing from SANAD Fund for MSME:**

In 2017, a 7-year credit line in the amount of US\$20 million was granted to the Bank by SANAD Fund for MSME to finance SMEs operating in all productive sectors of the economy. This borrowing is to be settled semi-annually starting January 2020 and will mature in January 2025.

**22. SUBORDINATED LOAN**

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Loan from Proparco (7.61%)	<u>6,375,006</u>	<u>12,749,832</u>

This caption represents a loan according to a contract signed between the Bank and "Proparco" on January 19, 2010 for an amount of USD21,144,000 and is to be settled over a period of 10 years including a 6-year grace period. The Group started to accrue interest effective June 30, 2010 and this interest is payable on July 15 of each year starting year 2011. Repayment of principal started on July 15, 2016.

### 23. OTHER LIABILITIES

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Current tax liability (a)	9,084,371	16,804,615
Deferred tax liability on items recognized in other comprehensive income (Note 29)	2,582,375	40,077,526
Deferred tax liability on undistributed profits of subsidiaries and associates of the Bank	35,001,479	15,031,546
Other deferred income tax liability	9,362,146	2,581,820
Withholding and other taxes payable	39,666,016	30,944,610
Due to the Social Security National Fund	2,913,509	3,143,535
Checks and incoming payment orders in course of settlement	19,262,208	20,590,987
Blocked capital subscriptions for companies under incorporation	91,416	414,764
Accrued expenses	53,562,417	52,182,279
Accrued interest payable - Subordinated loan	755,996	1,247,864
Financial guarantee contracts issued	140,681	654,419
Payable to non-controlling interests of a subsidiary under liquidation	18,842	11,349
Regulatory deferred liability (b)	-	-
Sundry accounts payable	72,581,572	119,950,349
	<u>245,023,028</u>	<u>303,635,663</u>

(a) Below is the reconciliation of income tax expense:

	<u>2019</u>	<u>2018</u>
	<u>LBP'000</u>	<u>LBP'000</u>
(Loss)/profit before tax from continuing operations	( 142,971,943)	302,879,624
Income tax on enacted applicable rates	( 10,199,831)	54,887,014
Effect of non-deductible expense and non-taxable income	28,835,586	( 25,453,211)
Income tax expense	18,635,755	29,433,803
Less: Tax paid in advance and deferred tax	( 9,551,384)	( 12,629,188)
	<u>9,084,371</u>	<u>16,804,615</u>

(b) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from sale of treasury bills and certificates of deposit in Lebanese Pound against investment in medium and long term Lebanese Government bonds and certificates of deposit 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, 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 LBP440billion of which an amount of LBP22billion was recognized in the statement of profit or loss. The remaining surplus of LBP356billion, net of tax in the amount of LBP62.7billion, 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, tax payable on regulatory deferred liability was settled.

This account was constituted as follows:

	<u><b>LBP'000</b></u>
Total surplus	440,416,318
Recognized contribution	( 22,154,654)
Deferred regulatory liability	418,261,664
Tax on deferred regulatory liability	( 62,739,249)
Deferred regulatory liability – net of tax	<u>355,522,415</u>

The movement of this account during 2018 was as follows:

	<u><b>December 31, 2018</b></u> <u><b>LBP'000</b></u>
Balance, January 1	326,510,510
Appropriated to retained earnings	( 322,153,582)
Transfer to collective provision and other movement	8
Transfer to provision for contingencies (Note 24)	( 4,191,103)
Appropriation to other income (Note 38)	( 165,833)
Balance, December 31	<u>-</u>

## **24. PROVISIONS**

Provisions consist of the following:

	<u><b>December 31,</b></u>	
	<u><b>2019</b></u>	<u><b>2018</b></u>
	<u><b>LBP'000</b></u>	<u><b>LBP'000</b></u>
Provision for staff termination indemnities	31,879,307	36,006,788
Provision for contingencies	18,892,628	14,721,657
Provision for expected credit loss on off balance sheet commitments (Note 46)	16,015,104	9,457,562
Provision for loss on foreign currency position	10,210,613	1,424,690
Provision for off-balance sheet risk	240,177	240,000
Other provisions	2,133,204	99,856
	<u>79,371,033</u>	<u>61,950,553</u>



The movement of provision for staff termination indemnities is as follows:

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Balance at January 1	36,006,788	35,011,326
Additions	1,024,139	5,044,471
Settlements	( 5,151,621)	( 4,049,009)
Balance at December 31	<u>31,879,306</u>	<u>36,006,788</u>

The movement of the provision for contingencies was as follows:

	<u>2019</u> <u>LBP'000</u>	<u>2018</u> <u>LBP'000</u>
Balance at January 1	14,721,657	11,249,790
Additions	4,583,387	7,169,108
Settlements	( 1,565,075)	( 717,813)
Write offs	( 28,164)	-
Transfer from deferred liabilities (Note 23)	-	4,191,103
Transfer to allowance for off-balance sheet risk	-	( 9,195,750)
Effect of exchange rates changes	-	( 289,375)
Reclassification from other liabilities	<u>1,180,823</u>	<u>2,314,594</u>
Balance at December 31	<u>18,892,628</u>	<u>14,721,657</u>

## **25. ORDINARY SHARES**

At December 31, 2019 and 2018, the authorized ordinary share capital of the Bank was LBP438.5billion consisting of 21,925,000 fully paid shares of LBP20,000 each.

Up to 2019 year-end, the Bank has established a fixed exchange position in the amount of USD90,482,508 (USD172,179,882 up to 2018 year-end) authorized by Central Bank of Lebanon to hedge its equity against exchange fluctuations within the limit of 60% of equity denominated in Lebanese Pounds.

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

The shareholders' cash contribution to capital is for a total amount of LBP17.1billion (USD11,352,494) as at December 31, 2019 and 2018 and it is subject to a yearly interest of 7.5% payable from unrestricted profits after securing the approval of Central Bank of Lebanon. Related interest expense for 2019 amounted to LBP1.28billion (note 34) that was accrued for as of December 31, 2019.

This sort of financial instrument is accounted for in foreign currency and therefore allows hedging against national currency exchange fluctuation.

## **27. PREFERRED SHARES**

This caption consists of the following:

	<b>Nominal Value</b>		<b>Share Premium</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Preferred shares Series "C"	7,500,000	7,500,000	105,562,500	105,562,500
Preferred shares Series "D"	8,500,000	8,500,000	119,637,500	119,637,500
Preferred shares Series "E"	10,500,000	10,500,000	147,787,500	147,787,500
Preferred shares Series "F"	<u>7,500,000</u>	<u>7,500,000</u>	<u>105,562,500</u>	<u>105,562,500</u>
	<u>34,000,000</u>	<u>34,000,000</u>	<u>478,550,000</u>	<u>478,550,000</u>

On December 21, 2012, the Bank issued 375,000 non-cumulative redeemable Series "C" preferred shares with nominal value of LBP20,000 each at an issue price of USD200 per share. These shares may be redeemed within 60 days of the ordinary general assembly of shareholders held to approve the accounts of the Bank for the year 2017 and within 60 days following the date of each subsequent ordinary general assembly of shareholders held to approve the annual accounts of the Bank for the immediate preceding fiscal year. The Bank distributed USD13.5 per preferred share Series "C" during 2019 and 2018 out of 2018 and 2017 net income.

On December 15, 2014, the Bank issued 425,000 non-cumulative redeemable series "D" preferred shares with nominal value of LBP20,000 each at an issue price of USD200 per share. These shares may be redeemed within 90 days of the ordinary general assembly of shareholders held to approve the accounts of the Bank for the year 2019 and within 90 days following the date of each subsequent ordinary general assembly of shareholders held to approve the annual accounts of the Bank for the immediate preceding fiscal year. The Bank distributed USD13 per preferred share Series "D" during 2019 and 2018 out of 2018 and 2017 net income.

On December 2015, the Bank issued 525,000 non-cumulative redeemable series "E" preferred shares with nominal value of LBP20,000 each at an issue price of USD200 per share. These shares may be redeemed within 90 days of the ordinary general assembly of shareholders held to approve the accounts of the Bank for the year 2020 and within 90 days following the date of each subsequent ordinary general assembly of shareholders held to approve the annual accounts of the Bank for the immediate preceding fiscal year. The Bank distributed USD13.5 per preferred share Series "E" during 2019 and 2018 out of 2018 and 2017 net income.

On December 2017, the Bank issued 375,000 non-cumulative redeemable series "F" preferred shares with nominal value of LBP20,000 each at an issue price of USD200 per share. These shares may be redeemed within 90 days of the ordinary general assembly of shareholders held to approve the accounts of the Bank for the year 2022 and within 90 days following the date of each subsequent ordinary general assembly of shareholders held to approve the annual accounts of the Bank for the immediate preceding fiscal year. The Bank distributed USD14 per preferred shares Series "F" during 2019 out of 2018 and 2017 net income.

## **28. NON-DISTRIBUTABLE RESERVES**

Non-distributable reserves consist of the following:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Legal reserve (a)	241,836,313	234,308,143
Non-distributable general reserve	482,054,870	307,888,051
Reserve for assets acquired in satisfaction of loans	131,873,557	107,499,289
Property revaluation reserve	<u>51,423,111</u>	<u>51,384,665</u>
	<u>907,187,851</u>	<u>701,080,148</u>

- (a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of the yearly net profits. This reserve is not available for distribution.
- (b) Non-distributable general reserve is constituted in accordance with banking regulations.

## **29. INVESTMENT REVALUATION RESERVE**

This caption represents the cumulative change in fair value of investment securities at fair value through other comprehensive income. It consists of the following:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Cumulative unrealized gain (Note 10)	9,642,613	227,194,346
Less: Deferred tax liability, net (Note 10,23)	<u>( 2,582,375)</u>	<u>( 40,077,526)</u>
Net	7,060,238	187,116,820
Share of non-controlling interests (Notes 30)	<u>( 115,071)</u>	<u>( 1,504,702)</u>
Share of owners of the Bank	<u>6,945,167</u>	<u>185,612,118</u>

## **30. NON – CONTROLLING INTERESTS**

Non-controlling interests represent the minority share in the subsidiaries' equities as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Capital	79,402,345	115,513,745
Change in fair value of investment securities through other comprehensive income (Note 29)	115,071	1,504,702
Preferred shares	152,786,633	152,786,633
Reserves and retained earnings	13,805,583	126,188,003
Profit for the year	<u>6,897,962</u>	<u>19,803,369</u>
	<u>253,007,594</u>	<u>415,796,452</u>

The following table summarizes financial information of subsidiaries that have material non-controlling interests (NCI) before intra-group eliminations:

	<b>December 31, 2019</b>	
	<b>BLC Bank and its direct Subsidiaries</b>	<b>Fransabank El- Djazair SPA</b>
	<b>LBP'000</b>	<b>LBP'000</b>
NCI percentage	<u>2.08%</u>	<u>29.67%</u>
Cash and banks	2,000,641,189	185,892,430
Loans and advances	2,101,667,287	522,619,418
Assets classified as held for sale	21,732,835	-
Investment securities	2,347,415,834	5,452,577
Foreclosed assets and investment properties	83,976,041	-
Other assets	153,348,323	14,474,572
Deposits from banks	( 173,746,297)	(442,856)
Liabilities directly associated with assets classified as held for sale	( 769,393)	-
Deposits from customers	(5,310,511,959)	( 573,589,234)
Borrowings and subordinated bonds	( 347,826,103)	-
Other liabilities and provisions	( 137,157,985)	( 54,275,778)
Net assets	<u>738,769,772</u>	<u>100,131,129</u>
NCI share	<u>15,366,411</u>	<u>29,708,906</u>
Net financial revenues	112,107,846	57,513,164
Net allowance for impairment of loans	( 54,124,571)	-
Operating expenses	( 102,641,836)	( 26,083,011)
Income tax expense	( 3,360,193)	( 8,799,104)
(Loss)/profit for the year	( 48,018,754)	22,631,049
Other comprehensive income (OCI)	( 445,889)	-
Total comprehensive (loss)/income for the year	<u>( 48,464,643)</u>	<u>22,631,049</u>
(Loss)/profit allocated to NCI	<u>( 998,790)</u>	<u>6,714,632</u>
OCI allocated to NCI	<u>( 9,274)</u>	<u>-</u>

	<b>December 31, 2018</b>	
	<b>BLC Bank and its direct Subsidiaries LBP'000</b>	<b>Fransabank El- Djazair SPA LBP'000</b>
NCI percentage	25.17%	32.00%
Cash and banks	1,970,608,961	144,691,377
Loans and advances	2,422,662,239	535,692,399
Assets classified as held for sale	1,297,343,966	-
Investment securities	2,743,413,011	13,359,393
Foreclosed assets and investment properties	83,861,346	-
Other assets	285,360,113	105,461,281
Deposits from banks	( 149,157,009)	( 968,005)
Liabilities directly associated with assets classified as held for sale	(1,172,758,271)	-
Deposits from customers	(5,891,381,129)	( 551,989,104)
Borrowings and subordinated bonds	( 578,467,894)	( 12,751,416)
Other liabilities and provisions	( 131,186,038)	( 50,103,545)
Net assets	<u>880,299,295</u>	<u>183,392,380</u>
NCI share	<u>221,571,333</u>	<u>58,685,562</u>
Net financial revenues	171,287,210	42,502,255
Net allowance for impairment of financial assets	7,058,101	-
Other income (net)	597,111	3,589,665
Operating expenses	( 109,853,326)	( 22,737,318)
Income tax expense	( 7,277,359)	( 7,001,035)
Profit for the year	61,811,737	16,353,567
Other comprehensive income (OCI)	( 1,047,980)	( 4,780,738)
Total comprehensive income for the year	<u>60,763,757</u>	<u>11,572,829</u>
Profit allocated to NCI	<u>15,558,104</u>	<u>5,233,141</u>
OCI allocated to NCI	<u>( 263,777)</u>	<u>( 1,529,836)</u>





**34. INTEREST EXPENSE**

	<b><u>2019</u></b>	<b><u>2018</u></b>
	<b>LBP'000</b>	<b>LBP'000</b>
Interest expense on:		
Deposits and borrowings from central banks	3,722,043	4,637,337
Deposits and borrowings from banks and financial institutions	14,510,495	22,697,811
Customers' deposits at amortized cost	1,575,865,003	1,259,471,054
Related parties' deposits at amortized cost	52,265,006	62,908,141
Other borrowings	35,942,198	23,982,246
Borrowings from related party	2,909,546	1,865,568
Subordinated loans	1,711,068	1,247,864
Lease liabilities (Note 15)	5,211,534	-
Shareholders' cash contribution to capital (Note 26)	1,283,656	1,026,834
	<u>1,693,420,549</u>	<u>1,377,836,855</u>

Interest expense on customers' accounts designated at fair value through profit or loss is reflected separately on the face of the consolidated statement of profit or loss.

**35. FEE AND COMMISSION INCOME**

	<b><u>2019</u></b>	<b><u>2018</u></b>
	<b>LBP'000</b>	<b>LBP'000</b>
Commission on documentary credits	12,213,074	17,296,780
Commission on letters of guarantee	15,232,212	13,571,820
Service fees on customers' transactions	71,663,030	75,068,422
Commission on transactions with banks	17,883,577	11,521,327
Asset management fees	367,210	380,124
	<u>117,359,103</u>	<u>117,838,473</u>

Fee and commission income include fee and commission from related parties with immaterial amounts.

**36. FEE AND COMMISSION EXPENSE**

	<b><u>2019</u></b>	<b><u>2018</u></b>
	<b>LBP'000</b>	<b>LBP'000</b>
Commission on transactions with banks and financial institutions	5,165,453	3,756,270
Sundry	17,070,213	18,531,631
	<u>22,235,666</u>	<u>22,287,901</u>

Fee and commission expenses include fee and commission to related parties with immaterial amounts.



**37. NET INCOME ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2019</b>		
	<b>Interest Income</b>	<b>Tax on Interest</b>	<b>Net interest Income</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Interest income	16,928,498	( 2,169,998)	14,758,500
Dividend income	429,627	-	429,627
Net unrealized loss	( 7,032,384)	-	( 7,032,384)
Net realized gain	17,228	-	17,228
	<u>10,342,969</u>	<u>( 2,169,998)</u>	<u>8,172,971</u>

	<b>2018</b>		
	<b>Interest Income</b>	<b>Tax on Interest</b>	<b>Net interest Income</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Interest income	12,550,003	( 1,779,023)	10,770,980
Dividend income	430,386	-	430,386
Net unrealized gain	30,820,925	-	30,820,925
Net realized loss	( 988,174)	-	( 988,174)
	<u>42,813,140</u>	<u>( 1,779,023)</u>	<u>41,034,117</u>

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

	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Dividend income on investment securities	5,213,120	8,445,516
Share in (loss)/profit of associates (Note 12)	( 13,515,968)	19,232,095
Foreign exchange gain	8,044,327	16,934,475
Appropriation from regulatory deferred liabilities (Note 23)	-	165,833
Net loss on sale investment securities	( 1,105,758)	-
Gain on disposal of assets acquired in satisfaction of loans (Note 13)	284,369	1,133,987
Gain on disposal of property and equipment	1,088,498	741,984
Write-back of deferred tax liability	6,038,143	-
Other operating income	<u>2,852,255</u>	<u>6,401,722</u>
	<u>8,898,986</u>	<u>53,055,612</u>

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

	<b><u>2019</u></b>	<b><u>2018</u></b>
	<b>LBP'000</b>	<b>LBP'000</b>
Depreciation of fixed assets (Note 14.1)	26,260,720	25,771,291
Amortization of intangible assets (Note 14.2)	4,107,611	3,931,155
Depreciation of right-of-use assets (Note 15)	<u>7,312,746</u>	<u>-</u>
	<u><u>37,681,077</u></u>	<u><u>29,702,446</u></u>

### **40. 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 statement of financial position. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

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

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

In the ordinary course of its activities, the Group carries on transactions with related parties including shareholders, directors, subsidiaries and associates. Also, the Group conducts sale and purchase transactions of investment securities with subsidiary banks and these transactions are made at net book value of the financial instruments. Balances and transactions with related parties disclosed in Notes 6, 9, 12, 18, 19, 20, 33, 34, 35 and 36.

Some loans and advances are covered by real estate mortgage and by pledged deposits of the respective borrowers.

The remunerations to executive management amounted to LBP27billion during 2019 (LBP41billion during 2018). This includes accrued remuneration payable to the Bank's Chairman and Vice Chairman calculated on the basis of 8% of profit before tax.

#### **42. CASH AND CASH EQUIVALENTS**

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Cash on hand	153,508,296	227,647,712
Current accounts with central banks	398,609,375	471,152,414
Term placements with central banks	375,242,810	2,248,174,600
Checks in course of collection	234,135	3,344,189
Current accounts with banks and financial institutions	354,797,680	467,299,221
Term placements with banks and financial institutions	<u>106,272,887</u>	<u>919,312,100</u>
	<u><b>1,388,665,183</b></u>	<u><b>4,336,930,236</b></u>

Term placements with central banks and with banks represents placements with original maturities of 90 days or less.

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

- a. Negative change in fair value of investment securities at fair value through other comprehensive income of LBP217.6billion and related deferred tax liability of LBP37billion during 2019 (LBP11billion and related deferred tax liability of LBP2.8billion during 2018) against investment securities.
- b. Foreclosed assets in settlement of loans in the amount of LBP3.7billion during 2019 (LBP18.9billion during 2018) against loans and advances to customers.

#### **43. COMPARATIVE FIGURES**

Certain 2018 comparative figures were represented to conform with the current year presentation, in particular the netting of the assets under leverage arrangements with their corresponding leverage arrangements with BDL (Note 5).

#### **44. DISTRIBUTION BY GEOGRAPHICAL LOCATION**

Below is the distribution of assets and liabilities and statement of profit or loss by geographical location of various Group entities:

##### **44.1 Distribution of assets and liabilities by geographical location**

	<b>December 31, 2019</b>					<b>Total</b>
	<b>Lebanon</b>	<b>France</b>	<b>Algeria</b>	<b>Belarus</b>	<b>Cyprus</b>	
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b><u>ASSETS</u></b>						
Cash and Banks	10,971,228,321	99,618,908	181,483,532	27,090,469	-	11,279,421,230
Loans to banks	28,186,405	-	3,345,663	2,981,892	-	34,513,960
Assets classified as held for sale	-	-	-	-	21,732,835	21,732,835
Loans and advances to customers	7,501,430,862	738,035,584	515,830,967	56,507,601	-	8,811,805,014
Investments securities	7,352,843,448	70,573	5,383,309	22,057,113	-	7,380,354,443
Customers' liability under acceptances	428,662,033	5,390,301	17,993,038	-	-	452,045,372
Investments in associates	57,698,493	-	-	-	-	57,698,493
Goodwill	48,903,653	-	-	-	-	48,903,653
Tangible and intangible assets	653,894,125	130,295	116,354,033	12,048,677	-	782,427,130
Other assets	143,785,679	1,253,433	10,613,490	2,062,615	-	157,715,217
Total Assets	<u>27,186,633,019</u>	<u>844,499,094</u>	<u>851,004,032</u>	<u>122,748,367</u>	<u>21,732,835</u>	<u>29,026,617,347</u>
<b><u>LIABILITIES</u></b>						
Deposits and borrowings from banks	241,438,527	30,307,654	30,682	-	-	271,776,863
Liabilities directly associated with assets classified as held for sale	-	-	-	-	769,393	769,393
Customers' accounts at FVTPL	100,464,432	-	-	-	-	100,464,432
Customers' accounts at amortized cost	22,266,291,906	694,900,510	573,589,235	75,976,251	-	23,610,757,902
Customers' acceptance liability	430,572,451	5,390,301	17,993,038	-	-	453,955,790
Other borrowings	1,507,621,241	-	-	-	-	1,507,621,241
Subordinated loan	6,375,006	-	-	-	-	6,375,006
Other liabilities and provisions	331,704,183	7,830,998	47,363,165	1,328,910	-	388,227,256
Total Liabilities	<u>24,884,467,746</u>	<u>738,429,463</u>	<u>638,976,120</u>	<u>77,305,161</u>	<u>769,393</u>	<u>26,339,947,883</u>

	<b>December 31, 2018</b>					
	<b>Lebanon</b>	<b>France</b>	<b>Algeria</b>	<b>Belarus</b>	<b>Cyprus</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b><u>ASSETS</u></b>						
Cash and banks	10,419,707,940	82,436,468	144,691,377	17,922,066	-	10,664,757,851
Loans to banks	35,651,922	-	-	1,457,384	-	37,109,306
Assets classified as held for sale	-	-	-	-	1,297,343,966	1,297,343,966
Loans and advances to customers	8,917,972,992	653,167,369	535,692,399	52,992,137	-	10,159,824,897
Investments securities	9,317,466,404	52,724	13,359,393	15,252,986	-	9,346,131,507
Customers' liability under acceptances	903,527,965	13,347,274	-	-	-	916,875,239
Investments in associates	82,037,600	-	-	-	-	82,037,600
Goodwill	48,903,653	-	-	-	-	48,903,653
Other assets	<u>675,771,272</u>	<u>5,205,086</u>	<u>105,461,281</u>	<u>13,157,648</u>	<u>-</u>	<u>799,595,287</u>
Total Assets	<u><u>30,401,039,748</u></u>	<u><u>754,208,921</u></u>	<u><u>799,204,450</u></u>	<u><u>100,782,221</u></u>	<u><u>1,297,343,966</u></u>	<u><u>33,352,579,306</u></u>
<b><u>LIABILITIES</u></b>						
Deposits and borrowings from banks	225,570,824	64,213,387	968,005	18,222,896	-	308,975,112
Liabilities directly associated with assets classified as held for sale	-	-	-	-	1,172,758,271	1,172,758,271
Customers' accounts at FVTPL	110,462,963	-	-	-	-	110,462,963
Customers' accounts at amortized cost	24,623,854,001	326,673,640	551,989,104	48,961,992	-	25,551,478,737
Customers' acceptance liability	904,849,997	13,347,274	-	-	-	918,197,271
Other borrowings	1,603,203,316	-	12,751,417	644,237	-	1,616,716,970
Subordinated loan	12,749,832	-	-	-	-	12,749,832
Other liabilities and provisions	<u>309,105,120</u>	<u>5,712,374</u>	<u>50,103,545</u>	<u>665,177</u>	<u>-</u>	<u>365,586,216</u>
Total Liabilities	<u><u>27,789,914,053</u></u>	<u><u>409,946,675</u></u>	<u><u>615,812,071</u></u>	<u><u>68,494,302</u></u>	<u><u>1,172,758,271</u></u>	<u><u>30,056,925,372</u></u>

#### 44.2 Distribution of statement of profit or loss by geographical location

<b>Year Ended December 31, 2019</b>					
	<b>Lebanon</b>	<b>France</b>	<b>Algeria</b>	<b>Belarus</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Net interest income	324,274,430	15,306,129	40,088,365	4,298,905	383,967,829
Net fee and commission income	75,049,001	3,694,497	14,851,824	1,528,115	95,123,437
Net income from investments at FVTPL	8,172,971	-	-	-	8,172,971
Interest expense on liabilities at FVTPL	( 5,919,125)	-	-	-	( 5,919,125)
Other operating income	1,564,693	561,592	3,854,407	2,918,294	8,898,986
Allowance for expected credit losses	( 257,678,739)	( 1,660,732)	-	( 229,217)	( 259,568,688)
Other expense	( 332,086,072)	( 7,413,319)	( 25,605,675)	( 8,024,767)	( 373,129,833)
Income tax expense	( 6,693,917)	( 3,051,191)	( 8,799,104)	( 91,543)	( 18,635,755)
Deferred tax on investees					
undistributed profits	( 339,772)	( 678,706)	( 3,394,657)	( 87,073)	( 4,500,208)
	<u>( 193,656,530)</u>	<u>6,758,270</u>	<u>20,995,160</u>	<u>312,714</u>	<u>( 165,590,386)</u>

<b>Year Ended December 31, 2018</b>					
	<b>Lebanon</b>	<b>France</b>	<b>Algeria</b>	<b>Belarus</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Net interest income	495,740,708	13,175,111	30,064,914	4,235,382	543,216,115
Net fee and commission income	78,911,249	2,766,761	12,437,342	1,435,221	95,550,573
Net income from investments at FVTPL	41,034,117	-	-	-	41,034,117
Interest expense on liabilities at FVTPL	( 6,868,190)	-	-	-	( 6,868,190)
Other operating income	51,101,253	( 927,410)	312,565	2,528,121	53,014,529
Allowance for expected credit losses	( 14,957,113)	( 2,221,135)	-	335,871	( 16,842,377)
Other expenses	( 369,286,937)	( 6,386,332)	( 22,737,318)	( 7,814,557)	( 406,225,144)
Income tax expense	( 19,410,085)	( 2,713,444)	( 7,001,035)	( 309,238)	( 29,433,802)
Deferred tax on investees					
undistributed profits	( 7,478,776)	( 540,948)	( 2,453,035)	( 141,966)	( 10,614,725)
	<u>248,786,226</u>	<u>3,152,603</u>	<u>10,623,433</u>	<u>268,834</u>	<u>262,831,096</u>

#### **45. COLLATERAL GIVEN**

Financial assets given as collateral are as follows at December 31:

<b>December 31, 2019</b>			
<b>Redemption value of Pledged Assets</b>	<b>Nature of Facility</b>	<b>Corresponding Facilities</b>	
		<b>Amount of Facility</b>	<b>Maturity Date</b>
<b>LBP'000</b>		<b>LBP'000</b>	
Certificates of deposits issued by the Central bank of Lebanon	Facilities from BDL	29,537,516	June 09, 2029
Lebanese Treasury Bills	Facilities from BDL	35,398,431	Revolving
Lebanese Treasury Bills at amortized cost	Soft loan from BDL	243,589,400	December 21, 2020
Lebanese Treasury Bills at amortized cost	Borrowings	551,744,763	Over 5 years
Lebanese Eurobonds	Borrowings	113,062,500	January 08, 2020
Certificates of deposit at amortized cost	Other borrowings	5,904,237	Over 5 years
<u>618,903,874</u>		<u>979,236,847</u>	

<b>December 31, 2018</b>			
<b>Redemption value of Pledged Assets</b>	<b>Nature of Facility</b>	<b>Corresponding Facilities</b>	
		<b>Amount of Facility</b>	<b>Maturity Date</b>
<b>LBP'000</b>		<b>LBP'000</b>	
Treasury bills at amortized cost	Soft loan from BDL	17,734,000	March 2019
Certificates of deposit issued by BDL	Facilities from BDL	25,721,246	June 09, 2029
Lebanese Treasury Bills	Facilities from BDL	397,171,215	Revolving
Lebanese Treasury Bills at amortized cost	Soft loan from BDL	243,589,400	December 2020
Lebanese Treasury Bills at amortized cost	Borrowings	581,171,136	Over 5 years
Certificates of deposit at amortized cost	Borrowings	5,904,237	Over 5 years
<u>634,151,890</u>		<u>1,271,291,234</u>	

#### **46. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS**

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

- A. Credit risk.
- B. Liquidity risk.
- C. Interest rate risk.
- D. Foreign currency risk.
- E. Other operational 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 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.

## **A. Credit Risk**

Credit risk is the risk of loss that arises when a client or counterparty defaults on its loans or contractual obligations. Financial assets exposing the Group to credit risk would essentially include loans and advances to customers as well as related commitments to loans, money market deposits placed with Banks, and investments in debt securities. 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 risk management revolves around the following:

- Identifying, assessing and measuring credit risk 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.
- 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.
- Establishing a robust control framework regarding the authorization structure for the approval and renewal of credit facilities.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Developing and maintaining the Group's risk grading to categorize exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

### **Internal Rating and Regulatory Classification**

In order to better manage credit risk, the Group has tasked its credit management committees to maintain the Group's credit risk grading to categorize exposures according to their degree of risk of default. The credit rating information is based on a range of data that is thought to be predictive of the risk of default and applies experienced credit judgment. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.



Each exposure is allocated to a credit risk grade at initial recognition based on the available information about the counterparty. The credit risk grades are designed and calibrated to reflect the probability of default as credit risk deteriorates. As the credit risk increases the probability of default between grades changes.

The Group’s credit risk grading framework comprises nine categories, 6 performing categories each comprising 3 notches, in total 18 grades, in addition to 3 non-performing categories 8, 9, 10. A “low credit risk” would essentially imply that the borrower has a strong capacity to meet its contractual cash flow obligations in the near term. The Group has defined its Commercial Low Credit Risk Portfolio to include Commercial Borrowers that carry, within the investment grade category, the ratings 2 (strong) and 3 (good) mapped to the regulatory classification of “1”; loans fully cash covered are also categorized as “low credit risk” regardless of rating or classification.

Internal ratings are mapped to the regulatory classifications and the IFRS9 Stages 1, 2 and 3 as shown in the table below.

IFRS 9 Stages	Regulatory Classification	Internal Rating	
Stage 1	1	2+, 2, 2-	Low Credit Risk - Normal
		3+, 3, 3-	
	2	4+, 4, 4-	Follow Up
		5+, 5, 5-	
Stage 2	3	6+, 6, 6-	Follow up & Settlement
		7+, 7, 7-	
Stage 3	4, 5, 6	8, 9, 10	Objective Evidence of Impairment at the Reporting Date

The regulatory classification comprises six main categories detailed as follows:

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 Retail and Housing Loan Portfolio’s regulatory classification and IFRS9 stages are applied based on the days past due brackets.

The Group’s internal rating scale for the Financial Sector and Sovereigns is established based on the external rating agencies’ scales.

### **Monitoring of Credit Risk**

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

All exposures are monitored, and the credit risk grade is updated to reflect current information. The monitoring procedures followed are general and tailored to the type of exposure. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product, economic sector, borrower and by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The following data are typically used to monitor the Group’s exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies

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.

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

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

## **Measurement of ECL**

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These figures are generally derived from internally developed statistical models and other historical data, and they are adjusted to reflect probability-weighted forward-looking information.

PD 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. The estimation is based on current conditions adjusted to take into account estimates of future conditions that will impact PD.

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 Group would expect to receive, taking into account cash flows from any collateral. 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. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD 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, and expected drawdowns on committed facilities. The Group's approach takes into account the maximum expected balance after applying credit conversion factors on indirect facilities (off balance sheet items).

The Group measures ECL considering the risk of default over the maximum contractual period over which the Group is exposed to credit risk. 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. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. 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. 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.

## **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 in credit risk as well as in its measurement of ECL.

The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices published by governmental bodies and monetary authorities. 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.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome. The Group uses a statistical analysis of historical data to estimate relationships between macro-economic variables and credit risk/default rates.

### **Credit Quality:**

Loans' classifications are assessed and updated regularly. The distribution of loans and advances to customers by classification is disclosed under note 9.

Most of customers' exposures represent credit facilities granted to corporations which do not have external credit rating.

### **1. Maximum exposure to credit risk**

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

	<b>December 31, 2019</b>		
	<b>Carrying Amount</b>	<b>ECL</b>	<b>Net Carrying Amount</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Cash and deposits with central banks	10,720,194,860	( 30,507,327)	10,689,687,533
Deposits with banks and financial institutions	592,679,952	( 2,946,255)	589,733,697
Loans to banks	73,890,480	( 39,376,520)	34,513,960
Loans and advances to customers	9,401,917,610	( 590,112,596)	8,811,805,014
Investment securities	7,557,896,262	( 177,541,819)	7,380,354,443
Customers' liability under acceptances	453,955,790	( 1,910,418)	452,045,372
Other assets	<u>158,914,695</u>	<u>( 1,199,478)</u>	<u>157,715,217</u>
	<u>28,959,449,649</u>	<u>( 843,594,413)</u>	<u>28,115,855,236</u>
Off-balance sheet commitments	<u>1,196,255,751</u>	<u>( 16,015,104)</u>	<u>1,180,240,647</u>

	<b>December 31, 2018</b>		
	<b>Carrying Amount</b>	<b>ECL</b>	<b>Net Carrying Amount</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Cash and deposits with central banks	9,223,300,647	( 45,837,720)	9,177,462,927
Deposits with banks and financial institutions	1,491,960,641	( 4,665,717)	1,487,294,924
Loans to banks	71,864,315	( 34,755,009)	37,109,306
Loans and advances to customers	10,629,513,514	( 469,688,617)	10,159,824,897
Investment securities	9,407,387,714	( 61,256,207)	9,346,131,507
Customers' liability under acceptances	918,197,271	( 1,322,032)	916,875,239
Other assets	111,199,931	( 1,696,478)	109,503,453
	<u>31,853,424,033</u>	<u>( 619,221,780)</u>	<u>31,234,202,253</u>
Off balance sheet commitments	<u>2,180,399,854</u>	<u>( 9,457,562)</u>	<u>2,170,942,292</u>

The movement of allowance for expected credit losses during 2018 and 2019 is summarized as follows:

	<b>Opening Balance January 1, 2019</b>	<b>Net loss Allowance for the year</b>	<b>Write-off and other Movement</b>	<b>Transfer to off-balance Sheet</b>	<b>Effect of exchange rate Changes</b>	<b>Closing balance December 31, 2019</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Cash and deposits with central banks	45,837,720	( 14,630,791)	( 698,900)	-	( 702)	30,507,327
Deposits with and loans to banks and financial institutions	39,420,726	( 5,714,577)	8,702,850	1,120	( 87,344)	42,322,775
Loans and advances to customers	469,688,617	145,729,584	( 9,751,915)	( 15,568,647)	14,957	590,112,596
Investment securities	61,256,207	117,341,615	( 1,056,003)	-	-	177,541,819
Customer acceptance Liability	1,322,032	573,687	17,859	-	( 3,160)	1,910,418
Financial guarantees and other commitments	9,457,562	16,269,170	( 9,718,679)	6,151	900	16,015,104
Other assets	1,696,477	-	( 496,999)	-	-	1,199,478
	<u>628,679,341</u>	<u>259,568,688</u>	<u>( 13,001,787)</u>	<u>( 15,561,376)</u>	<u>( 75,349)</u>	<u>859,609,517</u>

	<b>Opening Balance January 1, 2018</b>	<b>First time Adoption Impact</b>	<b>Transfer from other liabilities</b>	<b>Adjusted opening Balance January 1, 2018</b>	<b>Net Loss allowance for the year</b>	<b>Write-offs and other Movement</b>	<b>Transfer to Off-balance Sheet</b>	<b>Effect of exchange rate changes</b>	<b>Closing Balance December 31, 2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
Cash and deposits with central banks	6,685,842	37,485,406	-	44,171,248	1,666,478	-	-	( 6)	45,837,720
Deposits with and loans to banks and financial institutions	10,102	7,299,589	-	7,309,691	31,336,924	1,283,840	-	( 509,729)	39,420,726
Loans and advances to customers	241,422,039	264,053,757	9,195,000	514,670,796	3,814,303	(42,195,640)	( 5,695,663)	( 905,179)	469,688,617
Investment securities	26,554	72,673,207	-	72,699,761	(11,406,066)	-	-	( 37,488)	61,256,207
Customer acceptance Liability	-	1,653,618	-	1,653,618	( 331,586)	-	-	-	1,322,032
Financial Guarantees and other commitments	-	17,719,119	-	17,719,119	( 8,218,217)	-	-	( 43,340)	9,457,562
Other assets	5,054,246	711,567	-	5,765,813	( 39,280)	( 4,030,056)	-	1	1,696,478
	<u>253,198,783</u>	<u>401,596,263</u>	<u>9,195,000</u>	<u>663,990,046</u>	<u>16,822,556</u>	<u>(44,941,856)</u>	<u>( 5,695,663)</u>	<u>( 1,495,741)</u>	<u>628,679,342</u>

The below is a summary of the financial assets at amortized cost, debt securities at FVTOCI, commitments and their respective expected credit loss allowance by stage:

## 2019

	<u>Carrying Value</u>				<u>Allowance for Expected Credit Losses</u>				<u>Exposure</u> <u>LBP'000</u>
	<u>Stage 1</u> <u>LBP'000</u>	<u>Stage 2</u> <u>LBP'000</u>	<u>Stage 3</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>	<u>Stage 1</u> <u>LBP'000</u>	<u>Stage 2</u> <u>LBP'000</u>	<u>Stage 3</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>	
Cash and deposits with central banks	10,674,648,010	45,546,850	-	10,720,194,860	( 27,688,290)	( 2,819,037)	-	( 30,507,327)	10,689,687,533
Deposits with banks and financial institutions	592,679,952	-	-	592,679,952	( 2,946,255)	-	-	( 2,946,255)	589,733,697
Loans to banks	32,933,684	-	40,956,796	73,890,480	( 4,223,182)	-	( 35,153,338)	( 39,376,520)	34,513,960
Loans and advances to customers	7,181,033,696	1,058,475,372	1,162,408,542	9,401,917,610	( 72,441,422)	( 115,095,522)	( 402,575,652)	( 590,112,596)	8,811,805,014
Investments securities	7,355,696,795	-	-	7,355,696,795	( 177,541,819)	-	-	( 177,541,819)	7,178,154,976
Customers' liability under acceptances	451,179,044	2,776,746	-	453,955,790	( 1,754,336)	( 156,082)	-	( 1,910,418)	452,045,372
Other assets	158,902,837	5,540	6,318	158,914,695	( 1,199,478)	-	-	( 1,199,478)	157,715,217
	<u>26,447,074,018</u>	<u>1,106,804,508</u>	<u>1,203,371,656</u>	<u>28,757,250,182</u>	<u>( 287,794,782)</u>	<u>( 118,070,641)</u>	<u>( 437,728,990)</u>	<u>( 843,594,413)</u>	<u>27,913,655,770</u>
Off Balance sheet commitments	<u>1,195,580,780</u>	<u>674,971</u>	<u>-</u>	<u>1,196,255,751</u>	<u>( 15,672,071)</u>	<u>( 343,032)</u>	<u>-</u>	<u>( 16,015,103)</u>	<u>1,180,240,648</u>

## 2018

	<u>Carrying Value</u>				<u>Allowance for Expected Credit Losses</u>				<u>Exposure</u> <u>LBP'000</u>
	<u>Stage 1</u> <u>LBP'000</u>	<u>Stage 2</u> <u>LBP'000</u>	<u>Stage 3</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>	<u>Stage 1</u> <u>LBP'000</u>	<u>Stage 2</u> <u>LBP'000</u>	<u>Stage 3</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>	
Cash and deposits with central banks	9,162,874,069	60,426,578	-	9,223,300,647	( 42,661,554)	( 3,176,166)	-	( 45,837,720)	9,177,462,927
Deposits with banks and financial institutions	1,481,729,321	10,231,320	-	1,491,960,641	( 3,303,564)	( 1,362,153)	-	( 4,665,717)	1,487,294,924
Loans to banks	37,162,429	1,845,047	32,856,839	71,864,315	( 1,300,560)	( 597,610)	( 32,856,839)	( 34,755,009)	37,109,306
Loans and advances to customers	8,859,451,273	892,006,814	878,055,427	10,629,513,514	( 54,148,525)	( 46,577,344)	( 368,962,748)	( 469,688,617)	10,159,824,897
Investments securities	9,178,561,548	-	-	9,178,561,548	( 61,256,207)	-	-	( 61,256,207)	9,117,305,341
Customers' liability under acceptances	913,866,530	4,330,741	-	918,197,271	( 1,110,507)	( 211,525)	-	( 1,322,032)	916,875,239
Other assets	111,199,931	-	-	111,199,931	( 1,696,478)	-	-	( 1,696,478)	109,503,453
	<u>29,744,845,100</u>	<u>968,840,500</u>	<u>910,912,266</u>	<u>31,624,597,866</u>	<u>( 165,477,398)</u>	<u>( 51,924,798)</u>	<u>( 401,819,587)</u>	<u>( 619,221,779)</u>	<u>31,005,376,087</u>
Off Balance sheet commitments	<u>2,146,673,183</u>	<u>33,726,671</u>	<u>-</u>	<u>2,180,399,854</u>	<u>( 7,596,237)</u>	<u>( 1,861,325)</u>	<u>-</u>	<u>( 9,457,562)</u>	<u>2,170,942,292</u>

## Limiting of Credit Risk

The Group manages the levels of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, and/or groups of related borrowers. Such risk is monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to any one borrower including banks are further restricted by sub-limits covering on and off-financial position exposures. Country limit are also set by the Bank. Actual exposures against limits are monitored on a regular basis.

### *Concentration of credit risk by geographical location (Major financial assets):*

#### 2019:

	<u>Lebanon</u> LBP'000	<u>Middle East and Africa</u> LBP'000	<u>North America</u> LBP'000	<u>Europe</u> LBP'000	<u>Gulf</u> LBP'000	<u>Other</u> LBP'000	<u>Total</u> LBP'000
<b><u>Financial Assets</u></b>							
Cash and central banks	10,346,220,558	98,380,693	-	65,089,734	-	179,996,548	10,689,687,533
Deposits with banks and financial institutions	1,298,888	13,499,208	79,415,951	490,687,165	3,080,260	1,752,225	589,733,697
Loans to banks and financial institutions	15,590,385	3,257,458	-	15,473,167	-	192,950	34,513,960
Loans and advances to customers	7,171,635,556	172,741,338	17,579,471	831,284,350	73,192,206	545,372,093	8,811,805,014
Investment securities	<u>7,248,549,067</u>	<u>49,952,257</u>	<u>32,005,299</u>	<u>44,593,688</u>	<u>-</u>	<u>5,254,132</u>	<u>7,380,354,443</u>
	<u>24,783,294,454</u>	<u>337,830,954</u>	<u>129,000,721</u>	<u>1,447,128,104</u>	<u>76,272,466</u>	<u>732,567,948</u>	<u>27,506,094,647</u>
<b><u>Financial Liabilities</u></b>							
Deposits and borrowings from banks	179,705,195	46,305,237	-	45,735,749	-	30,682	271,776,863
Customers' accounts at FVTPL	100,464,432	-	-	-	-	-	100,464,432
Customers' accounts at amortized cost	21,409,580,597	619,755,599	67,575,714	898,505,000	-	615,340,992	23,610,757,902
Other borrowings	1,507,221,118	400,123	-	-	-	-	1,507,621,241
Subordinated loan	<u>6,375,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,375,006</u>
	<u>23,203,346,348</u>	<u>666,460,959</u>	<u>67,575,714</u>	<u>944,240,749</u>	<u>-</u>	<u>615,371,674</u>	<u>25,496,995,444</u>

**2018:**

	<u>Lebanon</u> LBP'000	<u>Middle East and Africa</u> LBP'000	<u>North America</u> LBP'000	<u>Europe</u> LBP'000	<u>Gulf</u> LBP'000	<u>Other</u> LBP'000	<u>Total</u> LBP'000
<b><u>Financial Assets</u></b>							
Cash and central banks	8,931,018,786	60,426,577	-	186,017,564	-	-	9,177,462,927
Deposits with banks and financial institutions	38,367,304	17,999,976	220,666,026	924,338,334	80,861,769	205,061,515	1,487,294,924
Loans to banks and financial institutions	33,806,875	-	-	1,457,385	-	1,845,046	37,109,306
Loans and advances to customers	8,380,157,038	139,952,050	16,098,589	1,261,145,862	315,097,126	47,374,232	10,159,824,897
Investment securities	<u>9,109,710,267</u>	<u>58,689,062</u>	<u>21,345,542</u>	<u>156,386,636</u>	<u>-</u>	<u>-</u>	<u>9,346,131,507</u>
	<u>26,493,060,270</u>	<u>277,067,665</u>	<u>258,110,157</u>	<u>2,529,345,781</u>	<u>395,958,895</u>	<u>254,280,793</u>	<u>30,207,823,561</u>
<b><u>Financial Liabilities</u></b>							
Deposits and borrowings from banks	152,392,163	45,442,402	-	111,140,547	-	-	308,975,112
Customers' accounts at FVTPL	110,462,963	-	-	-	-	-	110,462,963
Customers' accounts at amortized cost	23,494,274,686	668,948,993	76,736,972	1,256,463,861	-	55,054,225	25,551,478,737
Other borrowings	1,610,796,042	4,518,362	-	1,402,566	-	-	1,616,716,970
Subordinated loan	<u>12,749,832</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,749,832</u>
	<u>25,380,675,686</u>	<u>718,909,757</u>	<u>76,736,972</u>	<u>1,369,006,974</u>	<u>-</u>	<u>55,054,225</u>	<u>27,600,383,614</u>



Other specific control and mitigation measures are outlined below:

a) Collateral:

The principal collateral types for loans and advances consist of mortgages over real estate properties and bank guarantees.

The Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

b) Netting arrangements:

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

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

## **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.

### **Management of liquidity risk**

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 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.

## 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 Group’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)

The table below shows the allocation of financial liabilities based on the earliest possible contractual maturity (undiscounted values). The expected maturities vary significantly from the contractual maturities, namely with regard to customers' deposits:

	<b>December 31, 2019</b>				
	<b>Up to 3 Months</b>	<b>3 Months to 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b><u>FINANCIAL LIABILITIES</u></b>					
Deposits from banks and financial institutions	58,682,080	190,389,814	22,646,844	58,125	271,776,863
Liabilities designated at fair value through profit or loss	753,594	37,257,946	62,452,892	-	100,464,432
Customers' deposits at amortized cost	17,523,431,666	4,377,142,566	1,708,559,402	1,624,268	23,610,757,902
Borrowings	8,740,460	303,157,015	311,030,654	884,693,112	1,507,621,241
Subordinated loan	-	6,375,006	-	-	6,375,006
	<u>17,591,607,800</u>	<u>4,914,322,347</u>	<u>2,104,689,792</u>	<u>886,375,505</u>	<u>25,496,995,444</u>

	<b>December 31, 2018</b>				
	<b>Up to 3 Months</b>	<b>3 Months to 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b><u>FINANCIAL LIABILITIES</u></b>					
Deposits from banks and financial institutions	4,742,117	280,429,291	12,060,000	11,743,704	309,975,112
Liabilities designated at fair value through profit or loss	10,424,635	1,073,066	98,965,262	-	110,462,963
Customers' deposits at amortized cost	19,805,298,979	4,140,915,954	1,600,942,103	4,321,701	25,551,478,737
Borrowings	30,308,507	67,221,213	510,721,755	1,008,465,495	1,616,716,970
Subordinated loan	-	6,374,916	6,374,916	-	12,749,832
	<u>19,850,774,238</u>	<u>4,496,014,440</u>	<u>2,229,064,036</u>	<u>1,024,530,900</u>	<u>27,600,383,614</u>

## C. Interest Rate Risk

### a) Interest Rate Risk

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

### b) Interest Rate Risk Measurement

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

Financial assets and financial liabilities are allocated by interest rate repricing dates as follows:

	<b>December 31, 2019</b>				
	<b>Not subject to Interest</b>	<b>Less than 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b><u>FINANCIAL ASSETS</u></b>					
Cash and Central Banks	1,288,716,307	2,013,837,719	2,009,489,411	5,377,644,096	10,689,687,533
Deposits with banks and financial institutions	31,582,582	553,762,882	4,388,233	-	589,733,697
Loans to banks	9,119,760	19,225,099	6,169,100	-	34,513,959
Investment securities	486,287,700	493,083,544	2,224,495,654	4,176,487,545	7,380,354,443
Loans and advances to customers	<u>764,175,466</u>	<u>5,222,665,543</u>	<u>1,636,025,521</u>	<u>1,188,938,484</u>	<u>8,811,805,014</u>
	<u>2,579,881,815</u>	<u>8,302,574,787</u>	<u>5,880,567,919</u>	<u>10,743,070,125</u>	<u>27,506,094,646</u>
<b><u>FINANCIAL LIABILITIES</u></b>					
Deposits and borrowings from banks	61,747,458	209,971,280	-	58,125	271,776,863
Liabilities designated at fair Value through profit or loss	753,593	43,345,682	56,365,157	-	100,464,432
Customers' accounts at amortized cost	2,531,188,676	19,478,337,461	1,599,607,100	1,624,665	23,610,757,902
Other borrowings	74,646,147	461,508,632	457,723,500	513,742,962	1,507,621,241
Subordinated loan	<u>6,375,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,375,006</u>
	<u>2,674,710,880</u>	<u>20,193,163,055</u>	<u>2,113,695,757</u>	<u>515,425,752</u>	<u>25,496,995,444</u>

	<b>December 31, 2018</b>				
	<b>Not subject to Interest</b>	<b>Less than 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b><u>FINANCIAL ASSETS</u></b>					
Cash and Central Banks	1,163,532,522	2,332,855,449	1,435,964,967	4,245,109,989	9,177,462,927
Deposits with banks and financial institutions	487,600,739	982,928,325	16,765,860	-	1,487,294,924
Loans to banks	833,184	16,182,159	20,093,963	-	37,109,306
Loans and advances to customers	519,167,086	6,123,070,047	2,100,661,951	1,416,925,813	10,159,824,897
Investment securities	<u>625,629,404</u>	<u>717,787,006</u>	<u>2,686,454,996</u>	<u>5,316,260,101</u>	<u>9,346,131,507</u>
	<u>2,796,762,935</u>	<u>10,172,822,986</u>	<u>6,259,941,737</u>	<u>10,978,295,903</u>	<u>30,207,823,561</u>
<b><u>FINANCIAL LIABILITIES</u></b>					
Deposits and borrowings from banks	71,583,686	225,647,722	-	11,743,704	309,975,112
Liabilities designated at fair value through profit or loss	1,522,019	108,940,944	-	-	110,462,963
Customers' accounts at amortized cost	3,113,306,845	21,355,840,180	1,078,009,981	4,321,731	25,551,478,737
Other borrowings	1,140,081,314	13,377,104	37,707,409	425,551,143	1,616,716,970
Subordinated loan	-	6,374,916	6,374,916	-	12,749,832
	<u>4,326,493,864</u>	<u>21,710,180,866</u>	<u>1,122,092,306</u>	<u>441,616,578</u>	<u>27,600,383,614</u>

#### **D. 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 ratios set by the regulatory authorities. ALCO Committee is notified by the Finance departments of any breach.

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

Assets and liabilities are segregated as follows by major currencies:

	<b>December 31, 2019</b>				
	<b>LBP</b>	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b><u>ASSETS</u></b>					
Cash and Central Banks	3,540,754,860	6,396,371,169	490,601,702	261,959,802	10,689,687,533
Deposits with banks and Financial institutions	27,724,166	400,398,149	54,965,963	106,645,419	589,733,697
Loans to banks	29,274,056	5,046,953	-	192,951	34,513,960
Assets classified as held for sale	-	-	21,732,835	-	21,732,835
Loans and advances to customers	2,416,458,468	5,236,523,120	606,338,908	552,484,518	8,811,805,014
Investment securities	4,173,258,387	3,097,915,845	97,605,402	11,574,809	7,380,354,443
Customers' liability under acceptances	-	406,341,060	25,289,537	20,414,775	452,045,372
Investments in associates	41,886,109	15,812,384	-	-	57,698,493
Assets acquired in satisfaction of loans	48,140,199	180,874,688	-	-	229,014,887
Property and equipment	334,204,324	5,111,535	79,198	129,914,004	469,309,061
Intangible assets	17,097,385	-	1,051,159	1,992,387	20,140,931
Right of use	17,954,284	45,035,071	-	972,896	63,962,251
Goodwill	48,182,949	720,704	-	-	48,903,653
Other assets	21,980,399	114,133,102	4,644,604	16,957,112	157,715,217
Total Assets	<u>10,716,915,586</u>	<u>15,904,283,780</u>	<u>1,302,309,308</u>	<u>1,103,108,673</u>	<u>29,026,617,347</u>
<b><u>LIABILITIES</u></b>					
Deposits and borrowings from banks	145,641,648	25,776,476	97,990,466	2,368,273	271,776,863
Liabilities directly associated with assets classified as held for sale	-	-	769,393	-	769,393
Liabilities designated at fair value through profit or loss	-	100,464,432	-	-	100,464,432
Deposits from customers and related parties	7,420,026,073	14,423,061,927	1,054,054,702	713,615,200	23,610,757,902
Customers' acceptance liability	-	408,112,052	25,426,445	20,417,293	453,955,790
Other borrowings	1,102,101,325	405,519,916	-	-	1,507,621,241
Subordinated loan	-	6,375,006	-	-	6,375,006
Lease liabilities	18,048,445	44,793,635	-	991,115	63,833,195
Other liabilities	70,818,395	120,496,267	9,409,208	44,299,158	245,023,028
Provisions	59,523,010	3,195,808	3,033,727	13,618,488	79,371,033
	<u>8,816,158,896</u>	<u>15,537,795,519</u>	<u>1,190,683,941</u>	<u>795,309,527</u>	<u>26,339,947,883</u>
Net position	<u>1,900,556,690</u>	<u>366,488,261</u>	<u>111,625,367</u>	<u>307,799,146</u>	<u>2,686,669,464</u>

	<b>December 31, 2018</b>				
	<u>LBP</u> <u>LBP'000</u>	<u>USD</u> <u>LBP'000</u>	<u>EUR</u> <u>LBP'000</u>	<u>Other</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>
<b><u>ASSETS</u></b>					
Cash and Central Banks	3,828,561,098	4,705,937,933	413,945,882	229,018,014	9,177,462,927
Deposits with banks and financial institutions	43,034,261	1,144,254,564	247,767,790	52,238,309	1,487,294,924
Loans to banks	9,315,925	26,543,689	1,249,692	-	37,109,306
Assets classified as held for sale	-	-	1,297,343,966	-	1,297,343,966
Loans and advances to customers	2,874,486,638	6,115,211,476	612,912,081	557,214,702	10,159,824,897
Investment securities	5,393,670,656	3,838,487,683	97,635,700	16,337,468	9,346,131,507
Customers' liability under acceptances	-	857,037,092	36,969,174	22,868,973	916,875,239
Investments in associates	66,255,565	15,782,035	-	-	82,037,600
Assets acquired in satisfaction of loans	54,501,021	172,294,171	-	157,046	226,952,238
Property and equipment	338,612,518	-	100,273	106,616,230	445,329,021
Intangible assets	15,176,875	-	1,290,223	1,343,477	17,810,575
Goodwill	48,182,949	-	-	720,704	48,903,653
Other assets	<u>23,646,827</u>	<u>65,768,722</u>	<u>-</u>	<u>20,087,904</u>	<u>109,503,453</u>
Total Assets	<u>12,695,444,333</u>	<u>16,941,317,365</u>	<u>2,709,214,781</u>	<u>1,006,602,827</u>	<u>33,352,579,306</u>
<b><u>LIABILITIES</u></b>					
Deposits and borrowings from banks	36,050,804	123,127,376	143,156,333	6,640,599	308,975,112
Liabilities directly associated with assets classified as held for sale	-	-	1,172,758,271	-	1,172,758,271
Liabilities designated at fair value through profit or loss	-	110,462,963	-	-	110,462,963
Deposits from customers and related parties	9,178,522,724	14,341,892,310	1,325,705,972	705,357,731	25,551,478,737
Customers' acceptance liability	-	858,126,913	37,176,991	22,893,367	918,197,271
Other borrowings	1,233,839,624	381,474,780	-	1,402,566	1,616,716,970
Subordinated loan	-	12,749,832	-	-	12,749,832
Other liabilities	194,614,891	45,743,850	8,835,948	54,440,974	303,635,663
Provisions	<u>52,398,195</u>	<u>6,804,167</u>	<u>1,518,318</u>	<u>1,229,873</u>	<u>61,950,553</u>
	<u>10,695,426,238</u>	<u>15,880,382,191</u>	<u>2,689,151,833</u>	<u>791,965,110</u>	<u>30,056,925,372</u>
Net position	<u>2,000,018,095</u>	<u>1,060,935,174</u>	<u>20,062,948</u>	<u>214,637,717</u>	<u>3,295,653,934</u>

## **E –Other Operational Risks**

### *Litigation Risk*

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

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

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.

#### **47. 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.

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

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

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



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

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

The Bank's capital is split as follows:

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

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

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Tier I capital	2,000,938,332	2,549,896,000
<i>Of which: Common Tier I</i>	1,329,963,026	1,896,853,000
Tier II capital	<u>335,582,496</u>	<u>332,060,000</u>
Total regulatory capital	<u>2,336,520,828</u>	<u>2,881,956,000</u>
Credit risk	24,185,787,681	16,203,014,000
Market risk	482,872,392	127,709,000
Operational risk	<u>1,287,112,578</u>	<u>1,354,444,000</u>
Risk-weighted assets of credit, market and operational risks	<u>25,955,772,651</u>	<u>17,685,167,000</u>
Capital adequacy ratio:		
Common Tier I	5.12%	10.73%
Tier I	7.71%	14.42%
Total capital (Tier I & II)	9.00%	16.30%

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

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

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

On November 4, 2019 BDL issued Intermediary Circular 532 requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and to increase the regulatory capital by 20% of the common equity tier 1 capital as at December 31, 2018 through cash contributions in US Dollar, in two phases: 10% by December 31, 2019 and another 10% by June 30, 2020. On August 26, 2020 BDL issued Intermediary Circular 567 extending the period of the regulatory capital increase by 20% until December 31, 2020.

On September 2, 2020, the Bank obtained the final approval of the Central Bank of Lebanon on the first phase of the cash contribution to capital in the amount of USD82.1million (C/VLBP123.78billion), on the basis that the Bank will secure additional contributions for not less than USD156.79million by December 31, 2020 to meet the requirements of BDL intermediary circulars indicated above.

#### **48. 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.

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

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

- a) Further to the subsequent events described in Note 1, Lebanon in general, and the Bank in particular, has been also affected by the Novel Coronavirus (Covid-19) pandemic. The existence of Novel Coronavirus (Covid-19) was confirmed in January 2020 in mainland China and has subsequently spread to many other countries around the world. This event has caused widespread disruptions to the business, with a consequential negative impact on economic activity. The Bank considers this event to be a non-adjusting event after the reporting period and therefore has not made any adjustments to the financial statements as a result of this matter. The outcome of this event is unknown and therefore the impact on the Bank cannot be reasonably quantified at the date of issuance of these financial statements. The effect of Covid-19 on the Bank will be incorporated into the determination of the Bank's estimates in 2020.
- b) In its meeting held on June 30, 2020, the Board of Directors of the Bank resolved to liquidate its branches in Iraq which is approved by the Central bank of Iraq.

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

The consolidated financial statements were approved by the Bank's Board of Directors in its meeting held on September 15, 2020.

