

**LIBANK SAL
(LEVANT INVESTMENT BANK)**

FINANCIAL STATEMENTS

31 DECEMBER 2018



Building a better
working world

Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
P.O. Box: 11-1639, Riad El Solh
Beirut - 1107 2090, Lebanon
Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@lb.ey.com
ey.com/mena
C.R. 61



SEMAAN, GHOLAM & Co.

BDO, Semaan, Gholam & Co.
Gholam Building - Sioufi Street
Beirut
P.O.Box: 11-0558, Riad El Solh
Beirut - 1107 2050, Lebanon
Tel: (01) 323676
Fax: (01) 204142
siman@inco.com.lb
C.R. 570

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LIBANK SAL (LEVANT INVESTMENT BANK)

Qualified opinion

We have audited the financial statements of LiBank SAL (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

Included under "Financial assets at fair value through profit or loss" is the Bank's investment in M Publishing SAL amounting to LL (000) 3,768,750 out of which the Central Bank of Lebanon's contribution reflected under "Other liabilities" amounted to LL (000) 2,826,563 as at 31 December 2018. The Bank did not perform a valuation of its investment in M Publishing SAL. Accordingly, we were not able to satisfy ourselves whether the Bank's net investment amounting to LL (000) 942,187 is fairly stated as at 31 December 2018. During 2019, the Bank appointed an expert to perform this valuation.

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

Emphasis of a matter

As disclosed in note 19, during 2018, the Bank proceeded with the revaluation of sections 68, 69, 222 and 223 of block B of plot number 39 of Rmeil area in Beirut. As at 31 December 2018, the finalization of this transaction is pending the necessary regulatory approvals. Our opinion is not qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended 31 December 2018. In addition to the matter described in the *Basis for qualified opinion* section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide an opinion on this matter. Our description of how our audit addressed this matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our qualified audit opinion on the accompanying financial statements.

Key audit matters (continued)

Allowances for expected credit losses

Refer to note 2.4 of the financial statements for a description of the accounting policy and note 37.2 for analysis of credit risk.

Due to the inherently judgmental nature of the computation of expected credit losses (“ECL”) for financial assets, there is a risk that the amount of ECL may be misstated. On adoption, the Bank has applied the requirements of IFRS 9 retrospectively without restating the comparatives.

The key areas of judgement include:

1. The identification of exposure with a significant deterioration in credit quality.
2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.
3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

How the matter was addressed during our audit:

We performed the following procedures:

1. We assessed the modelling techniques and methodology against the requirements of IFRS 9.
2. We tested the data, both current and historical, used in determining the ECL.
3. We tested the expected credit loss models including build, validation and governance of models.
4. We tested the material modelling assumptions in addition to any overlays.
5. We examined a sample of exposures and performed procedures to determine whether significant increase in credit risk had been identified on a timely basis.
6. We re-performed the ECL computation for sample of credit facilities.
7. We assessed the adequacy of disclosures in the financial statements.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditors’ responsibilities for the audit of the financial statements

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

Auditors' responsibilities for the audit of the financial statements (continued)

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


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

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

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

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

The partners in charge of the audit resulting in this independent auditors' report are Nadim Dimashkieh for Ernst & Young and Antoine Gholam for BDO, Semaan, Gholam & Co.



Ernst & Young



BDO, Semaan, Gholam & Co.

9 May 2019
Beirut, Lebanon

LiBank SAL (LEVANT INVESTMENT BANK)

INCOME STATEMENT

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> LL (000)	<i>2017</i> LL (000)
Interest and similar income	3	7,907,248	4,416,955
Interest and similar expense	4	(7,636,802)	(5,644,933)
Net interest income (expense)		270,446	(1,227,978)
Fee and commission income	5	2,318,513	1,570,381
Fee and commission expense	5	(257,338)	(145,577)
Net fee and commission income	5	2,061,175	1,424,804
Net gain on financial assets at fair value through profit or loss	6	4,651,498	7,182,894
Dividend income from financial assets at fair value through other comprehensive income	14	109,611	31,096
Share of profit from investments in subsidiaries and associates	17&18	473,167	110,342
Write-back of provision for risks and charges	27	147,924	-
Total operating income		7,713,821	7,521,158
Net impairment loss on financial assets	7	(269,972)	-
Net operating income		7,443,849	7,521,158
Personnel expenses	8	(3,920,632)	(3,651,944)
Other operating expenses	9	(2,958,876)	(2,840,868)
Depreciation of property and equipment	19	(448,127)	(445,718)
Amortization of intangible assets	20	(87,337)	(131,606)
Total operating expenses		(7,414,972)	(7,070,136)
PROFIT FOR THE YEAR		28,877	451,022

The accompanying notes I to 37 form part of these financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Notes</i>	2018 LL (000)	2017 LL (000)
PROFIT FOR THE YEAR		28,877	451,022
OTHER COMPREHENSIVE INCOME			
<i>Items to be reclassified to the income statement in subsequent periods:</i>			
Net unrealized gain from debt instruments at fair value through other comprehensive income	31	19,677	-
Other comprehensive income to be reclassified to the income statement in subsequent periods		19,677	-
<i>Items not to be reclassified to the income statement in subsequent periods:</i>			
Net unrealized (loss) gain from equity instruments at fair value through other comprehensive income	31	(369,530)	1,390,818
Net gain from revaluation of real estate	19	2,721,049	-
Other comprehensive income not to be reclassified to the income statement in subsequent periods		2,351,519	1,390,818
OTHER COMPREHENSIVE INCOME FOR THE YEAR		2,371,196	1,390,818
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,400,073	1,841,840

The accompanying notes 1 to 37 form part of these financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 LL (000)	2017 LL (000)
ASSETS			
Cash and balances with the Central Bank	11	55,288,536	34,905,161
Deposits with banks and financial institutions	12	11,919,273	16,734,837
Financial assets at fair value through profit or loss	13	71,569,285	90,623,177
Financial assets at fair value through other comprehensive income	14	24,574,594	4,770,945
Loans and advances to customers at amortized cost	15	46,438,266	33,161,357
Loans and advances to related parties at amortized cost	33	820,495	963,457
Financial assets at amortized cost	16	46,237,218	36,302,147
Investments in subsidiaries	17	7,101,978	365,124
Investments in associates	18	5,114,101	2,119,031
Property and equipment	19	12,523,470	9,920,124
Intangible assets	20	234,279	190,612
Other assets	21	5,976,481	7,426,035
TOTAL ASSETS		287,797,976	237,482,007
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Central Bank	22	22,706,799	6,684,042
Due to banks and financial institutions	23	44,393,432	49,959,816
Customers' deposits at amortized cost	24	141,953,493	101,348,544
Deposits from related parties at amortized cost	25	3,527,489	2,694,621
Other liabilities	26	8,496,161	10,719,446
Provisions for risks and charges	27	113,365	966,620
TOTAL LIABILITIES		221,190,739	172,373,089
EQUITY			
Share capital	28	60,000,000	60,000,000
Non-distributable reserves	30	1,817,942	1,254,227
Distributable reserves	30	427,531	541,978
Cumulative changes in fair value of financial assets at fair value through other comprehensive income	31	1,105,015	1,454,868
Revaluation reserve of real estate	19	2,721,049	-
Retained earnings		506,823	1,406,823
Results for the year – profit		28,877	451,022
TOTAL EQUITY		66,607,237	65,108,918
TOTAL LIABILITIES AND EQUITY		287,797,976	237,482,007

The financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 9 May 2019 by:



Antonios Hanna Ghorayeb
Chairman

The accompanying notes 1 to 37 form part of these financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Non-distributable reserves				Distributable reserves		Cumulative changes in fair value of financial assets at fair value through other comprehensive income LL (000)	Revaluation reserve of real estate LL (000)	Retained earnings LL (000)	Results for the year - (loss) profit LL (000)	Total equity LL (000)
	Share capital LL (000)	Legal reserve LL (000)	Reserve for general banking risks LL (000)	General reserve LL (000)	Total LL (000)	Other reserves LL (000)					
Balance at 1 January 2017	60,000,000	315,820	890,471	-	1,206,291	539,551	64,050	1,406,823	47,936	63,264,651	
Appropriation of 2016 profits	-	4,793	43,143	-	47,936	-	-	-	(47,936)	-	
Total comprehensive income for the year - 2017	-	-	-	-	-	-	1,390,818	-	451,022	1,841,840	
Translation difference	-	-	-	-	-	2,427	-	-	-	2,427	
Balance at 31 December 2017	60,000,000	320,613	933,614	-	1,254,227	541,978	1,454,868	1,406,823	451,022	65,108,918	
Appropriation of 2017 profits	-	45,103	402,378	-	447,481	3,541	-	-	(451,022)	-	
Total comprehensive income for the year - 2018	-	-	-	-	-	-	(349,853)	2,721,049	28,877	2,400,073	
Dividends distributed (note 29)	-	-	-	-	-	-	-	(900,000)	-	(900,000)	
Transfers between reserves	-	-	(1,335,992)	1,452,226	116,234	(116,234)	-	-	-	-	
Translation difference	-	-	-	-	-	(1,754)	-	-	-	(1,754)	
Balance as at 31 December 2018	60,000,000	365,716	-	1,452,226	1,817,942	427,531	1,105,015	2,721,049	28,877	66,607,237	

The accompanying notes 1 to 37 form part of these financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>LL (000)</i>	<i>2017</i> <i>LL (000)</i>
OPERATING ACTIVITIES			
Profit for the year		28,877	451,022
Adjustments for:			
Depreciation of property and equipment	19	448,127	445,718
Amortization of intangible assets	20	87,337	131,606
Provision for risks and charges		(147,924)	199,457
Net impairment loss on financial assets	7	269,972	-
Share of profit from investments in subsidiaries and associates	17&18	(473,167)	(110,342)
Loss on disposal of property and equipment		814	-
Net unrealized revaluation loss (gain) of financial assets at fair value through profit or loss	6	331,294	(469,997)
		<u>545,330</u>	<u>647,464</u>
Changes in operating assets and liabilities:			
Balances with banks and the Central Bank		(6,743,938)	(14,157,345)
Loans and advances to customers at amortized cost		(14,021,370)	(17,879,092)
Loans and advances to related parties at amortized cost		142,962	1,017,469
Movement of financial assets, net		(11,566,684)	(8,849,667)
Customers' deposits at amortized cost		40,604,949	37,531,939
Deposits from related parties at amortized cost		832,868	(3,914,453)
Other assets		1,449,554	(1,449,947)
Other liabilities		(2,223,285)	2,283,494
Cash from (used in) operations		<u>9,020,386</u>	<u>(4,770,138)</u>
Provisions for risks and charges paid		(343)	(664)
Net cash from (used in) operating activities		<u>9,020,043</u>	<u>(4,770,802)</u>
INVESTING ACTIVITIES			
Acquisition of property and equipment	19	(349,645)	(1,139,293)
Acquisition of intangible assets	20	(131,004)	(15,076)
Investments in subsidiaries and associates		(9,258,757)	(560,513)
Proceeds from disposal of property and equipment		18,407	-
Net cash used in investing activities		<u>(9,720,999)</u>	<u>(1,714,882)</u>
FINANCING ACTIVITIES			
Dividends paid	29	(900,000)	-
Net cash used in financing activities		<u>(900,000)</u>	<u>-</u>
DECREASE IN CASH AND CASH EQUIVALENTS		<u>(1,600,956)</u>	<u>(6,485,684)</u>
Net effect of foreign exchange		(1,754)	2,427
Cash and cash equivalents at 1 January		(31,563,087)	(25,079,830)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34	<u>(33,165,797)</u>	<u>(31,563,087)</u>

The accompanying notes 1 to 37 form part of these financial statements.