
LIBANK
LEVANT INVESTMENT BANK S.A.L
ANNUAL REPORT
2019

01 Highlights

Key Figures in USD

DEPOSITS

2018	2019	%
96,504,797	**123,124,955**	**27.6%**

LOANS

2018	2019	%
31,349,095	**35,111,910**	**12.0%**

TOTAL ASSETS & AUM (INCL. PCL)

2018	2019	%
338,363,866	**415,687,432**	**22.9%**

EQUITY (NET OF DIVIDEND & PROVISIONS)

2018	2019	%
44,183,905	**42,315,246**	**-4.2%**

TOTAL INCOME EXCL. PROVISION

2018	2019	%
1,771,174	**1,443,710**	**-18.5%**

IFRS PROVISION

2018	2019	%
179,086	**2,915,007**	**15.28%**

Keeping a foremost position in a volatile market involves more than a conventional strategy and a plan forward.

Since inception, LIBANK has prioritized the development of its reach and services in international markets, between the Middle East, the GCC, the UK, and Latin America, by serving its mission of Availability, Quality, and Trust.

We operate across several geographies, servicing international clients through our dedicated teams based in Beirut, the United Kingdom, and Greece. Our investment portfolio is well diversified and managed to preserve the capital of both our shareholders and clients, by keeping our promise in delivering private, premium and personal top-notch services.

2019 has been a year divided into two parts, one with stability and normal activities, and another plagued with unrest and instability. At LIBANK, we managed and adapted our knowledge, bank treasury and investment strategy to best hedge against external macroeconomic threats. We rebalanced our portfolio to strengthen our liquidity in the first quarter and prepare ourself to face unforeseen events. The Bank's strategy is geared towards the creation of long-term value by investing in our subsidiaries outside Lebanon.

The execution of this strategy has led to the acquisition of 80% of Peterhouse Capital Limited shares, the inception of Grace Liberty and Stone PLC, and the increase of our participation in Ace Liberty and Stone PLC – U.K. to diversify our investment and consolidate our finances.

The redeployment of our investment capabilities is a strategic priority ensuring value and safety to our stakeholders.

Our achievements are important, as the bank has succeeded in implementing sustainable profit growth.

Following the commercial banking crisis in Lebanon during Q4 of 2019, LIBANK experienced a large volume of clients, liquidity and business due to its well-diversified portfolio and strong balance sheet, which attracted high net worth investors looking for safety during an economic meltdown.

As a result, our client deposits increased by 27.6% during 2019, and Total Assets and Assets under Management (AUM) reached approximately USD 416 million, as at December 30, 2019, comparing to USD 338 million, as at December 31, 2018. The bank is well capitalized with a strong liquidity ratio of 28.6%.

Our progress is constant, prudent and compatible with our risk vision within the context of the market and the region.

DR. TONY GHORAYEB
FOUNDER, CHAIRMAN
AND GENERAL MANAGER

Dr. Tony Ghorayeb

Risk Management

STRUCTURE AND OBJECTIVES

LIBANK has a solid Risk Management approach in place which aims to control and manage any risks across the bank's functions/departments.
This approach allows management to effectively deal with any uncertainty and associated risks/ opportunities, enhancing the capacity to build value for our clients and shareholders.
LIBANK's Risk Management scope entails carrying out Board directives, which include: implementing strategies and policies, establishing an effective system of internal controls to protect against any unanticipated loss by providing systematic risk analysis, and developing techniques to reduce potential exposure to loss.
Through the Board Risk Committee, the Board of Directors ensures that the decision-making processes are aligned with LIBANK's strategies and Risk Appetite.

RISK MANAGEMENT LIFECYCLE

LIBANK manages risks by monitoring its business risks and keeping them within acceptable limits.
When proper Risk Management techniques are implemented, financial returns can be optimized. LIBANK ensures that any activity with associated risks is identified, measured, managed and monitored. This can happen by accepting, reducing, eliminating, mitigating, or transferring the risks associated with any activity.
Our Risk Management approach is best-described as a life cycle with the following 5 phases:

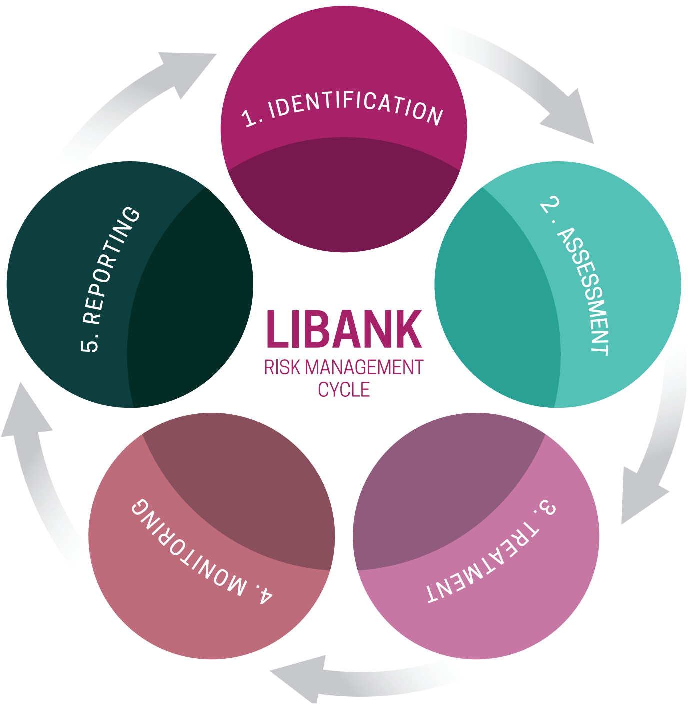
1. Identification: LIBANK identifies and defines the scope of the risk it is exposed to.

2. Assessment: The team assesses and quantifies the risk in order to mitigate against all significant sources of risk exposure.

3. Treatment: In this step, LIBANK manages and treats its risks in a manner which protects the bank's viability and operations.

4. Monitoring: Since some external risks (e.g.: market/ environmental risks) cannot be eliminated or controlled, they must be continuously monitored. This allows us to better mitigate risks and ensure continuity.

5. Reporting: The team is expected to provide management and the Board Risk Committee with reports containing relevant, accurate and timely information about risk exposure.



RISK APPETITE, ASSESSMENT AND MITIGATION

Risk Appetite, which is established by management under the oversight of the Board of Directors, is a guidepost in strategy setting. LIBANK expresses its Risk Appetite as the acceptable balance of growth, risk, and return, or as risk-adjusted shareholder value-added measures.

There are countless different strategies that can be undertaken to achieve desired growth and return goals, each carrying its own risks; however, an efficient Risk Strategy will detect any risk/threat early on. This leads to appropriate reporting to higher management and, in turn, to the proper mitigation of any risks.
Although Risk Appetite is based on our business strategy, LIBANK is still exposed to a variety of risks, similar to other investment banks. We, thus, hold a comprehensive Risk Management framework that integrates Risk Management into daily business activities and strategic planning. This framework protects our financial strength by identifying, measuring and controlling risks at every level.

LIBANK has set up internal control systems which are aligned with its strategic plan, values and Risk Appetite, and are fully compliant with all existing regulations .

Our Business

I. INTRODUCTION AND BACKGROUND

LIBANK, a private and independent investment bank, was founded in Beirut in 2012 by a team of experienced senior bankers and strategic investors. LIBANK has a fully paid capital of USD 40 million and operates as a fully chartered Investment Bank under the regulations of Banque du Liban (The Central Bank of Lebanon). The bank was registered at the Commercial Register in Beirut under number 1015811 on August 9, 2012 and is listed under number 139 in the list of regulated banks. LIBANK officially launched operations on January 14, 2013, and continues to provide innovative solutions to its private and corporate clients in efforts to meet their financial and investment objectives.

II. BUSINESS STRATEGY

Since inception, LIBANK has continuously prioritized the growth of its reach and services in international markets. We have successfully developed solid foundations in, both, Beirut and London.
Over the years, LIBANK has prioritized relationship building, with a commitment to our clients' satisfaction and financial success. This has led LIBANK to become a hub for high net worth individuals, families, and institutions that seek exposure to quality advice, deposits, custody, and asset allocation.

III. STRUCTURE AND NETWORK

In order to best serve our international portfolio ofclients, we ensure that the LIBANK team consists of dedicated professionals with extensive financial expertise and a strong global network of partner institutions.
Our core business activities are complimented by a highly-diverse, strategic investment portfolio consisting of local and international firms in numerous industries, such as: education, media, technology, fashion, real estate, and financial services.

IV. RISK MANAGEMENT APPROACH

The bank operates the Three Lines of Defense model which segregates Risk Management into the following three distinct categories:

First Line
In our operations, management holds the primary responsibility for the identification, measurement and management of all risks. The assignment of specific Risk Management responsibilities/tasks is set out in Board-approved policy documents which establish the limits within which we operate.
In addition to the day-to-day Risk Management processes, we have established several executive committees to oversee and manage those risks.

Second Line
As a second line of defense, LIBANK assigns a Risk Officer who conducts independent reviews of Risk Management throughout the bank and analyzes the adequacy, accuracy and effectiveness of management information (MI) used in Risk Management decision-making. This officer reports directly to the Chairman of Risk Committee and they meet once annually, at the very least.
The Risk & Compliance Officer reviews risk-related MI prior to distribution, adds commentary on significant variances and follows up with risk managers/ owners whenever necessary.
The Risk Officer establishes a three year combined assurance plan in coordination with our Internal Audit department; a plan which ensures that all significant areas of risk are reviewed at an appropriate frequency by the second or third line of defense through the assurance cycle. This plan is to be presented the Risk Officer and the Internal Audit Officer at each meeting of both the Audit and Risk Committees.
Furthermore, the Risk Officer provides expertise and guidance on appropriate Risk Management practices, policies and procedures. Through these practices, the officer ensures that the relevant personnel and committees (and ultimately the Board of Directors) are informed of any updates regarding new/ amended rules, regulations or guidance; it is then the officer's responsibility to ensure that the bank responds adequately.

Third Line
As a third line of defense, we employ an Internal Audit team responsible for preparing independent reviews of the effectiveness of our Risk Management strategy. This department reports directly to the Chairman of the Audit Committee. External players such as regulators or external auditors also play an important role in the organization's overall governance and control structure. When coordinated effectively, groups outside the organization can be considered as additional lines of defense, providing assurance to the organization's shareholders and management. As the governing body, LIBANK's Board of Directors is ultimately responsible for approval of the Risk Management framework and oversight of control systems in place.

V. KEY RISKS

Credit Risk
The risk of losses arising from a borrower or counterparty failing to meet its obligations as they fall due.

Liquidity Risk
The risk that the bank has insufficient financial resources to meet its liabilities as they fall due, or, where financial resources are available, they can only be secured at an excessive cost. This includes funding concentration risk.

Operational Risk
The risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events, and includes legal risk.

Interest Rate Risk
The risk of losses arising from changes in the interest rates associated with banking book items. This includes basis risk, which is generated by banking book items that re-price in relation to different reference rates.

Reputational Risk
The risk arising from negative perception on the part of clients, counterparties, shareholders, investors or regulators that can adversely affect the bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. Reputational risk is multidimensional and reflects the perception of clients or other market participants.

Credit Concentration Risk
The risk of losses arising as a result of concentrations of exposures due to imperfect diversification. This imperfect diversification can arise from the small size of a portfolio or a large number of exposures to specific obligors (single name concentration) or from imperfect diversification with respect to economic sectors or geographical regions. This also includes income concentration risk.

Business Risk
The risk that the bank may not be able to deliver its strategic objectives due to changes in its business environment.

Conduct Risk
The risk that clients will be disadvantaged as a result of inadequate processes and systems at any point in the product life cycle, including product design and marketing, the sales process, information provided to clients, and post-sale issues.

Counterparty Credit Risk
The risk of losses arising from the default of the counterparty to derivatives, margin lending, securities lending, repurchase and reverse repurchase or long settlement transactions before final settlement of the transaction's cash flows and where the exposure at default is crucially dependent on market factors.

Market Risk
The risk of losses resulting from adverse changes in the value of positions arising from movements in market prices across commodity, credit, equity, FX and interest rates risk factors.

Excessive Leverage Risk
The risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets

Group Risk
The risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.

VI. SECURITIES BUSINESS OFFERINGS

At LIBANK, our banking strategy is reflected in our work, our clients, and our team dynamic. We provide high-quality tailored services to satisfy a wide range of investment preferences, and to focus on building long-lasting solid relationships with our clientele. Both individual and corporate clients are serviced as per their specific needs, whether for investment or advisory services. We prioritize inter-departmental cooperation in order to ensure a comprehensive and distinct banking experience, which includes:

1. Private Banking
Our Private Banking team provides discretionary and advisory wealth management services. We serve clients on a global scale.

2. Asset Management
Successful portfolio-building stems from strong diversification strategies and suitability assessments. Our Asset Management team has established a strong track record in implementing these strategies.

3. Investment Banking
Our Investment Banking team manages and leads capital transactions for institutional clients.
This department helps SMEs optimize capital through efficient debt-equity structures, investor identification, private placement execution, and mergers and acquisitions (M&A) advisory.

Markets
LIBANK's dealing room provides a gateway to over 60 global exchanges, over-the-counter securities, and structured products through its network of leading financial counterparties. Our trade execution applies sophisticated solutions to increase trade efficiencies and minimize risk imbedded in the trading process.

VII. ROAD MAP

Over the years, LIBANK has soundly navigated the market to better balance, both, its upside and downside risks to preserve a solid, unwavering environment to its clients. However, we anticipate an increase in external risks as a result of the geopolitical climate in the region, the Lebanese economic crisis, and the restrictions placed on the Lebanese banking sector. To hedge against financial vulnerabilities and potential losses, we have already assessed these risks and set a system in place: a system under which LIBANK prioritizes diversification into international markets and consequently reduces its exposure to local risks.
LIBANK operations span across several regions, servicing an international clientele through our dedicated teams based in Beirut, the United Kingdom, and Greece. In order to best preserve the capital of our shareholders and clients, we continuously ensure that our investment portfolio is well-diversified and appropriately managed.

International Investment Portfolio
Over the years, LIBANK has carefully curated an international investment portfolio to compliment its core business activities. Our portfolio is made up of well-managed companies which are diligently hand-picked to match our strategy and road map. To better assist and support these companies, LIBANK provides them with a range of pre-agreed professional services. Our team takes pride in the portfolio we have built over the years, which spans over numerous industries and includes:

Peterhouse Capital Limited, a fully-owned FCA regulated Financial Institution based in London, offers a range of financial services. Peterhouse is known as one of the leading independent small cap brokers. Additionally, Peterhouse is the largest NEX Exchange Corporate Adviser.

Ace Liberty & Stone Plc is a UK-based real estate investment company listed on the NEX market with a portfolio worth upwards of GBP 100 million.

LIBANK Global Balances Fund, an open-ended fund that seeks to achieve capital growth through its balanced global asset allocation. This fund focuses its investment activity on diversified large cap companies listed in the New York and Hong Kong stock exchanges; and it has grown to reach a return of 21.28% in 2019.

Grace Liberty & Stone, a real estate investment company based in Athens, Greece with a portfolio worth approximately EUR10 million. The company's main target is to acquire, manage and sell real estate properties in Greece.

Our expansion plan at LIBANK is based on our tactical strategy to diversify investments between local and international markets. The goal behind this approach is to increase revenue streams and shed the risks associated with being exposed to just one market. From these plans and strategies, management has set targets for the period 2019 - 2024:

Off Balance Sheet Portfolio Management
Our investment approach at LIBANK prioritizes diversifying asset allocation in our portfolios in order to preserve the capital of and deliver value to our investors and clients. In return, we then generate returns through management, administration, custody, and performance fees.
The LIBANK business model has consistently secured sufficient income to fulfill its duties on a global scale. Additionally, the same model has allowed us to maintain a healthy income spread throughout our local portfolio which covers any local commitments.
On top of that, we are currently working on launching financial facilities for Lebanese production companies in efforts to boost the local economy.

IX. FINANCIAL PROJECTION – 4 YEARS TO COME

	FY 2021 USD (000)	FY 2022 USD (000)	FY 2023 USD (000)	FY 2024 USD (000)
Current Assets	**89,721.47**	**92,889.53**	**96,114.47**	**102,483.00**
Head Office	**6,846.45**	**6,846.45**	**6,846.45**	**6,846.45**
Fixed Assets - Net	**1,800.00**	**1,980.00**	**2,178.00**	**2,395.80**
Investments	**164,091.60**	**167,228.03**	**161,688.28**	**160,699.69**
Fixed Income	97,265.02	95,265.02	84,582.01	78,443.02
Participation	44,097.99	44,097.99	44,097.99	44,097.99
Fund Investment	2,728.59	2,865.02	3,008.27	3,158.69
Loans	20,000.00	25,000.00	30,000.00	35,000.00
Total Assets	**262,459.52**	**268,944.00**	**266,827.19**	**272,424.95**
Return on Investment	**7,122.62**	**7,784.68**	**9,306.44**	**10,224.75**
Net Interest Income	6,522.62	7,044.68	7,476.44	8,164.75
Mart-to-Market	100.00	140.00	180.00	60.00
Income from Participation	500.00	600.00	1,650.00	2,000.00
Current Liabilities	**4,313.14**	**5,841.18**	**7,322.03**	**8,750.96**
Deposits	**196,648.88**	**181,648.88**	**166,648.88**	**151,648.88**
Borrowing from BDL	**23,163.99**	**23,163.99**	**23,163.99**	**23,163.99**
Revenue Center Assumptions				
Clients Portfolios	176,754.37	203,267.52	233,757.65	268,821.30
Custody and Admin. Fees	150.00	150.00	150.00	150.00
Family Office / (Off Shore)	**16,972.23**	**16,972.23**	**16,972.23**	**16,972.23**
Management Fees - Offshore	50.00	50.00	50.00	50.00
Asset Management	**7,493.77**	**7,493.77**	**7,493.77**	**7,493.77**
Management Fees	50.00	50.00	50.00	50.00
Fiduciary Deposits	**10,000.00**	**15,000.00**	**20,000.00**	**25,000.00**
Spread Commission	25.00	37.50	50.00	62.50
Brokerage / Advisory	**5,000.00**	**5,000.00**	**5,000.00**	**5,000.00**
Spread Commission	250.00	275.00	302.50	332.75
Project Financing	**2,000.00**	**3,000.00**	**5,000.00**	**5,000.00**
Project Fees	40.00	60.00	100.00	100.00
Total Assets and AUM	**473,679.88**	**511,677.52**	**545,050.84**	**590,712.24**
Operating Revenues	**7,937.62**	**8,682.18**	**10,311.44**	**11,302.75**
Operating Expenses	**7,873.17**	**8,460.48**	**9,106.53**	**9,817.18**
Profit/(Loss)	**64.46**	**221.69**	**1,204.91**	**1,485.57**
Investment Revaluation - OCI	**1,119**	**1,231**	**1,355**	**1,490**
Total Comrehensive Income	**1,183.95**	**1,453.14**	**2,559.50**	**2,975.62**

How We Create Value for Stakeholders

Our top priority at LIBANK is to create value for our stakeholders through our innovative banking and investment services across the UK, the Middle East, and Europe. The focus we place on stakeholders is essential to our business operations and allows us to create long-term shareholder value. In efforts to increase this overall long-term value, we strategically choose investments which align with our business ethics, morals and sustainability goals. At LIBANK, we strive to create and maintain value at each tier of stakeholders, which includes our shareholders, clients, investors, employees, and the communities in which we operate.

By combining our financial resources, knowledge, expertise, and network, we produce tangible value for our investors, depositors, and shareholders over the short, medium, and long terms. Our investment banking and asset management strategies focus on multi-leveled diversification and utilize market-driven asset/liability management techniques to ensure the materialization of value. Market analysis and timing are key to this strategy.

By placing diversification at the heart of our core principles, we have been able to create value and protect our stakeholders against the concentration of wealth and low liquidity. We also leverage our network and resources to promote this value creation and preserve capital.

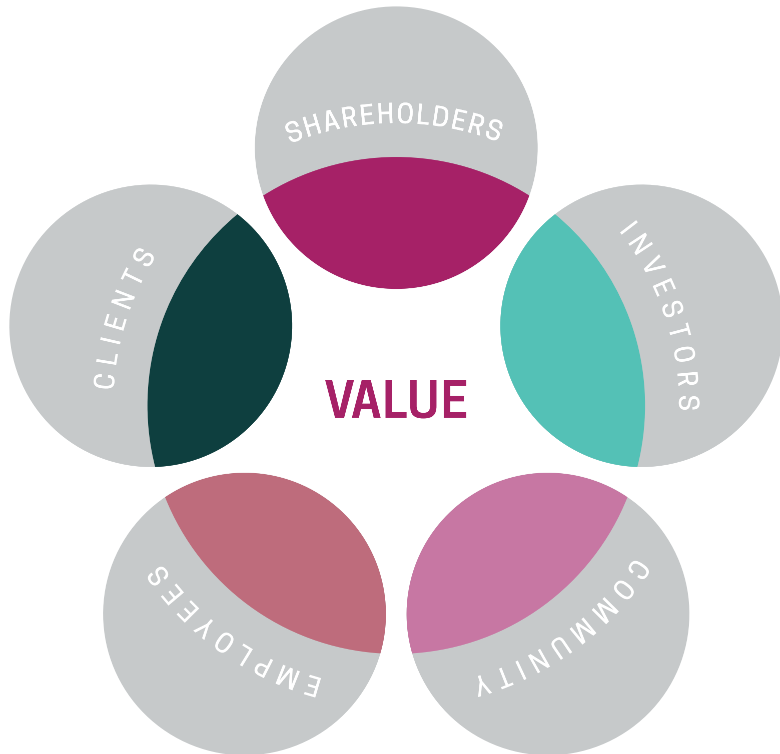
These principles are resonated in LIBANK's own investment strategies. Over the years, we have built a diversified private equity portfolio across the UK and Europe, which was key in overcoming the limitations posed by the Lebanese Crisis. This allowed LIBANK to provide a pivotal solution to clients and shareholders whereby their holdings would be diversified on an international basis.

We view our team as a pillar of the LIBANK mission to create and maintain value for all stakeholders. We value employee satisfaction at LIBANK and are continuously exploring avenues through which we can create value for our employees; which is reflected in our low employee turnover rate. One recent example is the support and loyalty we have displayed throughout the length of the Lebanese Crisis: having grown our workforce and adjusted payroll expenses to reflect the new market reality.

LIBANK believes in the importance of giving back to one's community. We established various initiatives to incite a positive social impact, such as: investing in overlooked economic segments, providing opportunities for businesses and individuals, promoting culture, etc... We have provided support to small enterprises, lower income households, performing and visual arts groups, NGOs, charities, and education ventures in Lebanon and abroad.

These initiatives include:
- Tripoli Film Festival, Lebanon.
- Tripoli International Festival, Lebanon.
- Event for promoting Lebanese wine producers, Brazil.
- Event for Lebanese Cinema, Brazil.
- Donations to NGOs and charities, Lebanon and the UK.
- Donations to religious institutions, throughout the Middle East region.
- Investment in IT education projects, Lebanon.

The focus we place on stakeholders is essential to our business operations and allows us to create long-term shareholder value. We increase this overall long-term value by strategically choosing investments which align with our business ethics, morals and sustainability goals.



Corporate Officers

COMPANY PROFILE

LIBANK is a hub for high net worth individuals, families, and institutions that seek quality advice and financial services.

We provide our clients with a team of dedicated professionals with extensive financial expertise and a strong global network of partner institutions.

Our private banking activities are complemented with our strategic and diversified investment portfolio of high potential and well-managed companies, which we support with pre-agreed professional services.

STRATEGY

Over the years, we have carefully developed an international team dynamic, and our banking strategy is a reflection of that. The LIBANK strategy is one that is rooted in diversification and international reach. Since inception, we have prioritized the development of our services in international markets, spanning across the Middle East, the GCC, the UK, and Latin America.

CORPORATE GOVERNANCE

At LIBANK, prudence and proper governance are key to our operations. We are committed to operate within a strong corporate governance framework, in accordance with local and international standards, in order to safeguard shareholders' interests. In parallel, we complement our core business activities with our internationally diverse investment portfolio.

PROFILES OF OUR SENIOR LEADERSHIP TEAM

Our board and management are committed to sound and effective corporate governance practices.

Board Members

Executive	Dr. Tony Ghorayeb	Chairman and General Manager	Lebanese
Non-Executive	Mr. Salim Chaar	Co-Founder Member of the Risk committee Member of the Remuneration Committee	Lebanese
	Mr. Loutfallah Klat	Legal advisor Member of the AML/CFT committee Member of the Remuneration committee Member of the Audit committee	Lebanese
	Mr. Hussam Abu Issa	Vice Chairman	Qatari
	Mr. Hisham Itani		Lebanese
	Mr. Victor Najjarian	Member of the Audit committee	Lebanese
	Mr. Edafi Holding S.A.L.	Member of the Risk committee Member of the AML/CFT committee	Lebanese
	Mr. Hikmat El Rousstom	Member of the Audit committee	Lebanese
Independent	Mr. Jawad Adra	Chairman of the AML/CFT committee	Lebanese
	Mr. Andre Bendaly	Chairman of the Audit committee Member of the Risk committee	Lebanese
	Mr. Jean Oghassabian	Chairman of the Remuneration Committee Member of the Audit committee Member of the AML/CFT committee	Lebanese
	Mr. Eduardo Fakhoury	Chairman of the Risk committee	Lebanese

Chair of the Board - Dr. Tony Ghorayeb

Board Committees	Members
AML/CFT Committee	1- Mr. Jawad Adra (Chairman of AML/CFT Committee) 2- Me. Loutfallah Khlat 3- HE Jean Oghassabian 4- Edafi Holding SAL (Represented by HE Nicolas Nahas)
Audit Committee	1- Mr. Andre Bendaly (Chairman of Audit Committee) 2- Me. Loutfallah Khlat 3- Mr. Victor Najjarian 4- HE Jean Oghassabian 5- Mr. Hikmat El Rousstom
Risk Committee Risk Committee Charter (PDF)	1- Mr. Edouardo Fakhoury (Chairman of Risk Committee) 2- Mr. Salim Chaar 3- Mr. Andre Bendaly 4- Edafi Holding SAL (Represented by HE Nicolas Nahas)
Remuneration Committee Human Resources Committee Charter (PDF)	1- HE Jean Oghassabian (Chairman of Remmuneration Committee) 2- Me. Loufallah Khlat

Management Committees	Members
Corporate Governance	1- Mr. Andre Bendaly 2- HE Jean Oghassabian 3- Mr. Antoun Bassil 4- Mr. Kayssar Ghorayeb 5- Mrs. Vera Chamoun
Credit Committee	1- Dr. Tony Ghorayeb 2- Mr. Antoun Bassil 3- Mr. Ahmad Rizk 4- Me. Naji El Fata 5- Miss Nanor Godalazian
IT Operation	1- Dr. Tony Ghorayeb 2- Mr. Antoun Bassil 3- Mr. Kayssar Ghorayeb 4- Mr. Abdel Raouf Massalkhy 5- Mr. Amir Abdel Samad 6- Mrs. Vera Chamoun 7- Me. Naji El Fata
IT Security	1- Mr. Antoun Bassil 2- Mr. Abdel Raouf Massalkhy 2- Mr. Kayssar Ghorayeb 4- Mr. Amir Abdel Samad 5- Mrs. Vera Chamoun
IFRS9	1- Mr. Antoun Bassil 2- Mr. Kayssar Ghorayeb 3- Mr. Ahmad Rizk 4- Mr. Amir Abdel Samad 5- Mrs. Samar Masri 6- Me. Naji El Fata
Compliance Management	1- Dr. Tony Ghorayeb 2- Mr. Antoun Bassil 3- Mr. Kayssar Ghorayeb 4- Mr. Ahmad Rizk 5- Mrs. Rona Aoun 6- Miss Angie Chamoun 7- Mrs. Vera Chamoun 8- Me. Naji El Fata

Our Environment

1. ECONOMIC SITUATION - CURRENT MARKET CLIMATE

For the Lebanese economy, 2019 has been a year characterized by turmoil, strong events, ultra-high volatility and an inflection in interest rates. In fact, the Lebanese economy has been witnessing slow growth since 2011, following the Arab Spring movement, the Syrian conflict and internal political tensions; but, this slow growth turned into a sharp deterioration in 2019, following an economic collapse, a political crisis and a global pandemic.

Lebanon's already-low GDP growth decreased even further, going from -1.9% in 2018, to -6.5% in 2019 and is expected to plummet to -12% in 2020, according to updated IMF forecasts from April 14, 2020. The main drivers of the local economy (real estate, construction and tourism) have stalled and the banking sector, which had been praised for its resilience thus far, had proven to be vulnerable.
The state has become over-indebted with almost no liquidity following a sharp decline in international transfers and bank deposits. Not only that, but the local economy has come to a near-halt due to the COVID-19 outbreak. The uprising occurred before COVID.

Public debt has continued to increase, exceeding 155% of GDP in 2019, and is expected to reach 161.8% of GDP in 2020 and 167% in 2021, according to the IMF. Lebanon is the world's third most indebted country, and its already high budget deficit has further deteriorated to reach -13.7% of GDP in 2019. This number is expected to slightly increase to -12.7% of GDP in 2020 and then fall back down to -14.1% of GDP in 2021 (IMF).

The country's current account deficit increased to represent -20.6% of GDP in 2019 and inflation slowed from 4.6% in 2018 to 2.9% in 2019. However, the IMF's forecasts predict that this rate will soar to reach a staggering 85.5% in 2020, due to the worsening of the economic crisis, the pressures exerted on the Lebanese currency and the pandemic.

Market forces indicated that the pegged exchange rate of 1500 LBP to USD left the local currency overvalued by 50%. Furthermore, worldwide rating agency Fitch forecasts an imminent default on public debt of USD 88 billion. Towards the end of 2019, an interim government was put in place, with the priority of restoring political stability, implementing the reforms necessary for economic recovery and obtaining international funding.

In addition to the macroeconomic and political disturbances, Lebanon is currently facing a myriad of social issues such as:
- - A massive influx of Syrian refugees (officially making up 25% of the country's population) which has taken a toll on the country's demographics and labor market, increasing rent, weakening infrastructure and wearing out the supply of public services (such as water and electricity).
- The waste crisis, which begun in 2015, is yet to be resolved as garbage continues to pile up along the Mediterranean Sea.
- Unemployment rates have skyrocketed and will only get worse after the October 2019 economic crisis where hundreds of thousands of jobs were lost, countless businesses shut down and poverty rates increased.
- Immense social inequalities which are only expected to worsen with the development of the economic crisis.

Source https www.nordeatrade.com en explore-new-market lebanon economical-context text Lebanon 20 is 20 the 20third 20 most, 20.6 25 20 of 20 GDP 20 in 2019

Main indicators	2018	2019 (e)	2020 (e)
GDP (billions USD)	54.96	52.52	18.73
GDP (Constant Prices, Annual % Change)	-1.9	-6.9	-25.0
GDP per Capita (USD)	8	7	2
General Government Balance (in % of GDP)	8,010	7,660	2,740
General Government Gross Debt (in % of GDP)	154.9	174.5	171.7
Inflation Rate (%)	4.6	2.9	85.5
Current Account (billions USD)	-15.51	-14.42	-3.06
Current Account (in % of GDP)	-28.2	-27.4	-16.3

Source: IMF - World Economic Outlook Database, October 2020

2. MAIN SECTORS OF THE INDUSTRY

Agricultural
Lebanon has fertile lands and benefits from a moderate climate and abundant water resources. However, the agricultural sector is still underdeveloped, with a mere 5.3% contribution towards GDP, and solely employing 13% of the local workforce (World Bank, 2019). Key agricultural products in Lebanon include:
- Fruits such as: apples, oranges, bananas, grapes, and olives. These account for around 30% of total agricultural production, and
- Vegetables such as potatoes, tomatoes and corn, which account for more than 60% of total production.

Industrial
The industrial sector is significantly larger, making up 12.8% of GDP and employing 22% of the local workforce. This industry is best known to manufacture agricultural products, metals, minerals, furniture and other goods.

There are over 4,700 industrial firms in Lebanon, where 26% manufacture agri-food products, 12% construction materials and 8% chemical products. The services industry dominates the Lebanese economy, representing a whopping 75.9% of the country's GDP and employing almost two-thirds of the workforce.

Banking
The banking sector has traditionally been the main pillar of our economy; however, the accumulation of public debt, lack of reform, and socio-political and geopolitical turmoil have left the country facing imminent risk of default.
This risk would expose the local banking sector to several risks, such as: market, liquidity and default risks.

Tourism
Lastly, the tourism sector accounts for almost 20% of GDP and employs around 18% of the Lebanese population. This sector has been gravely affected by the economic crisis and geopolitical pressure that cripples the nation.

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector (in % of Total Employment)	13.4	22.3	64.3
Value Added (in % of GDP)	5.3	12.8	75.9
Value Added (Annual % Change)	29.1	-0.1	-5.0

Source: World Bank, Latest Available Data. Because of rounding, the sum of the percentages may be smaller/greater than 100%.

2019 Corporate Social Responsibility Highlights

OUR COMMUNITY IMPACT

LIBANK is committed to making a positive impact and leading its community to financial prosperity through creating solutions for a stronger, more sustainable future. In 2019 alone, we organized projects directed at:

- Strengthening Communities
- Empowering Diverse Small Businesses
- Improving Financial Health and Capability
- Improving Education in Deprived Regions

LIBANK takes pride in its commitment to the principles of corporate social responsibility; we use our resources and expertise to address complex societal issues and provide our community with stability and financial growth. Additionally, LIBANK contributes to the Goals of Sustainable Development and works towards improving the quality of life throughout our community. We are constantly adapting our operations to promote a better financial environment and ease the consequences of the Lebanese crisis.

Over the years, we have carefully built a community of stakeholders who are aligned with and amplify the LIBANK legacy of serving and supporting those in need.

Regulation & Supervision

1. COMPLIANCE

Introduction
Corporate Compliance is an essential part of the operations in any business. Banks aim to establish a strong compliance culture to treat their clients fairly, protect their employees, ensure shareholder satisfaction and portray trustworthiness.

Objectives and Role of the Compliance Function
In the financial services sector, Compliance Departments work to meet key regulatory objectives to protect investors and ensure that markets are fair, efficient and transparent.

The main objective of the Compliance Function at LIBANK is to ensure that a business adheres to external rules and internal controls. LIBANK also has an independent Compliance function that is responsible for ensuring that all business operations are compliant with the relevant rules and internal controls and providing advice on mitigating key compliance risks. The Compliance Division reports directly to the Board of Directors, has unrestricted access to all bank documents/ records considered necessary for the performance of its responsibilities and has the authority to request any data or report from any member of the LIBANK staff.
The role and responsibilities of this department include:

- Reporting the Compliance risks to the AML/CFT Board Committee,
- Advising the Board and Management and relative functions on applicable rules and regulations and ensure compliance with them,
- Ensuring compliance with tax reporting laws and requirements,
- Ensuring that the appropriate Compliance training is delivered to LIBANK staff,
- Continuously enhancing the compliance culture within the Bank,
- Preparing presentations and training our staff on any new laws and regulations relating to AML/CFT, and
- Ensuring that all data held by the Bank is protected and conflict of interests are respected.

FATCA
LIBANK is a FATCA-compliant institution and is registered directly with the IRS as a single participating Foreign Financial Institution (FFI). LIBANK also went on to obtaining the Global Intermediary Identification Number (GIIN) in conformity with FATCA provisions and regulatory requirements. As an FFI, LIBANK must comply with the appropriate rules and regulations surrounding client identification, reporting, and withholding requirements.

The bank has established policies and procedures in compliance with FATCA and has adapted its existing policies and procedures according to new changes/ requirements. For example, LIBANK has adopted an IT software specifically designed for FATCA implementation where specific measures are taken to ensure proper and timely reporting according to the IRS requirements.
Our team has undergone the appropriate training programs on FATCA rules and regulations, the necessary policies and procedures and any related responsibilities.

CRS
LIBANK has consistently been compliant with the Common Reporting Standard (CRS) since its first date of reporting in 2018. The CRS is the standard for the automatic exchange of financial account information developed by the OECD. LIBANK has developed its own policies and procedures to comply with CRS which are continuously updated in line with any new requirements; and, a periodic review is conducted in order to ensure LIBANK's compliance with the CRS requirements.
Our team has also undergone the appropriate training programs on CRS rules and regulations, the necessary policies and procedures and any related responsibilities.

2. ANTI-MONEY LAUNDERING/COMBATING THE FINANCING OF TERRORISM

Introduction

Money Laundering and the Financing of Terrorism pose major threats to the reputation of the Lebanese banking sector and the country's overall financial market. Since these two factors could also hinder the growth of the Lebanese economy, it is essential to combat them in order to promote a strong, flourishing financial sector.

In accordance with the Lebanese law No. 44 (dated November 24, 2015) and BDL regulations, we have established effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Failing to do so could lead to significant legal and reputational risks.

Developments on Ant-Money Laundering

On November 24, 2015, the Lebanese Parliament enacted Law No. 42 regarding the declaration of amounts of carried cash at the border, Law No. 43 surrounding the exchange of tax information, Law No. 53 on the International Convention for the uppression of the Financing of Terrorism, and Law No. 44 on AML/CFT. Additionally, the Central Bank issued Basic Circular No. 136 with regards to the implementation of FATF Recommendation 6 concerning UN Security Council Resolutions 1267 (1999), 1988 (2011), 1989 (2011), and any related resolutions.

In an increasingly interconnected and risky business environment, LIBANK consistently abides by the AML/CFT framework; our team ensures the compliance with all relevant national and international laws and regulations, across our correspondents and clients, especially for cross-border transactions or the utilization of correspondent banks. Seeing the importance of this topic, LIBANK created an AML/CFT Committee, at the Board level, to implement appropriate practices throughout the Bank and to maintain a global AML/CFT Policy. This Committee monitors the Bank and all its subsidiaries ensuring their compliance with relevant laws, rules and regulations related to anti-money laundering and combatting the financing of terrorism. These practices include, but are not limited to:

- Implementing a Know your Client (KYC) practice.
Our Relationship Manager gathers and documents relevant client identification data, along with their personal, professional, financial background and the purpose of the account. These steps enable the Bank to apply a risk-based approach, under which we retain and document due diligence surrounding each client's risk.
- Monitoring and Reporting Suspicious Transactions.
At LIBANK, a culture of vigilance is promoted among our employees, in order to maintain a level of diligence in monitoring unusual, suspicious transactions and to adequately report those activities to the Compliance Function and Special Investigation Commission (SIC).
The monitoring process at LIBANK includes:
- screening clients' names against local and international sanction lists through the World-Check Compliance software; and
- addressing and monitoring any alerts on clients' transactions that are generated by our internal system.
- Delivering training sessions where our Compliance Department informs LIBANK employees and management on the risks that might affect our operations and how to best manage them.

Risk Based Approach

Based on BDL Circular No. 83 and Basic Decision No. 7818 dated May 18, 2001, LIBANK developed and implemented Risk Based Approach (RBA) policies and procedures for the classification of clients in efforts to monitor and control AML/CFT operations.

The parameters we are most concerned with here are mainly related to the nature of the client's business and geographical location. Accordingly, the clients are then classified into one of the following three categories: High Risk, Medium Risk and Low Risk.

Depending on the risk classification and account activity, our team then analyzes whether to enact Due diligence (DD) or Enhanced Due Diligence (EDD) processes.

COMPLAINT

At LIBANK, we are dedicated to providing our stakeholders with a seamless banking experience with top-quality service. We highly value all our clients' opinions and feedback and our team is always at the disposal of our clients and ready to address and assist with any issue that may arise. We see complaints as an opportunity to learn, improve operations, and enhance our client relationships. So, complaint forms are easily accessible to our clients and can be found on our website.

In the case where a complaint is made regarding capital markets, the CMA's Business Conduct Regulation calls for records of those complaints to be retained for a period of ten years. Such records must be held as digital, electronic, or paper files, and must be organized, backed-up, secure, accessible, controlled and capable of being reproduced in printed form.

Furthermore, in compliance with BDL's Basic Circular No, 134, Banking Control Commission Circular No. 281 and Capital Market Authority announcement No. 24, the Bank established a complaint department with the aim of protecting our clients against any violations of their rights.

LIBANK has also developed its own Code of Ethics and Conduct which lays the ground rules for the general attitude and behavior among our employees; and this code is compliant and in line with the aforementioned circulars.

GDPR

Following the Central Bank's Basic Circular No. 12872 on the General Data Protection Regulation (GDPR), we appointed a Data Protection Officer whose role entails:

- ensuring that the Bank processes and protects the personal data of its stakeholders,
- the submittal of periodic reports to management,
- the protection against any potential violation of data privacy,
- updating the Board of Directors and management of any breaches of laws and regulations, and
- consistently aligning internal policies and procedures with new, relevant regulations .

Regulatory Environment

As per the Central Bank's licensing and classfications, LIBANK is a Specialized Bank which specializes in investments and medium and long-term credits authorized and regulated by Banque Du Liban. LIBANK is listed on the List of Banks Operating in Lebanon under number 139 and is thus subject to the consolidated supervision of the Central Bank, the Banking Control Commission and the Capital Market Authority. Our subsidiaries also comply with the regulations of the competent authorities in the jurisdictions in which they operate.

Regulations and Supervision
With a cross-border regulatory framEwork, LIBANK is licensed and regulated by the BDL (Central Bank of Lebanon) and the CMA (Capital Market Authority in Lebanon), and its subsidiary Peterhouse Capital in London is licensed and regulated by the FCA (Financial Conduct Authority in the UK).

Financial Crime Prevention
As previously described, LIBANK is dedicated to preventing financial crime throughout its operations across all of its subsidiaries. In line with all applicable local and international regulations (such as Lebanese Law No. 44 dated November 24, 2015 and BDL circulars and obligations), we have established systems and processes to detect and prevent financial crime across all departments.

Data protection
It is of utmost importance for the LIBANK team to protect all personal and confidential data pertaining to any of our clients, employees and related parties. As such, LIBANK unfailingly adheres to every obligation under BDL Basic Circular No. 146 dated September 13, 2018 regarding GDPR. We have hold workshops to train our staff and team on the policies and procedures that ensure the full implementation of all necessary regulations.

Regulatory Environment
Throughout the recent turbulent period, the Central Bank of Lebanon has issued several circulars to address the local economic situation, including:

- Intermediary Circular 532 issued on November 4, 2019 requiring Lebanese banks to withhold the distribution of dividends from 2019 profits and increase Regulatory Capital by 20% of the Common Equity Tier 1 Capital as at December 31, 2018 through cash contributions in USD, in two phases: 10% by December 31, 2019 and another 10% by June 30, 2020.

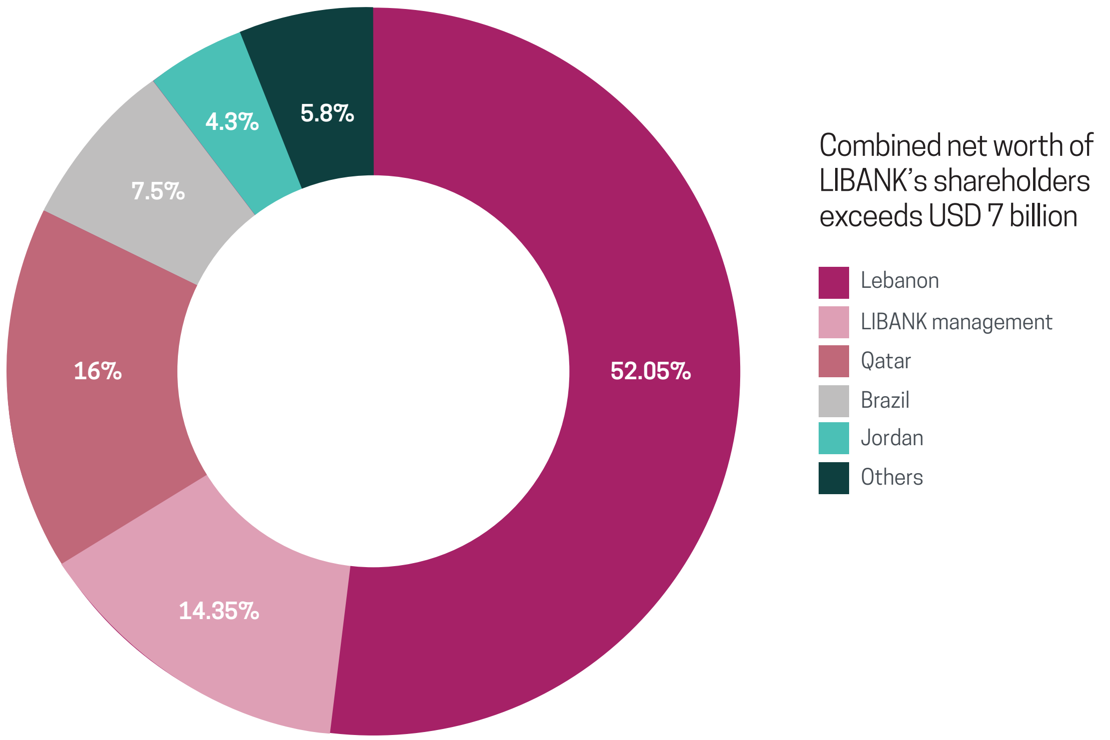
02 Corporate Governance

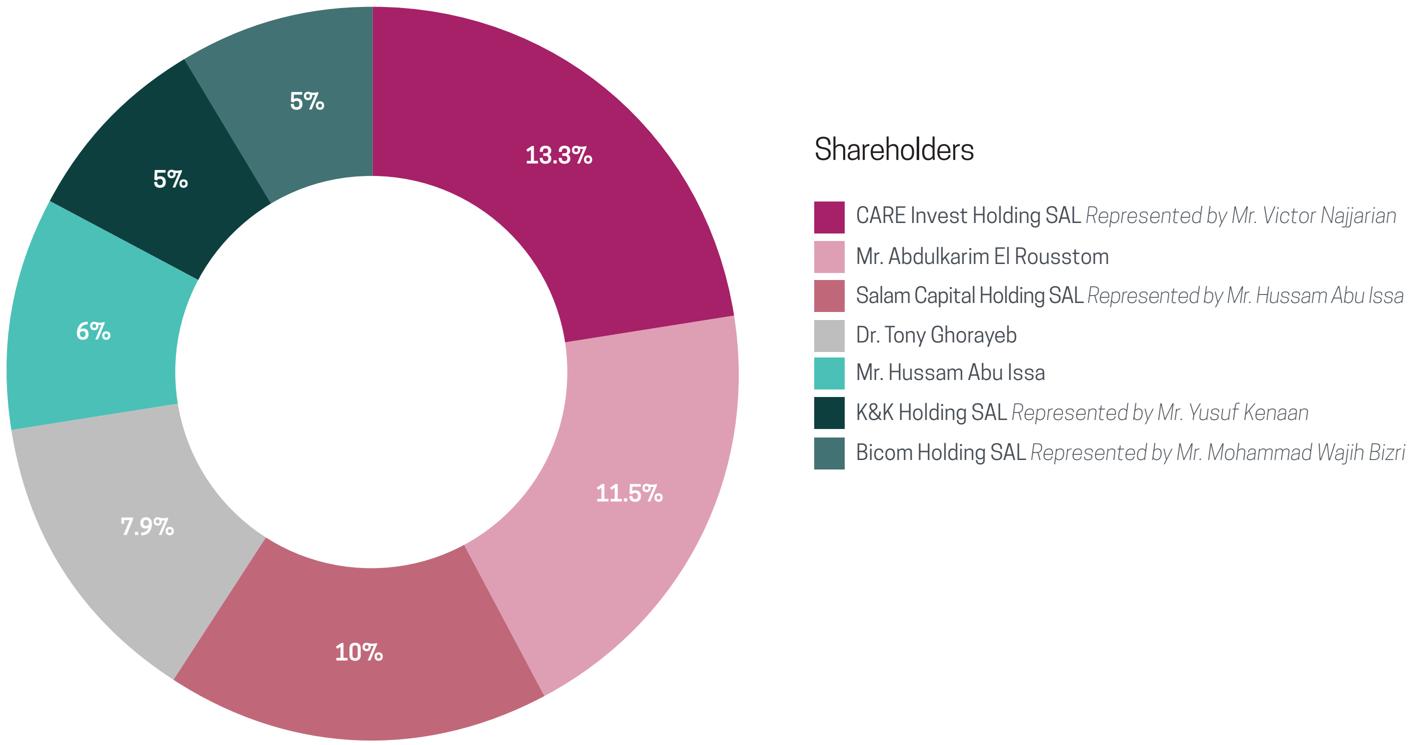
Shareholders

LIBANK's shareholder base brings together a diversified team of leaders from various industries, represented below

Category	Sector	Equity
Lebanon	Media - Contracting - Real Estate - Industry - Survey research - Consulting - Project finance - Telecom	52.05%
LIBANK Management		14.35%
Qatar	Retail - Investments - Real Estate - Energy	16.0%
Brazil	Retail - Manufacturing - Finance	7.5%
Jordan	Agribusiness - Heavy Industries	4.3%
Others	Hotels - Food & Beverage - Industry - Real Estate - Project Finance	5.8%
Total		**100%**

Shareholder	%
CARE Invest Holding SAL Represented by Mr. Victor Najjarian	13.3%
Mr. Abdulkarim El Rousstom	11.5%
Salam Capital Holding SAL Represented by Mr. Hussam Abu Issa	10%
Dr. Tony Ghorayeb	7.9%
Mr. Hussam Abu Issa	6%
K&K Holding SAL Represented by Mr. Yusuf Kenaan	5%
Bicom Holding SAL Represented by Mr. Mohammad Wajih Bizri	5%





Board Members

Board Members

Executive	Dr. Tony Ghorayeb
Non-Executive	Mr. Hussam Abu Issa
	Mr. Hisham Itani
	Mr. Salim Chaar
	Mr. Loutfallah Klat
	Mr. Victor Najjarian
	Edafi Holding S.A.L. Represented by H.E. Nicolas Nahas
	Mr. Hikmat El-Rousstom
Independent	Mr. Jawad Nadim Adra
	Mr. Andre Bendaly
	Mr. Jean Oghassabian
	Mr. Eduardo E. Fakhoury

MR. ANDRÉ BENDALY
Chairman of the Audit Committee
Mr. André Bendaly has been working in the banking industry since 1968 and in banking regulation, more specifically, since 1995. He was appointed by the Lebanese Government as member of the Banking Control Commission (BCC). In 2001, Mr. Bendaly was appointed Chairman Advisor and General Manager of Beirut Riyadh Bank where he led the restructuring and merger with Bank of Beirut. Then, in 2003, Mr. Bendaly was appointed by the Highest Banking Council as a temporary director of both Al-Madina Bank and United Credit Bank in Lebanon. In addition to his executive roles, Mr. Bendaly has also given lectures at several Lebanese universities in accounting, banking, and finance.

MR. EDUARDO FAKHOURY
Chairman of the Risk Committee
Eduardo Fakhoury is the founder, Chairman, and CEO of Credit Financier Invest SAL (CFI), with entities in Beirut, Larnaca, Amman, London, and Dubai. As part of CFI's strategic move to expand its reach across the region, CFI launched CFI UK, a fully owned subsidiary of CFI Financial Group Holding.

Prior to his current role, Mr. Fakhoury served as Executive Director of Credit Financier SAL since 1994. He received his bachelor's degree in Banking and Finance from the Lebanese American University where he graduated with distinction; and went on to receiving a Masters degree in Money and Banking at the American University of Beirut.

Mr. Fakhoury's unwavering values have been the pillars behind his financial institutions and guided every aspect of his career. His transparency, professionalism and dedication led him to become listed as one of the top 35 influential Lebanese business personalities by Forbes 100 in 2018.

MR. HIKMAT EL-ROUSSTOM
Member of the Audit committee
Hikmat El-Rousstom, is a Civil Engineer with more than 15 years of experience. He started his career at Dar Al-Handasah (Lebanon) where he gained valuable experience in Geotechnical Engineering Design and Supervision (2002 – 2004). He became Deputy General Manager of two Geotechnical consultancy companies: Soil & Foundation Co. Ltd – KSA (2004 – present) and Geotechnical & Environmental Co. Ltd. - KSA (2011 – present). Furthermore, Mr. El-Rousstom is a Board member of Ace Liberty & Stone Plc (UK), Tristar Global Health (Egypt) and Smartpipe Solutions (UK).

He graduated from Brummana High School in 1997 and pursued his studies in the University of Ottawa where he obtained his Bachelor's Degree in Civil engineering with a minor in Business Management in 2001. Mr. El-Rousstom also have a Master Degree in Engineering Management from the American University of Beirut in 2003.

MR. HUSSAM ABUISSA
Vice Chairman of the Board
After studying Marketing at the San Diego State University, Hussam Abu Issa went on to become the Vice Chairman and Chief Operating Officer of Salam International, a Qatar-based conglomerate publicly listed on the Qatar Exchange .In addition to being the deputy managing director of Salam Holdings, Mr. Abu Issa also serves as a Board Director of Salam Bounian Development Co., a large real estate development firm, and Doha-based Insurance Co.
Additionally, he is a member of the Advisory Boards of numerous international corporations, such as: the Qatar Chamber of Commerce, the College of Business and Economics – University of Qatar, Buck Institute for Research on Aging (Novato-California), AMIDEAST (Lebanon), and International Cooperation Platform "ICP" (Istanbul). Mr. Abu Issa also serves as a member of the Qatari Businessmen Association, GCC Islamic Chamber of Commerce, GCC Industrial Promotion Council, GCC Chamber of Commerce Manufacturing Committee, and Harris School of Public Policy's Dean International Council – University of Chicago.

MR. JAWAD ADRA
Chairman of the AML/CFT Committee
Mr. Jawad Adra is the founder and Managing Partner of Information International SAL, a leading Beirut-based research and consultancy firm that covers the entire Middle East region. This firm deals with major international and local governmental agencies, ministries, nongovernmental agencies and private sector firms.
Information International publishes a report titled "The Monthly" which tackles salient and pertinent topics that affect the region. Prior to launching Information International, Mr. Adra graduated Summa Cum Laude from Santa Clara University in California, with a degree in Political Science and Economics and is also a member of Phi Beta Kappa. Mr. Adra then spent 15 years in the Arabian peninsula where he held executive positions and acted as a consultant for major construction and development organizations. On top of that, he is a founder and president of the Social and Cultural Development Association (INMA), an NGO founded in 1997.

MR. JEAN OGHASSABIAN
Chairman of the Remuneration Committee / Member of the Audit Committee/ Member of the AML/CFT Committee
Jean Oghassabian was a long-standing and distinguished Member of Parliament in Lebanon for 18 years (2000 – 2018) and chaired the prestigious Economy, Trade, and Trade Parliamentary Committee. Prior to his career in politics, he served in the military where he retired with honors at the rank of Colonel and Deputy Commander of the Republican Guard Brigade (1998 – 2000). Mr. Oghassabian graduated from the Ecole Militaire in Lebanon and holds a BA in Social Sciences from the Lebanese University as well as a number of specialized trainings in defense and management in the USA, France, Germany, and Jordan. He then founded MenaPro, a leading Beirut-based economic development consultancy that works closely with international donors including the World Bank Group, European Union, United Nations, USAID, and others. H.E. Jean Oghassabian previously served as Minister of State for Administrative Reform (2005 – 08) and Minister of State for Lebanese-Syrian Relations (2008 – 11) under Prime Ministers H.E. Fouad Siniora and H.E. Saad Hariri respectively.

MR. LOUTFALLAH KLAT
Legal Advisor / Member of the Audit committee / Member of the Remuneration committee
Mr. Loutfallah Klat is a lawyer, legal advisor and member of the Board of several companies working in varied fields (oil and gas, banks, commercial). Mr. Klat is the former honorary consul of Greece and Nicaragua. Mr. Klat is also an active member in non-profit non-governmental organizations.
Mr. Klat has a Law Degree from Saint-Joseph University, the Lebanese University in Lebanese law, and a Diploma in English law from City University Polytechnic.

H.E. NICOLAS NAHAS
Member of the Risk Committee / Member of the AML/CFT Committee
H.E. Nicolas Nahas is the founder of "EDAFI Value Partners", a business development firm managing private equity investments with a focus on the following industries: FMCG, construction material and clean energy in the MENA region. Previously, Mr. Nahas served as CEO of Ciment de Sibline, a prominent Lebanese cement factory and as a member of Secil Portuguese Cement Group, from 1980 to 2009, where he later became a Board Member. Early in his career, Mr. Nahas joined Amiantit, a member of the Swiss Amiantus Group, as Head of the Construction Department. This role subsequently allowed him to become the CEO of Amiantit Jordan, a leading pipe manufacturing plant in Jordan.
H.E. Nahas also played an active role in the economical public life of Lebanon in his capacity as vice president of the Lebanese Businessmen Association (RDCL) from 1991 to 1995 and also as Member of the Board of the Lebanese Industrialists Association from 1992 to 2002. He was elected as Vice President of the Association in 2010. He was appointed as the Chief Economical Counsellor of the Prime Minister of Lebanon H.E. Najib Mikati during his mandate in 2005. H.E. Nahas was then appointed Minister of Trade and Economy of Lebanon from June 2011 to February 2014 under Prime Minister Najib Mikati.

H.E. Nahas earned a degree in Civil Engineering from Saint-Joseph University in Lebanon (ESIB) in 1972 and joined the postgraduate ISMP program in Harvard Business School in 1992.

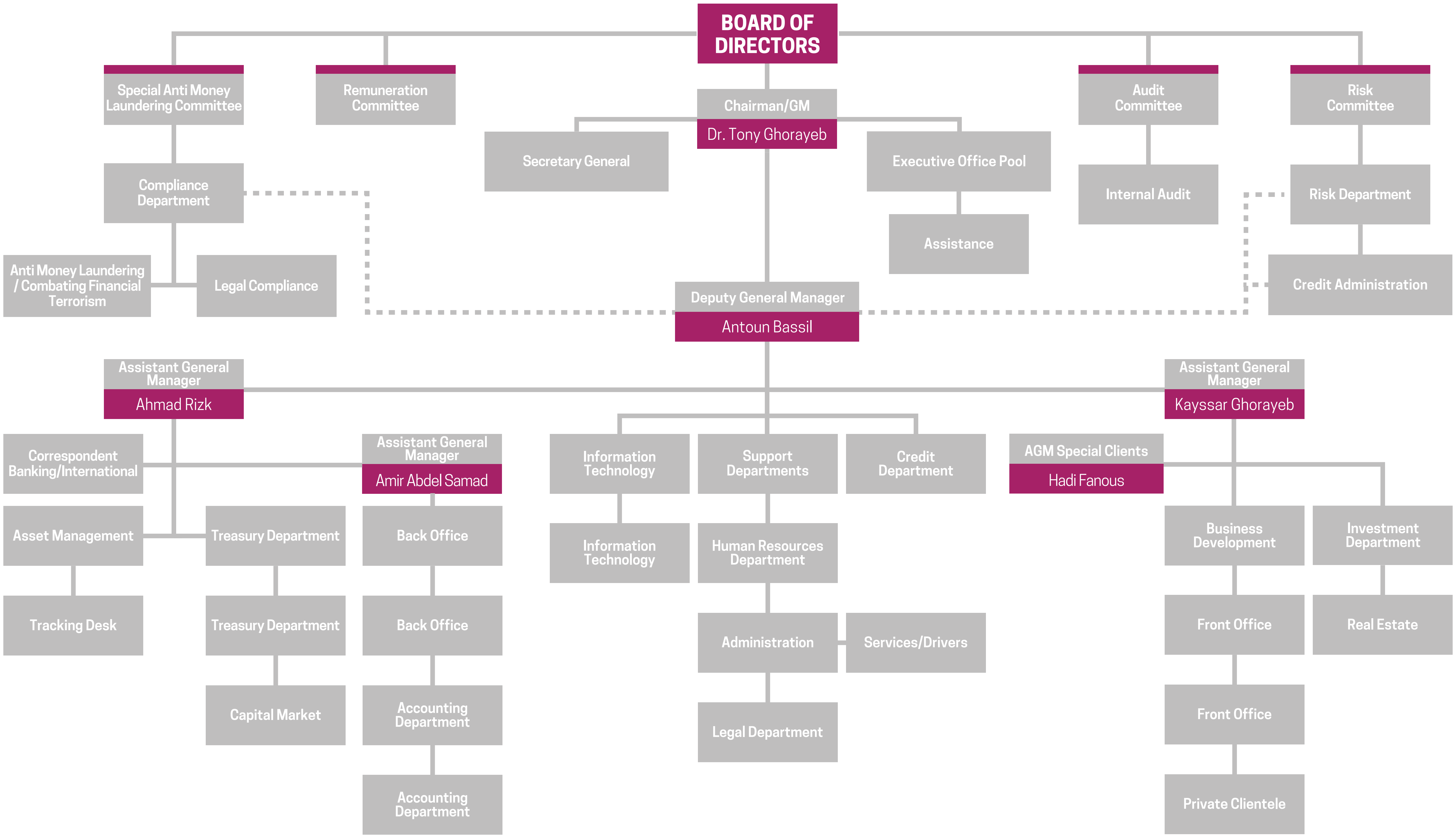
MR. SALIM CHAAR
Co-Founder/ Member of the Risk Committee / Member of the Remuneration Committee
Mr. Salim Chaar is one of the founders of LIBANK. In addition to obtaining a Law Degree from the University of Lyon II, Mr. Chaar has first-class experience in the banking and asset management industry in Paris, Hong Kong, Riyadh, and Bermuda. He has previously served as the director of several top-tier international investment funds with a focus on Asia (Japan, China, India), Europe, and the USA. Throughout his career, Mr. Chaar has held a number of managerial and executive capacities within Banque Indosuez, such as: Corporate Secretary of Banque Saudi Fransi, Managing Director of Indosuez Asia Investment Services in Hong Kong, CEO of Union Financière de France, and Chairman of Chevreux de Virieu Gestion in Paris.
He also served as Managing Director of BowenCapital Management Ltd, Hong Kong and Deputy Managing Director of W.P. Stewart & Co Ltd. in Bermuda. Mr. Chaar went on to becoming a founding member and Director of the Levant Business Union.

MR. VICTOR NAJJARIAN
Member of the AML/CFT committee
Mr. Victor Najjarian is the Chairman of Care Group SARL, a leading Beirut-based real estate investment and consultancy agency that covers Lebanon and the Middle East. Care Group manages a portfolio of over USD 3 billion of prestigious projects in the Beirut City Center with a client base that includes national and multinational companies worldwide. He is also the Chairman of Care Invest Holding and Care Equities Holding.

Mr. Najjarian is a member of the Harris School of Public Policy's Dean International Council – University of Chicago, Chamber of Commerce, Industry and Agriculture of Beirut and Mount-Lebanon (Board member), Levant Business Union (Founding member), "Real Estate World Federation" – Paris, Lebanese Economic Forum, Young Arab Leaders.

Mr. Najjarian holds a Master's Degree in Business Administration from Saint-Joseph University, Beirut, Lebanon.

Bank Structure



Senior Management

DR. TONY GHORAYEB
Founder, Chairman and General Manager
Dr. Ghorayeb is the founder and Chairman of LIBANK. He worked in banking and legal consulting in London, Geneva, and New York; and has previously held senior positions at HSBC, Crédit Commercial de France, Banque Indosuez, and BSI.
Dr. Ghorayeb holds a Law and Political Science Degree from Saint-Joseph University. He later obtained a Master's degree in Polictical Science and eventually a PhD in International Tax Law from the University of Lyon II, Jean Moulin, France.
Dr. Ghorayeb is a founding member and Secretary General of the Levant Business Union, a member and former Co-Chair of the Dean's International Council, at the University of Chicago's Harris School, and the Chairman of the Global Alliance Institute in Washington D.C.. He has delivered lectures in Constitutional Law and Administrative Law, and has also led seminars on Public Finance at Saint- Joseph University, Beirut, Lebanon.
Dr. Ghorayeb is a Director of the International Chamber of Commerce (ICC), a former Director of the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon (CCIAB), and a founder of the Brazilian-Lebanese Chamber of Commerce, Rio De Janeiro. He is also a member of the Lebanese -Turkish Council.

Mr. ANTOUN BASSIL
Deputy General Manager / Risk Manager
Mr. Bassil has over 40 years of experience in commercial banking, specifically dealing with operations, consumer loans, corporate credit, and Risk Management. He previously worked at Banque Credit Lyonnais, Indosuez/Al Bank Al Saudi Al Fransi, BLC Bank SAL, and Lebanese Canadian Bank SAL.
Throughout the past 10 years, Mr. Bassil has held various managerial positions within the credit, risk, ALCO, and divisions at large commercial banks.
Mr. Bassil holds a Bachelor's Degree in Business Administration from the Saint-Joseph University in Beirut, Lebanon, which was complimented by the courses and seminars he has attended in the commercial banking industry.

Mr. KAYSSAR GHORAYEB
Assistant General Manager
Kayssar Ghorayeb established his career with a focus on mergers and acquisitions, financial advisory, and transaction related services. He previously worked at Huron Consulting Group, Riggs Bank, and HSBC.
Mr. Ghorayeb holds a Bachelor's degree in Management, and a Master's degree in International Relations from Royal Holloway, University of London, and a MPP from the University of Chicago. Most recently, Mr. Ghorayeb advised on the capital increase of a real estate investment firm in the UK and that of a large manufacturing firm in Lebanon.

Mr. AHMAD RIZK
Assistant General Manager - Asset Management
Mr. Rizk is the Assistant General Manager and Head of the Asset Management Department at LIBANK. He is the manager of the LIBANK Global Balanced Fund and a non-Executive Director of Peterhouse Capital Limited, London.
Mr. Rizk served as an external auditor at Ernst & Young (Beirut) where he executed several audit assignments, with a focus on banks and financial institutions.
He then went on to become a portfolio manager for corporate clients in the Investment Fund department at State Street Bank (Australia) where he managed a portfolio of about USD 30 billion for insurance companies and pension funds.
Mr. Rizk is an active member of the Institute of Chartered Accountants (Australia & New Zealand). He is also an approved person by the Financial Conduct Authority (FCA) in London.
Ahmad holds a Bachelor's Degree in Business Administration, Accounting Major from the Lebanese American University (LAU). He also has a Master's Degree in Professional Accounting from the University of Technology, Sydney (UTS).

Mr. AMIR ABDEL SAMAD
Assistant General Manager - Operations Division
Mr. Abdel Samad has over 20 years of experience in the Lebanese banking sector. He was previously Senior Accountant at Bank Al-Mawarid and, then, went on to assuming the role of Vice-CFO. Prior to that, Mr. Abdel Samad held various roles at Bank Al-Madina SAL, including: staff audit, head of the accounting department, senior controller, and supervisor of the IT department.
Mr. Abdel Samad holds a Bachelor's and Master's Degree in Business Administration from the Lebanese American University.

Mr. NAKHLE EL HAGE
Senior Manager - Treasury and Capital Markets
Mr. El Hage has more than 40 years of experience in commercial and private banking. He previously worked with the British Bank of the Middle East in Beirut for 26 years in foreign exchange and treasury management. He also spent almost 20 years at the Near East Commercial Bank as Manager of Treasury and Capital Markets, while also serving as the President of the Treasury Committee, and as a member of the ALCO, Risk, and AML Committees.
Mr. El Hage holds a Bachelor's Degree in Economics from Saint-Joseph University in Beirut, Lebanon, as well as a Diploma in Technical Banking Studies and a Higher Diploma in Banking Studies, also from Saint-Joseph University. After which he consistently attended multiple training seminars between 1974 and 2004 from the ABL, BBME Dubai, HSBC Malaysia, and others, mostly focusing on treasury, operations, Risk Management, and foreign exchange.

Mr. HADI FANOUS
Assistant General Manager - Business Development
Mr. Fanous has more than 25 years of international banking experience, covering numerous divisions of the banking industry, such as: Credit & Risk Management, Branch Management, Marketing Management, and Private Banking.
He holds a Bachelor's Degree in Business Studies and Computer Sciences from Lebanese American University. Mr. Fanous previously served as Director of Private Wealth Management at FFA Private Bank SAL, where he played a pivotal role in the firm's expansion and growth.

Internal Audit

In line with LIBANK's commitment and accountability to the Board of Directors, we have established an Internal Audit Department (IAD) to perform the audit function of the Bank.
This department stands as an independent function that provides management and the Board of Directors with objective assurance regarding internal processes; processes which aim to protect the reputation and operational capacity of the Bank. By doing so, the IAD would be able to catch and correct any flaw in internal processes prior to an external audit.

The IAD provides assurance by assessing the reliability of financial and operational information, as well as the compliance with appropriate policies and procedures, local international regulations, statutes and laws. Audit reports are then distributed to the Chairman of the Board, the Audit Committee, the General Manager, concerned Senior Management and the auditee's management. Additionally, the Chairman of the Board and the Chairman of the Audit Committee may request special assignments to be conducted by this department.

To ensure its independence from management, the Head of the IAD must:
- report directly to the Chairman of the Board and the Chairman of the Audit Committee for delegated issues,
- have unrestricted access to all internal LIBANK accounts, books, records, systems, property and personnel, and
- be provided with all information and data needed to fulfil any and all of the department's duties.

It is of utmost importance to us that the IAD acts professionally and ethically and continuously adheres with the Standards for the Professional Practice of Internal Auditing and the Code of Ethics adopted by the Institute of Internal Auditors; and, the head of this department must maintain a close working relationship with, both, our external auditors and the Central Bank of Lebanon.

03 Remuneration

Remuneration Highlights & Employment

HUMAN RESOURCES MANAGEMENT

LIBANK operates in a service-centric industry where we manage the hard-earned savings of our clients and are naturally subject to several risks; so it is crucial to our operations to establish a solid Human Resources Department and Code.

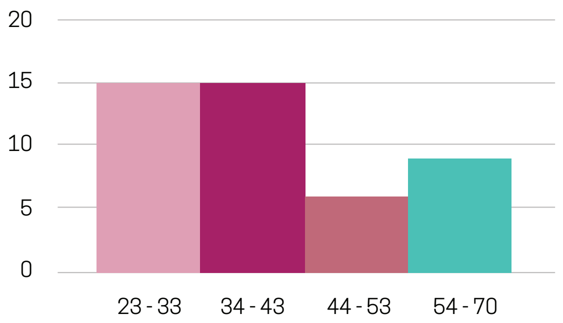
We have carefully put together a team of dedicated, hard-working individuals with a wide array of strong academic and professional backgrounds.

At LIBANK, we view human capital as our most valuable asset. So, we have established an environment where our employees are dedicated to maintaining and improving our status as a special investment bank. The LIBANK culture is one which strives on integrity, impartiality, ethics and transparency, and it is embodied throughout the entirety of our global team. In order to protect this culture and work ethic, our Human Resources Department has set in place a list of standards and procedures to follow when it comes to hiring, advancement, compensation, training or other employment privileges. We are adamant on providing equal opportunities to all and avoiding and abolishing discrimination of any type regardless of one's sex, religion, ethnicity, age and/ or disability.

LIBANK employees are expected to comply with industry-related policies concerning safety, information security, fraud, code of conducts etc... They must also adhere to the highest standards of business ethics, confidentiality, professionalism, transparency and integrity.

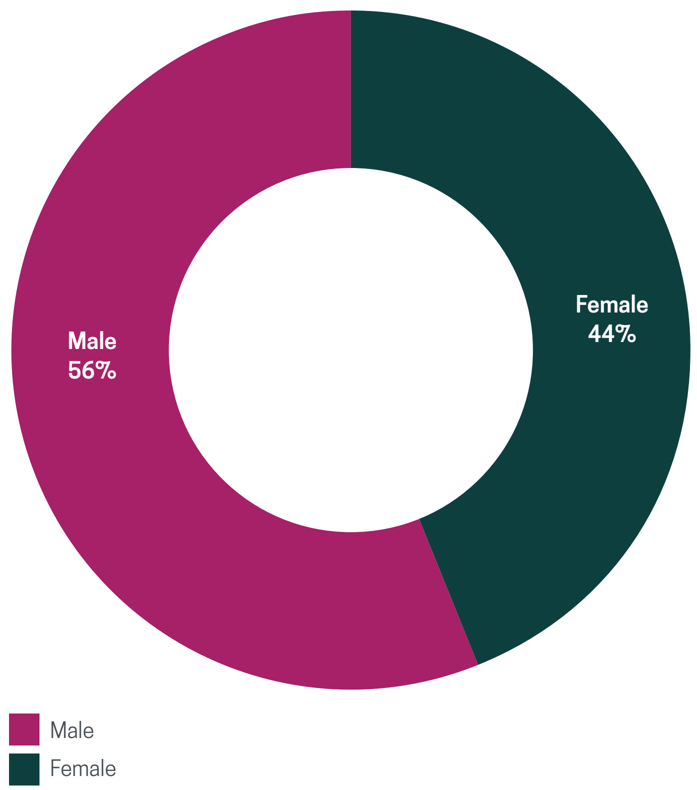
Statistics

Age Range 2019



Employment Highlights 2019

Gender



HUMAN RESOURCES DEPARTMENT MAIN POLICIES

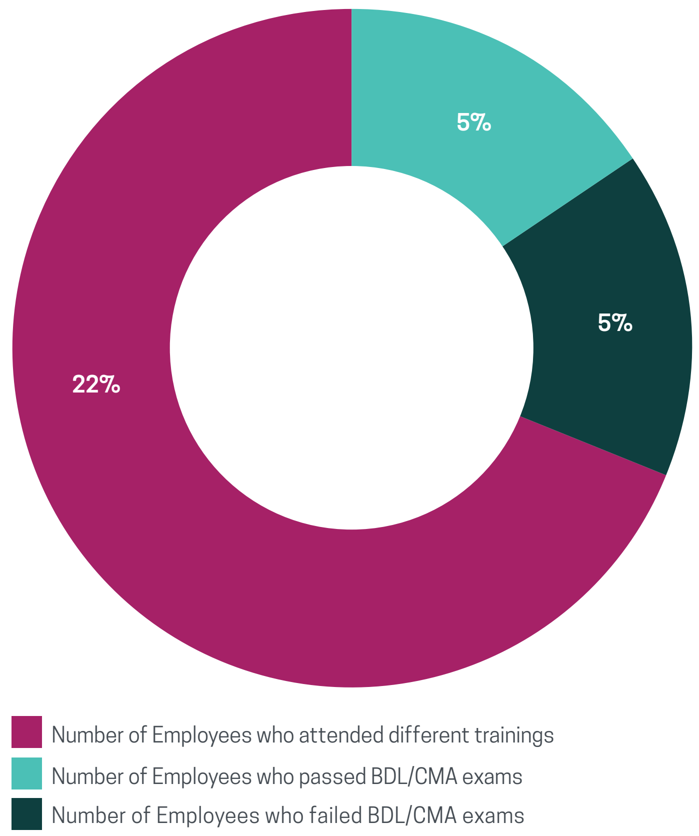
Recruitment
One of the main challenges of this department is the recruitment process. Any person being recruited must be a good fit (ethically, educationally and professionally) while also aligning with the Bank's operational and strategic goals. We continuously expand our recruitment channels by utilizing internship programs, on-line recruitment systems and university career centers. In order to ensure choosing the best candidate, the Human Resources Department has established several stages of interviews and evaluations as part of this process. Internal goals focus on recruiting talents, business growth and long-term employee retention.

Training
LIBANK's management consistently emphasizes the importance of Human Resource Development which aims to organize training sessions and learning activities for the entire team. By doing so, we aim to improve our functional capabilities and operational efficiency by harnessing and developing our staff's potential. These events and efforts work on developing a culture of harmonious unison based on teamwork, motivation, quality and growth. At LIBANK, we believe that training our workforce is essential to ensuring the Bank's longevity and ability to adapt to its constantly evolving business environment.

To meet the regulatory requirements for each position and function throughout the Bank, we encourage our staff to attend relevant courses offered by accredited universities or training centers. These courses must be assessed by the Human Resources Department and must include official certificates issued by the trainer in the name of the trainee. Furthermore, all LIBANK employees must pass the obligatory trainings assigned to them by the Central Bank of Lebanon (circular 103) and the CMA. We also organize training sessions for our employees which are offered by the Association of Banks in Lebanon.

Statistics

Trainings 2019



Remuneration Committee
The Remuneration Committee is a Board-Level Committee responsible for establishing the remuneration principles, strategies and policies for the entirety of the LIBANK team. As part of its duties, this committee prepares an annual review of all compensation elements and analyzes the possible impacts of new regulatory/ environmental developments. Additionally, the Remuneration Committee prepares annual remuneration reports (and additional required reports) which it then presents to the Board of Directors and Shareholders.

The Remuneration Committee must convene at least twice a year, and may decide to do so more often whenever necessary. This committee must ensure that:
- all BDL circulars related to remunerations are distributed to all LIBANK employees,
- internal remuneration policies comply with all BDL regulations, and
- disclosure principles adopted by LIBANK are consistent with articles 13 and 14 of BDL Circular 133.

This committee must work closely with the Risk Management Committee in order to accurately assess internal remuneration policies and their associated risks.

This allows us to carefully design systems and policies that ensure efficiency, adequacy and effective performance.
The Remuneration Committee clearly defines the duties and responsibilities for each internal role; and it sets a policy, applicable to all employees, which is based on transparent official appraisal and the operational plan of the Bank. This policy includes a detailed breakdown of the internal remuneration system which complies with all applicable rules and regulations.

Membership
As defined by BDL Circular No. 133 dated August 6, 2014, members of this committee must be non-executive Directors. The Remuneration Committee must consist of at least three members, including one independent Chairman, who are elected in the annual General Board Meeting. The person elected as Chairman of this committee is expected to have relevant practical experience, the ability to accurately evaluate employee and team performance, and the required knowledge to assess associated risks.

Board of Directors, Executive Board & Senior Management

REMUNERATION OF BOARD MEMBERS

All Board Members, whether executive, non-executive or independent, are entitled to compensation in the form of a fixed annual amount and/or a nominal honorarium per meeting. The annual fee is set and approved by the Shareholders at the Annual General Meeting and is a fixed amount to be distributed equally among Board members based on attendance. Board Members' remuneration becomes effective upon receiving the approval of the Ordinary General Assembly; it must be set at a level which is high enough to attract and retain skilled, experienced professionals, while remaining within the Shareholders' budget.

Remuneration of Non-executive/ Independent Directors
Nnon-executive and independent directors are only entitled to receive a fixed amount approved by the annual General Assembly for their attendance and contribution to the Board meetings.

Remuneration of Executive Directors
In addition to the fixed amount approved by the annual general assembly for their attendance to the Board meetings, executive directors receive, like all other senior executive managers in the Bank, a fixed base salary, benefits and yearly performance bonuses.

Performance related bonuses is awarded on achievement of agreed performance criteria that are set and approved by the Board Remuneration Committee. This compensation is determined by the Board Remuneration Committee, ratified by the Board of Directors and finally approved by the shareholders in the Annual General Meeting.

Breakdown of Shares Held by Senior Management

Shareholder	
Dr. Tony Ghorayeb - Chairman - General Manager	47,437
Mr. Antoun Bassil - Deputy General Manager	330
Mr. Kayssar Ghorayeb - Assistant General Management	1,075
Mr. Ahmad Rizk - Assistant General Management	335
Mr. Amir Abdel Samad - Assistant General Management	50
Mr. Hadi Fanous - Assistant General Management	50
Mr. Nakhle El Hage - Senior Manager	100
Total	**49,377** **8.2% of total shares**

04 Financial Statements

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

ADVERSE OPINION

We have audited the financial statements of LiBank SAL (Levant Investment Bank) (the "Bank"), which comprise the statement of financial position as at 31 December 2019, 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, because of the significance of the matters discussed in the "Basis for Adverse Opinion" section of our report, the accompanying financial statements do not present fairly the financial position of the Bank as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR ADVERSE OPINION

1. As disclosed in Note 38.2 to the financial statements, the Bank holds assets with the Central Bank of Lebanon, a portfolio of Lebanese government debt securities, a portfolio of loans to the private sector and other assets concentrated in Lebanon which represent 67% of the Bank's total assets as at 31 December 2019. As disclosed in Note I, the accompanying financial statements do not include adjustments, as required by IFRS, to the carrying amounts of the above assets and related disclosures that would result from the resolution of the uncertainties described in Note 1 and the future effects of the economic crisis and the restructuring plan. Also, as disclosed in Note 37, management was unable to produce faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these financial statements do not include the fair value disclosures required by IFRS. Had such adjustments and disclosures been determined and made, as would have been required by IFRS had the uncertainties described in Note 1 been resolved, many elements and related disclosures in the accompanying financial statements would have been materially affected. The effects of the resolution of these uncertainties on the carrying amounts of the assets and the related disclosures in these financial statements have not been determined.
2. As disclosed in Note 37 to the financial statements, the Bank holds unquoted equity instruments in Lebanon measured using unobservable data amounting to LL (000) 9,791,256 out of which the Central Bank of Lebanon's contribution reflected under "Other liabilities" amounted to LL (000) 7,718,438 as at 31 December 2019. It is not possible to determine the future effects that the economic crisis described in Note 1 would have on the net carrying amounts of these instruments. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts.
3. The events and conditions described in Note 1 and the matters described in paragraphs 1 and 2 above, affect the liquidity, solvency and profitability of the Bank and represent events and conditions that may cast significant doubt on the Bank's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Bank's ability to continue as a going concern and the accompanying financial statements do not include adequate disclosure of management's plan to deal with the events and conditions giving rise to the material uncertainty.

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BASIS FOR ADVERSE OPINION (CONTINUED)

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 Code of Ethics for Professional Accountants (including International Independ ence Standards) (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 adverse 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 2019, the finalization of this transaction is pending the necessary regulatory approvals. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment , were of most significance in our audit of the financial statements for the year ended 31 December 2019. Except for the matters described in the "*Basis for Adverse Opinion*" section of our report, we have determined that there are no other key audit matters to communicate in our report.

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.

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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. Ifwe 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, actions taken to eliminate threats or safeguards applied.

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.

Ernst & Young

22 October 2020
Beirut, Lebanon

BDO, Semaan, Gholam & Co.

INCOME STATEMENT
For the year ended December 31, 2019

	Note(s)	2019 LL (000)	2018 LL (000)
Interest and similar income	3	11,673,885	7,907,248
Interest and similar expense	4	(11,584,793)	(7,636,802)
Net interest income		**89,092**	270,446
Fee and commission income	5	1,246,057	2,318,513
Fee and commission expense	5	(253,702)	(257,338)
Net fee and commission income	5	**992,355**	2,061,175
Net gain on financial assets at fair value through profit or loss	6	5,984,700	4,651,498
Net gain from derecognition of financial assets at amortized cost		48,240	-
Non-interest revenues from financial assets at fair value through other comprehensive income	14	280,563	109,611
Share of profits from investments in subsidiaries and associates	17&18	236,686	473,167
Write-back of provisions for risks and charges		-	147,924
Total operating income		**7,631,636**	7,713,821
Net impairment loss on financial assets	7	(4,394,373)	(269,972)
Net operating income		**3,237,263**	7,443,849
Personnel expenses	8	(4,400,137)	(3,920,632)
Other operating expenses	9	(3,260,478)	(2,958,876)
Depreciation of property and equipment	19	(627,621)	(448,127)
Amortization of intangible assets	20	(109,267)	(87,337)
Total operating expenses		**(8,397,503)**	(7,414,972)
(LOSS) PROFIT BEFORE TAX		**(5,160,240)**	28,877
Income tax expense	10	(212,648)	-
(LOSS) PROFIT FOR THE YEAR		**(5,372,888)**	28,877

The accompanying notes 1 to 43 from part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019

	Note(s)	2019 LL (000)	2018 LL (000)
(LOSS) PROFIT FOR THE YEAR		**(5,372,888)**	28,877
OTHER COMPREHENSIVE INCOME			
Items to be reclassified to the income statement in subsequent periods: Net unrealized gain from debt instruments at fair value through other comprehensive income	31	**368,468**	19,677
Other comprehensive income to be reclassified to the income statement in subsequent periods		**368,468**	19,677
Items not to be reclassified to the income statement in subsequent periods:		**-**	-
Net unrealized gain (loss) from equity instruments at fair value through other comprehensive income	31	**2,786,440**	(369,530)
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		**2,786,440**	2,351,519
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**3,154,908**	2,371,196
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(2,217,980)**	2,400,073

The accompanying notes 1 to 43 from part of these financial statements.

STATEMENT OF FINANCIAL POSITION
For the year ended December 31, 2019

	Note(s)	2019 LL (000)	2018 LL (000)
ASSETS			
Cash and balances with the Central Bank	11	**61,999,635**	55,288,536
Due from banks and financial institutions	12	**10,461,168**	11,919 , 273
Financial assets at fair value through profit or loss	13	**118,742,190**	74,399,368
Loans and advances to clients at amoitized cost	15	**52,116,169**	46,438,266
Loans and advances to related parties at amortized cost	33	**815,036**	820,495
Financial assets at amortized cost	16	**37,221,134**	46,237,218
Financial assets at fair value through other comprehensive income	14	**21,793,642**	24,574,594
Investments in subsidiaries	17	**4,347,081**	4,271,895
Investments in associates	18	**9,435,058**	5,114,101
Property and equipment	19	**12,113,550**	12,523.470
Intangible assets	20	**200,082**	234,279
Non-current assets held for sale		**806,701**	-
Other assets	21	**12,069,942**	5,976,481
TOTAL ASSETS		**342,121,388**	287,797,976
LIABILITIES AND EQUITY LIABILITIES			
Due to Central Bank	22	**7,629,363**	22,706,799
Due to banks and financial institutions	23	**40,798,223**	44,393,432
Clients' deposits at amortized cost	24	**179,127,139**	141,953,493
Deposits from related parties at amortized cost	25	**6,483,731**	3,527,489
Other liabilities	26	**44,036,153**	8,496,161
Provisions for risks and charges	27	**256,545**	113,365
TOTAL LIABILITIES		**278,331,154**	221,190,739
EQUITY			
Share capital	28	**60,000,000**	60,000,000
Non-distributable reserves	30	**1,820,829**	1,817,942
Distributable reserves	30	**4,518**	427,531
Retained earnings		**4,204,317**	506,823
Revaluation reserve of real estate	19	**2,721,049**	2,721,049
Cumulative changes in fair value of financial assets at fair value through other comprehensive income	31	**412,409**	1,105,015
Net results of the financial period		**(5,372,888)**	28,877
TOTAL EQUITY		**63,790,234**	66,607,237
TOTAL LIABILITIES AND EQUITY		**342,121,388**	287,797,976

The financial statements were authorized for issue in accordance with the resolution of the Board of Directors on October 22, 2020 by:

Dr. Tony Ghorayeb

Dr. Tony Hanna Ghorayeb
Chairman

The accompanying notes 1 to 43 from part of these financial statements.

NON-DISTRIBUTABLE AND DISTRIBUTABLE RESERVES
For the year ended December 31, 2019

		Non-distributable reserves				Distributable reserves					
	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)	CUMULATIVE CHANGES IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME LL (000)	REVALUATION RESERVE OF REAL ESTATE	RETAINED EARNINGS LL (000)	NET RESULTS OF THE FINANCIA/ PERIOD LL (000)	TOTAL EQUITY LL (000)
Balance at 1 January 2018	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 at 31 December 2018	60,000,000	365,716	-	1,452 ,226	1,817,942	427,531	1 ,105,015	2,721,049	506,823	28,877	66,607,237
Appropriation of 2018 profits	-	2,887	-	-	2,887	-	-	-	25,990	(28,877)	-
Total comprehensive loss for the year - 2019	-	-	-	-	-	-	3,154,908	-	-	(5,372,888)	(2,217,980)
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(3,847,514)	-	3,847,514	-	-
Dividends distributed (note 29)	-	-	-	-	-	(423,990)	-	-	(176,010)	-	(600 ,000)
Translation difference	-	-	-	-	-	977	-	-	-	-	977
Balance as at 31 December 2019	**60,000,000**	**368,603**	**-**	**1,452,226**	**1,820,829**	**4,518**	**412,409**	**2,721,049**	**4,204,317**	**(5,372,888)**	**63,790,234**

The accompanying notes 1 to 43 from part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended December 31, 2019

OPERATING ACTIVITIES	Note(s)	2019 LL (000)	2018 LL (000)
(Loss) profit for the year		(5,160,240)	28,877
Adjustments for:			
Depreciation of property and equipment	19	627,621	448,127
Amortization of intangible assets	20	109,267	87,337
Write-back of provisions for risks and charges		-	(147,924)
Net impairment loss on financial assets	7	4,394,373	269,972
Provision for employees' end of service benefits	27	156,941	-
Share of profits from investments in subsidiaries and associates	17&18	(236,686)	(473,167)
Loss on disposal of property and equipment		-	814
Net unrealized revaluation (gain) loss of financial assets at fair value through profit or loss	6	(559,066)	331,294
		(667,790)	545,330
Changes in operating assets and liabilities:			
Balances with banks and the Central Bank		(14,139,863)	(6,743,938)
Loans and advances to clients at amortized cost		(6,642,886)	(14,021,370)
Loans and advances to related parties at amortized cost		5,459	142,962
Movement of financial assets, net		(31,006,203)	(14,193,209)
Clients' deposits at amortized cost		37,173,646	40,604,949
Deposits from related parties at amortized cost		2,956,242	832,868
Non-current assets held for sale		(806,701)	-
Other assets		(6,093,461)	1,449,554
Other liabilities		35,327,344	(2,223,285)
Cash from operations		16,105,787	6,393,861
Provisions for risks and charges paid		(13,761)	(343)
Net cash from operating activities		**16,092,026**	6,393,518
INVESTING ACTIVITIES			
Acquisition of property and equipment	19	(250,644)	(349,645)
Acquisition of intangible assets	20	(42,127)	(131,004)
Investments in subsidiaries and associates		(4,159,457)	(6,632,232)
Proceeds from disposal of property and equipment			18,407
Net cash used in investing activities		**(4,452,228)**	(7,094,474)
FINANCING ACTIVITIES			
Dividends paid	29	(600,000)	(900,000)
Net cash used in financing activities		**(600,000)**	(900,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**11,039,798**	(1,600,956)
Net effect of foreign exchange		977	(1,754)
Cash and cash equivalents at 1 January		(33,165,797)	(31,563,087)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34	**(22,125,022)**	(33,165,797)

The accompanying notes 1 to 43 from part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

1. CORPORATE INFORMATION

LiBank SAL (the "Bank") is a Lebanese joint stock company which was incorporated in 2012 and registered under No. 1015811 at the commercial registry of Beirut and under No. 139 on the banks' list published by the Central Bank of Lebanon. The headquarters of the Bank are located in Ashrafieh, Sofil Center, Beirut, Lebanon.

The Bank provides a wide range of medium and long-term banking services and is governed by the Lebanese laws especially the Commercial Law, the Money and Credit Act, Legislative Decree No. 50 dated 15 July 1983 related to investment banks and to medium and long-term credit banks in addition to the regulations of the Central Bank of Lebanon and the Banking Control Commission.

The Bank was exempt from income taxes on profits as per the provisions of Legislative Decree No. 50 dated 15 July 1983 for a period of 7 years extending from the date of its establishment.

The Bank obtained the permit for commencement of activities from the Central Bank of Lebanon on 14 January 2013.

1.1 Macroeconomic environment

More than 60% of the Bank's operations during 2019 were in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crises as well as deep recession that have reached unprecedent levels.
Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on 7 March 2020, the Lebanese Republic announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US Dollars denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese Government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon and significantly reduced credit lines to companies and withdrawal of cash to private depositors, all of which added to the disruption of the country's economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses are downsizing, closing or going bankrupt and unemployment and poverty are rising fast and have reached unprecedent levels.

The difficulty in accessing foreign currencies led to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 US$/LL. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese pound, intensely impacting the purchasing power of the Lebanese citizens, driving high inflation and rise in the consumer price index.

The economy has been contracting at an accelerating pace since the last quarter of 2019 and the coronavirus affecting Lebanon and the whole world is contributing to further deterioration of the economic environment, disruption of businesses, rise of unemployment, and rise in poverty lines.

On 30 April 2020, the council of ministers approved the Lebanese Government's Financial Recovery Plan (the Plan). The Plan relies on nine central and interrelated pillars, namely reviewing the peg policy; a comprehensive government debt restructuring; a comprehensive restructuring of the financial system addressing accumulated foreign exchange mismatches, embedded losses and resizing the banking sector (see below); a 1.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)
strong phased fiscal adjustment, focused on improving tax compliance, streamlining expenditure and reforming the public sector; growth-enhancing reforms promoting a productive economy and enhancing the competitiveness of the Lebanese economy; a social sector reform; ambitious anti-corruption strategy; environmental reform; and international financial assistance to close the large external financing gap and finance the development of the infrastructures that are necessary to support the growth of the economy.

On 1 May 2020 the Lebanese Prime Minister and the Lebanese Finance Minister signed a request for aid from the International Monetary Fund. The Government believes the Plan conveys good faith for negotiations with the International Monetary Fund. Lebanon began detailed discussions with the IMF on 1 May 2020. Multilateral intervention is expected to catalyze additional external support and unlock US$ 11 billion in pledges from international donors made in 2018 in the "Conference Economique pour le Development par Jes Reformes et avec Jes Entreprises" (CEDRE) as well as other external financial support to cover the net external financial needs for a gradual economic recovery and successful restructuring of the Government's foreign currency debt.

On 4 August 2020, a devastating deadly blast occurred at the Beirut seaport causing severe property damages across a wide area of the capital along with a large number of casualties, aggravating the financial crisis prevailing in the country. On 10 August 2020, the Lebanese government resigned.

Restructuring of the banking sector:
As per the plan, the preliminary global estimation of losses will result from the restructuring of the Central Bank of Lebanon and impairment of assets held at the Central Bank of Lebanon; the impact of the economic crisis and the impairment of the banks' loans portfolio; and the government debt restructuring and impairment of the government securities portfolio.

An Asset Quality Review will be conducted by an international institution to assess the impairment losses on the private loans portfolio of the banking sector. The impact of losses and the recapitalization needs will be determined on a bank by bank basis when a more granular plan is drawn, and further measures related to bank deposits will be determined. On a bank by bank basis, the Plan stipulates that large depositors could be offered voluntarily (for part of their deposits):
- Conversion into their bank's capital. New legal provisions will be needed
- Conversion into tradable equity stakes in a newly established special Recovery Fund that will receive the proceeds of the ill-gotten assets tracking and recovery program
- Conversion into long dated, subordinated bank obligation with no or limited interest

Banks will be asked to propose to the authorities and relevant supervisory bodies business plans and restructuring / recapitalization plans including mergers with or acquisitions by other domestic and foreign banks to address their structural funding issues and generate synergies. The new capital base will be rebuilt via capital raising in the market and a conversion of some deposits into shares. Fresh liquidity will be provided to the reorganized banking sector.

Conducting a full restructuring of the banking sector will require new legal powers for the government and the relevant supervisory bodies.

1.2 Regulatory environment
Throughout this period and up to the date of the approval of these financial statements, the Central Bank of Lebanon has issued several circulars to address the situations, mainly:

- Intermediary Circular 532 issued on 4 November 2019 requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and increase the regulatory capital by 20% of the Common Equity Tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020.

- Intermediary Circular 534 issued on 19 November 2019 extending the deadline for reaching the 25% ratio of "net loans granted in LL/ net deposits in LL" from 31 December 2019 to 31 December 2020. Banks that expect to be unable to reach said ratio within the set time limit may refer to the Central Bank of Lebanon Central Council before 31 December 2020.

- Intermediary Circular 536 issued on 4 December 2019 stating that the Central Bank of Lebanon will settle the interest on the banks' term deposits and certificates of deposits in US Dollars 50% in US Dollars and 50% in LL. As for the deposits received or renewed after 4 December 2019, banks have to comply with the following interest rates:
- 5 % for deposits in foreign currencies; and
- 8.5 % for deposits in LL
As for the deposits received before the mentioned date, which conditions are maintained, banks have to pay interests divided as follows: 50 % in the account's currency and 50 % in LL. This decision is applicable until 4 June 2020 (6 months from the circular's issuing date).

- Intermediary Circular 542 issued on 3 February 2020 requiring that the ratios of expected credit losses for the years 2019 and 2020 on LL and foreign currency-denominated investment portfolio at the Central Bank of Lebanon, including certificates of deposits and investments in Lebanese treasury bills denominated in LL and foreign currency, not to exceed the regulatory expected credit losses ratios calculated as per the Central Bank of Lebanon Basic Circular no. 44 related to the "Capital Adequacy Ratio".

- Intermediary Circular 543 issued on 3 February 2020, increasing the regulatory expected credit losses on foreign currency exposures to Lebanese Sovereign and Central Bank of Lebanon and exposures to resident corporates, retail and SMEs. The circular increased risk weights to be applied on exposures to the Central Bank of Lebanon in foreign currencies and lowered the minimum required capital adequacy ratios. The circular also imposed maximum expected credit losses on exposures to Lebanese Sovereign and Central Bank of Lebanon to be recorded in the banks' financial statements as per the table below:

Type of financial instrument	Maximum loss rate
Exposures to Central Bank of Lebanon in foreign currencies	Up to 1.89 %
Exposures to Central Bank of Lebanon in Lebanese Pounds	0%
Lebanese government securities in foreign currencies	Up to 9.45 %
Lebanese government securities in Lebanese Pounds	0%

NOTES TO THE FINANCIAL STATEMENTS
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1. CORPORATE INFORMATION (CONTINUED)

1.2 Regulatory environment (continued)

- Intermediary Circular 544 issued on 13 February 2020 requiring banks to abide with the maximum ceilings of interest rates on new or renewed deposits, as follows:
- deposits in foreign currencies: 2% for 1-month deposits, 3% for 6 months deposits and 4% on deposits for a year and above
- deposits in LL: 5.5% on deposits for one month, 6.5 % for 6 months and 7.5% on deposits for one year and above.

Banks are required to calculate the BRR based on the above creditor interest rates. This decision is applicable until 13 August 2020 (6 months from the circular's issuing date).

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

- Basic Circular 149 issued on 3 April 2020 announcing the creation of a special unit at the Central Bank of Lebanon to conduct foreign exchange operations as per the market rate. Money dealers (of "type A") may adhere to this unit, upon Central Bank of Lebanon's discretion. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for foreign exchange operations. Abrogating the article 18 which was introduced by Intermediary Circular 546 to basic circular no. 3 related to Money Dealers.

- Basic Circular 151 issued on 21 April 2020 concerning the clients that are not tackled in Basic Circular 148 who wish to withdraw amounts of cash from their foreign currencies accounts, banks should settle, with the client's consent, the equivalent of those amounts in LL as per the market exchange rate. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars. Banks should disclose daily their adopted market exchange rate.

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

1.3 Particular situation of the Bank

Assets and liabilities in foreign currency as of 31 December 2019 were valued at the official exchange rate of 1,507.5 US$ / LL. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official exchange rate: parallel exchange markets with high volatility, recently issued Central Bank of Lebanon circulars, estimation exchange rates detailed in the Plan, in addition to a wide range of exchange rates adopted for commercial transactions currently undertaken in the Lebanese territory. These financial statements do not include adjustments from any future change in the official exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognized in these financial statements once the revamping of the peg is implemented by the Lebanese Government. Foreign exchange currency mismatch is detailed in Note 38.4 to these financial statements.

Loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortized cost are recorded in these financial statements based on the guidelines issued on 4 February 2020 by the Central Bank of Lebanon in its intermediary circular 543 (refer to above). Accordingly, these financial statements do not include adjustments of the carrying amounts of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit losses model. The impact is expected to be pervasive and will be reflected in the financial statements once the debt restructuring has been defined conclusively by the Government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognized loss allowances, as well as their staging, are detailed in Note 38.2 to these financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. Management is undergoing massive deleveraging by reducing these assets' size and has set up a centralized and specialized remedial function to proactively review and manage the quality of these assets. Loss allowances on the portfolio of these private loans have been estimated and recorded based on the best available information at the reporting date, about past events, current conditions and forecasts of economic conditions combined with expert judgements. The exercise being carried out by the management is expected to reveal additional embedded losses in its private loans portfolios. The impact is expected to be pervasive and will be reflected in the financial statements once the results of the exercise undertaken by the management are measurable and determinable. Maximum exposures to credit risk of the Bank's portfolio of private loans and the recognized loss allowances, as well as their staging, are detailed in Note 38.2 to these financial statements.

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

In line with the comments issued by the Association of Banks in Lebanon on 1 May 2020, management has determined the following uncertainties in relation to the assumptions of the Plan which might have an impact on the figures and estimations provided therein:

- Ability to successfully secure sufficient external financing (from the IMF, from CEDRE and from other international donors unspecified in the Plan)
- Ability to revamp the peg at the detailed estimated rates
- Parameters of the restructuring of the Central Bank of Lebanon and restructuring of the government debt in foreign currencies
- Ability of issuing new laws with the constraints in the legal framework and the Lebanese constitution
- Finalization of the Asset Quality Review and determination of losses and recapitalization needs of the banks
- Ability to claw back sums which have unlawfully escaped the country Ability to claw back dividend and /or interest distributed over the last years

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

1. CORPORATE INFORMATION (CONTINUED)

1.3 Particular situation of the Bank (continued)
Besides, on 20 May 2020, the Association of Banks in Lebanon submitted an alternative approach in response to the present economic crisis that Lebanon, and particularly the banking sector, is experiencing. It rests on addressing the external financing needs, while avoiding an internal debt default; and the launch of long-overdue structural reforms to promote sustainable and inclusive growth as the result of economic diversification.

Until the above uncertainties are resolved and a plan is implemented, the Bank will continue its operations as performed since 17 October 2019 and in accordance with the applicable laws and regulations.

Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Bank to litigations that will be dealt with on a case by case basis when they occur. Meanwhile, the Bank is exerting extended efforts to review the quality of its private loans portfolio and deleveraging it as appropriate, to reduce its commitments and contingencies to correspondent banks outside Lebanon and to secure its liquidity needs through mainly borrowing from the Central Bank of Lebanon at the available rates and by selling foreign assets.

Once the above uncertainties are resolved, a pro-forma statement of financial position of the Bank will be prepared which will include the effects of the revaluation of the assets and liabilities in foreign currencies, the effects of the restructuring of the government debt securities, the effects of the restructuring of the Central Bank of Lebanon, and the effects on its private loan portfolio.

As disclosed in Note 42 to these financial statements, the Bank's capital adequacy ratio as at 31 December 2019 was calculated based on the recorded figures and does not take into consideration the adjustments that will result from the resolution of the uncertainties reflected above. The Bank did not comply with Central Bank of Lebanon Intermediary Circular 532 towards increasing its regulatory capital by 10% by 31 December 2019. The management is currently assessing and developing restructuring and recapitalization plans based on the various available scenarios. However, a reasonable and credible plan can only be achieved once the above uncertainties are resolved and the amount ofrecapitalization needs is accurately determinable.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation
The financial statements are prepared under the historical cost convention as modified for the restatement of financial assets designated at fair value through profit or loss and financial assets at fair value through other comprehensive income which are measured at fair value and the revaluation of buildings pursuant to the adoption of the revaluation model of IAS 16 for this asset class.

The financial statements and the relevant disclosures are presented in thousands of Lebanese Lira (LL (000)) except when otherwise indicated.

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

Presentation of financial statements
The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in the Risk Management note.

Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis - or to realise the assets and settle the liability simultaneously - in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Bank and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the statement of financial position. Income and expenses will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank. The effects of netting arrangements are disclosed in Notes 11 and 22.

2.2 Changes in accounting policies and disclosures
New and amended standards and interpretations
The Bank applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019.The nature and the impact of each amendment is described below:

IFRS 16 Leases
Effective from 1 January 2019, the Bank adopted *IFRS 16 Leases*, which supersedes /AS 17 *Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-I 5 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS
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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)
Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Refer to Note 2.4 for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

There were no significant impacts from the adoption of IFRS 16 on the financial statements of the Bank.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments do not have any significant impact on the Bank's financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The IASB issued amendments to the guidance in IAS 19, Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. These amendments do not have any significant impact on the Bank's financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. This interpretation does not have any significant impact on the Bank's financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle
Effective I January 2019, the Bank adopted Annual Improvements to IFRS Standards 2015-2017 Cycle, which resulted in amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes, and IAS 23, Borrowing Costs. These improvements do not have any impact on the Bank's financial statements.

2.3 Standards issued but not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, with the Bank not opting for early adoption. These have therefore not been applied in preparing these financial statements. The most significant of these new standards, amendments and interpretations are as follows:

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
On 26 September 2019, the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7' (the "amendments"). This concludes phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an "RFR").

The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. These amendments are not expected to have any significant impact on the Bank's financial statements when they become effective.

2.4 Summary of significant accounting policies

Foreign currency translation
The financial statements are presented in Lebanese Lira which is the Bank's presentation currency.

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to "Other operating income or loss" in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment, at which time they are recognized in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions.

Financial Instruments - Initial recognition
(i) Date of recognition
All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments
Financial instruments are initially measured at their fair value, plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. In the cases of financial instrument is measured at fair value, with the change in fair value being recognized in profit or loss, the transaction costs are recognized as revenue or expense when the instrument is initially recognized.
When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

(iii) Day 1 Profit or Loss
When the transaction price differs from the fair value at origination and the fair value is based on a valuation technique using only observable inputs in market transactions, the Bank immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss) in the income statement. In cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

Financial Assets - Classification and Measurement
On initial recognition, financial assets are classified as measured at: amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of two criteria:

(i) The business model within which financial assets are measured; and
(ii) Their contractual cash flow characteristics (whether the cash flows represent "solely payments of principal and interest" (SPPI)).

Financial assets measured at amortized cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at fair value through profit or loss.

On initial recognition, the Bank may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank is required to disclose such financial assets separately from those mandatorily measured at fair value.

Business Model
The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

The Bank's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the Bank needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the Bank's business model for managing those financial assets changes, the Bank is required to reclassify financial assets.

The SPP/ Test
As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Financial Assets - Classification and Measurement (continued)

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value though profit and loss.

Financial Assets at Amortized Cost
Balances with the Central Bank, Due from Banks and Financial Institutions, Loans and Advances to Clients and Related Parties at Amortised Cost and Financial Assets at Amortised Cost
These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortized cost using the EIR, less expected credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "interest and similar income" in the income statement. The losses arising from impairment are recognized in the income statement in "net impairment losses on financial assets". Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "net gain from derecognition of financial assets at amortized cost" in the income statement.

Financial Assets at Fair Value through Other Comprehensive Income
These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for debt instruments at fair value through other comprehensive income is explained below. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Debt Instruments at Fair Value through Other Comprehensive Income
The Bank measures debt instrument at fair value through other comprehensive income if both of the following conditions are met: the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Equity Instruments at Fair Value through Other Comprehensive Income
Upon initial recognition, the Bank can elect to classify irrevocably some of its investments in equity instruments at fair value through other comprehensive income when they are not held for trading. Such classification is determined on an instrument-by-instrument basis.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the income statement on disposal of the investments.

Dividends on these investments are recognized under "Dividend income on financial assets at fair value through other comprehensive income" in the income statement when the Bank's right to receive payment of dividend is established in accordance with IFRS 15: "Revenue from contracts with clients" unless the dividends clearly represent a recovery of part of the cost of the investment. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment.

Financial Assets at Fair Value through Profit or Loss
Included in this category are those debt instruments that do not meet the conditions in ''financial assets at amortized cost" and ''financial assets through other comprehensive income" above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Debt Instruments at Fair Value through Profit or Loss and Loans and Advances at Fair Value
These financial assets are recorded in the statement of financial position at fair value. Transaction costs directly attributable to the acquisition of the instrument are recognized as revenue or expense when the instrument is initially recognized. Changes in fair value and interest income are recorded under "net gain on financial assets at fair value through profit or loss" in the income statement. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under "net gain on financial assets at fair value through profit or loss" in the income statement, showing separately those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Equity Instruments at Fair Value through Profit or Loss
Investments in equity instruments are classified at fair value through profit or loss, unless the Bank designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income. These financial assets are recorded in the statement of financial position at fair value. Changes in fair value and dividend income are recorded under "net gain on financial assets at fair value through profit or loss" in the income statement. Gains and losses arising from the derecognition

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Financial Assets - Classification and Measurement (continued)

of equity instruments at fair value through profit or loss are also reflected under "net gain from financial assets at fair value through profit or loss" in the income statement.

Financial Liabilities (other than financial guarantees, letters of credit and loan commitments) - Classification and Measurement
Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortized cost or fair value.

The Bank classifies all financial liabilities as subsequently measured at amortized cost using the effective interest rate method, except for:
- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Contingent consideration recognized in a business combination in accordance with IFRS 3.

The Bank may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:
- Doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented Risk Management or investment strategy, and information about the group is provided internally on that basis to the Bank's Key Management Personnel; or
- A group of financial liabilities contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by contract, or it is clear with little or no analysis when a similar instruments is first considered that separation of the embedded derivatives is prohibited.

Financial liabilities at fair value though profit and loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at though profit and loss due to changes in the Bank's own credit risk. Such changes in fair value are recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the income statement. Changes in fair value attributable to changes in credit risk do not get recycled to the income statement.

Interest incurred on financial liabilities designated at fair value through profit and loss is accrued in interest expense using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument.

Due to Central Bank, Banks and Financial Institutions and Clients' and Related Parties' Deposits
After initial measurement, due to central bank, banks and financial institutions, clients' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Client deposits which are linked to the perfonnance of indices or commodities are subsequently measured at fair value through profit or loss.

Financial Guarantees, Letters of Credit and Undrawn Loan Commitments
The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortisation recognized in the income statement, and an ECL provision. The premium received is recognized in the income statement in "Fees and commission income" on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified tenns to the client. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Reclassification of Financial Assets
The Bank reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent and are determined by the Bank's Senior Management as a result of external or internal changes when significant to the Bank's operations and demonstrable to external parties.

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognized gains, losses or interest are not restated.

If a financial asset is reclassified so that it is measured at fair value, its fair value is detennined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognized in profit or loss. If a financial asset is reclassified so that it is measured at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Derecognintion of Financial Assets and Liabilities

Financial Assets

(i) Derecognition due to substantial modification of terms and conditions
If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below).

If the modification of a financial asset measured at amortized cost or fair value through other comprehensive income does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method .

(ii) Derecognition other than for substantial modification
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset; or
- The Bank retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients') , when all of the following three conditions are met:

- The Bank has no oblig ation to pay amounts to the eventual recipien ts unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients;
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the income statement, as "other operating income" or "other operating expenses".

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Derecognintion of Financial Assets and Liabilities (continued)

Financial Liabilities (continued)

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Impairment of Financial Assets

(i) Overview of the ECL Principles
The Bank records the allowance for expected credit losses based on a forward-looking approach for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which cases, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

(ii) Measurement of ECLs
The Bank measures ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR as follows:
- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Bank expects to recover.

They key inputs into the measurements of ECL are:
- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

These parameters are generally derived from statistical models and other historical data. Forward looking information are incorporated in ECL measurements.

The Bank measures ECLs using a three-stage approach based on the extent of credit deterioration since origination:
- Stage 1 - Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For these instruments with a remaining maturity of less than 12 months, probability of default corresponding to remaining term to maturity is used.
- Stage 2 - When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 - Financial instruments that are considered to be impaired are included in this stage similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

(iii) Forborne and modified loans
The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off. When the loan has been renegotiated or modified but not derecognized, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the client has to meet all of the following criteria:
- All of its facilities has to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period; and
- The client does not have any contract that is more than 30 days past due.

If modifications are substantial, the loan is derecognized, as explained above.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Impairment of Financial Assets (continued)

(iv) Debt Instruments at Fair Value through Other Comprehensive Income
The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

(v) Collateral repossessed
The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently, these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the income statement under "other operating income" or "other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "reserves appropriated for capital increase" in the following financial year.

(vi) Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit impaired" when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:
- Significant financial difficulty of the borrower or issuer; A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or The disappearance of an active market for a security because of financial difficulties.

(vii) Write Offs
The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "Net impairment losses on financial assets".

Fair value measurement
The Bank measures financial instruments, such as, derivatives, and financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in the notes.

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising 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 value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The Bank's management determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank ' s accounting policies . For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Bank 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement in "Net gain from financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

(i) Fair value hedges
For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the income statement in "Net gain from financial instruments at fair value through profit or loss". Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognized in "Net gain from financial instruments at fair value through profit or loss" in the income statement.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated effective interest rate (EIR) method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the income statement.

(ii) Cashflow hedges
For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

Within its Risk Management and edging strategies, the Bank differentiates between micro and macro cash-flow hedging strategies as set out in the following subsections:

Micro Fair Value Hedge
Micro cash flow hedge relationships relate to distinctly identifiable assets or liabilities, hedged by one, or a few, hedging instruments.

The Bank's micro cash flow hedges consist principally of cross-currency swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued floating rate euro notes due to changes in interest rate risk and/or foreign currency risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged issued foreign currency debt.

Macro Fair Value Hedge
It is the Bank's strategy to apply macro cash flow hedge accounting to minimise the variability in future interest cash flows on non-trading variable rate financial assets and liabilities and to keep fluctuations within its established limits. The amounts and timing of future hedged cash flows represent both the interest and principal based on contractual terms with adjustments for expected defaults, and/or prepayments based on the Bank's projected balance sheet including forecasted transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected re-pricing and interest profiles. The Bank aims to set the hedging ratio at 100% by matching the notional of the designated hedged items to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure.

(iii) Hedge of a net investment
Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in other comprehensive statement is transferred to the income statement.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Leases (Policy applicable from 1 January 2019)

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a Lessee
The Bank applies a single recognition and measurement approach for its lease, except for short-term leases and leases of low-value assets. The Bank recognizes a lease liability to make lease payments and a right-of-use asset representing the right to use the underlying asset.

(i) Right-of-use asset
The Bank recognizes right-of-use asset at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability. The cost of right-of-use asset includes the amount of lease liability recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use asset is depreciated on a straight-line basis over the lease term.

The right-of-use asset is presented within "Property, equipment and right-of-use asset" on the financial statements and is subject to impairment in line with the Bank's policy as described under Impairment of non financial assets.

Depreciation charge for right-of-use asset presented within "Depreciation of property, equipment and right-of use asset" on the financial statements.

(ii) Lease liability
At the commencement date of the lease, the Bank recognizes a lease liability 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 Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized 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 Bank 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 liability 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.

The Bank's lease liability is included under "other liabilities". Moreover, the interest charge on lease liability is presented within "interest and similar expenses" from financial instruments measured at amortized cost in financial statements.

(iii) Short-term leases and leases of low-value assets
The Bank applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.
Other rental expenses (including non-lease components paid to landlords) presented within other operating expenses.

Bank as a Lessor
Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases (Policy applicable before 1 January 2019)
The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee
Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable are recognized as an expense in the period in which they are incurred.

Bank as a lessor
Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Recognition of income and expenses
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest and similar income and expense

The effective interest rate
Interest income and expense are recognized in the income statement applying the EIR method for all

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

financial instruments measured at amortized cost, financial instruments designated at fair value through profit or loss and interest bearing financial assets measured at fair value through other comprehensive income.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit impaired, an entity shall take into account all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. For purchased or originated credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows and expected credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and interest expense
The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortized cost of a financial liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts, unless the financial instrument is measured at fair value, with the change in fair value being recognized in profit or loss. In those cases, the fees are recognized as revenue or expense when the instrument is initially recognized.

When a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the net amortized cost of the instrument. If the financial asset cures and is no longer credit impaired, the Bank reverts back to calculating interest income on a gross basis. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortized cost of the instrument. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation
Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:
- interest on financial assets at amortized cost;
- interest on debt instruments measured at fair value through other comprehensive income;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and other comprehensive income includes:
- financial liabilities measured at amortized cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest income and expense on financial instruments measured at fair value through profit or loss are presented under "Net gain on financial assets at fair value through profit or loss" in the income statement.

(ii) Fee and commission income
The Bank earns fee and commission income from a diverse range of services it provides to its clients. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized as revenues on expiry.

Fee income from providing transaction services
Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend income
Dividend income is recognized when the right to receive the payment is established.

(iv) Net gain from financial assets at fair value through profit or loss
Net income from financial instruments at fair value through profit or loss comprises gains and losses related to trading assets and liabilities, non-trading derivatives held for Risk Management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at fair value through profit or loss and, also non-trading assets mandatorily measured at fair value through profit or loss. The line item includes fair value changes, interest, dividends and foreign exchange differences.

Cash and cash equivalents
Cash and cash equivalents as referred to in the statement of cash flows comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

Property and equipment
Property and equipment, except for buildings, is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Property and equipment (continued)

cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incu rred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Buildings are measured at fair value less accumulated depreciation and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuators with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the real estate revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings .

Depreciation is calculated using straight line method to write down the cost of property and equipment to their residual value over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Building	50 years
Computer hardware	5 years
Motor vehicles	10 years
Furniture and fixture	12.5 years
Equipment	12.5 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial period and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indications that the carrying value may not be recoverable. Impairment losses are recognized in the income statement as an expense.

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "Net gain from sale or disposal of fixed assets" in the income statement in the year the asset is derecognized.

Intangible assets

The Bank's other intangible assets include the value of software license. An intangible asset is recognized only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Software	5 years

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment. Subsidiaries are entities which the Bank controls, normally where it holds more than 50% of the voting power

Investment in associates

An associate is an entity over which the Bank 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 Bank's investments in its associates are accounted for using the equity method.

Non-current assets held for sale and discontinued operations

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, Management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and: a) represents a separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively with a view to resale.

In the income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Bank retains a non-controlling interest in the subsidiary after the loss of control. The resulting profit or loss (after taxes) is reported separately in the income statement.

Impairment of non-financial assets
The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

Retirement benefits obligation
The Bank is subscribed to the compulsory defined benefit plan of the National Social Security Fund.

IAS 19 'Employee benefits' requirements:
A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation. The liability recognized in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the statement of financial position date less contributions to the fund. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

Local requirements:
The compulsory defined benefit plan varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total monthly contributions paid to National Social Security Fund ("NSSF"), End-of-Service Indemnity contributions paid to NSSF represents 8.5% of employee benefits.

The difference between the carrying amount of the provision and its value in accordance with IAS 19 'Employee benefits' is not significant.

Provisions for risks and charges
Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

Assets held in custody and under administration
The Bank provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in custody or under administration, are not treated as assets of the Bank and accordingly are recorded as off financial position items.

Taxes
Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Bank operates.

(i) Current Tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Bank operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred Tax
Deferred tax is provided on temporary differences at the statement of financial position date' between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:
- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

Taxes (continued)

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

Dividends on common shares

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

2.5 Significant accounting judgments and estimates

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts ofrevenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

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 recognised in the financial statements:

Going concern

Notwithstanding the events and conditions disclosed in Note 1, these financial statements have been prepared based on the going concern assumption. The Board of Directors believes that they are taking all the measures available to maintain the viability of the Bank and continue its operations in the current business and economic environment.

Business model

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank considers:

- management's stated policies and objectives for the portfolio and the operation of those policies m practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues; the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets

The Bank exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Bank considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Significant accounting judgments and estimates (continued)

Estimates and assumptions

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, are described below. The Bank based its 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.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, estimation is required to establish fair values. The judgments and estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty) funding value adjustments, correlation and volatility.

Impairment Losses on Financial Instruments
The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit rating model;
- The Bank's criteria for assessing if there has been a significant increase in credit risk;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs and their impact on ECL calculation; and
- Selection of forward-looking macroeconomic scenarios and their probability of occurrence, to derive the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment of Non-financial Assets
Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Bank.

3. INTEREST AND SIMILAR INCOME

	2019 LL (000)	2018 LL (000)
Balances with the Central Bank	2,985,499	1,393,683
Due from banks and financial institutions	463,732	103,853
Loans and advances to clients at amortized cost	3,931,391	2,572,689
Loans and advances to related parties at amortized cost (note 33)	54,700	51,298
Financial assets at amortized cost	2,935,540	2,698,541
Debt instruments at fair value through other comprehensive income	1,303,023	1,087,184
	11,673,885	7,907,248

4. INTEREST AND SIMILAR EXPENSE

	2019 LL (000)	2018 LL (000)
Due to Central Bank	437,671	244,427
Due to banks and financial institutions	3,544,626	1,886,629
Clients' deposits at amortized cost	7,441,991	5,397,166
Deposits from related parties at amortized cost (note 33)	160,505	108,580
	11,584,793	7,636,802

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

5. NET FEE AND COMMISSION INCOME

	2019 LL (000)	2018 LL (000)
Fee and commission income		
Asset management	559,648	329,746
Brokerage and custody	315,197	531,447
Fiduciary activities	161,740	214,737
Loans and advances	156,061	454,448
Consultancy and advisory	5,758	771,037
Other commissions	47,653	17,098
	1,246,057	2,318,513
Fee and commission expense	(253,702)	(257,338)
	992,355	2,061,175

6. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 LL (000)	2018 LL (000)
Interest and similar income from debt instruments at fair value through profit or loss	3,824,386	4,047,660
Net gain on foreign exchange	237,508	439,210
Net unrealized revaluation gain (loss) on financial assets at fair value through profit or loss	559,066	(331,294)
Net realized gain on disposal of financial assets at fair value through profit or loss	1,363,740	466,464
Dividend income	-	29,458
	5,984,700	4,651,498

7. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2019 LL (000)	2018 LL (000)
New and increased impairment allowances:		
Balances with the Central Bank	1,038,087	31,206
Deposits with banks and financial institutions	216,912	149,676
Loans and advances to clients at amortised cost	964,983	20,149
Financial assets at amortised cost	2,174,391	68,941
	4,394,373	269,972

8. PERSONNEL EXPENSES

	2019 LL (000)	2018 LL (000)
Salaries and wages	2,469,836	2,314,870
Social security contributions	362,356	372,922
Chairman and General Manager remunerations (note 33)	730,229	701,364
Committee members remunerations (note 33)	236,677	108,390
Transportation allowances	84,645	90,826
Insurance	135,207	139,408
Other employee benefits	224,246	192,852
Provision for employees' end of service benefits (note 27)	156,941	-
	4,400,137	3,920,632

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

9. OTHER OPERATING EXPENSES

	2019 LL (000)	2018 LL (000)
Taxes and related charges	1,010,800	649,953
Professional fees	564,637	470,175
Registration and subscription fees	424,084	357,386
Repair and maintenance	234,197	207,124
Travel expenses	206,852	253,589
Consultancy fees (note 33)	180,900	198,128
Rent and related charges	113,365	110,795
Insurance expenses	65,323	44,026
Advertising fees	55,839	189,165
Refreshments and entertainment	44,521	83,158
Stationery and office supplies	30,772	50,141
Telecommunication charges	24,462	32,692
Donations	13,561	11,078
Other expenses	291,165	301,466
	3,260,478	2,958,876

10. INCOME TAX EXPENSE

As per the provisions of legislative decree no. 50 dated 15 July 1983, the Bank was exempt from income taxes stipulated in legislative decree no.144 dated 12 June 1959 for a period of 7 years. Starting the year ended 31 December 2019, the Bank is subject to income tax.

The components of operating loss before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Lebanese tax rate, are shown in the table below:

	2019 LL (000)
Loss before tax	**(5,160,240)**
Impact of increase resulting from:	
Non-deductible provisions	4,394,373
Non-deductible expenses	569,223
Gain on disposal of equity instruments at fair value through other comprehensive income	3,847,514
	3,650,870
Impact of decrease resulting from:	
4% of paid-up capital	(2,400,000)
Unrealized gains on financial assets	(592,773)
Unrealized dividends	(236,686)
	421,411
Effective income tax rate	17%
Income tax	71,640
Deferred tax liability for the year (note 26)	141,008
Total income tax expense	**212,648**

The movement of current tax liabilities during the year is as follows:

	2019 LL (000)
Balance at 1 January	-
Charge for the year	71,640
Movement in deferred tax asset (note 21)	4,784,464
Balance at 31 December (note 26)	**4,856,104**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

11. CASH AND BALANCES WITH THE CENTRAL BANK

	2019 LL (000)	2018 LL (000)
Cash on hand	941,438	248,227
Balances with the Central Bank of Lebanon:		
Current accounts	14,216,150	5,886,036
Term deposits (a)	46,706,060	48,456,000
Accrued interest receivable	1,214,616	754,485
	63,078,264	55,344,748
Less: Allowance for expected credit losses (note 38.2)	(1,078,629)	(56,212)
	61,999,635	55,288,536

The movement in allowances for expected credit losses on balances with the Central Bank of Lebanon under IFRS 9 is presented in the Credit Risk section (note 38.2).

Obligatory reserves:
In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Term deposits in coverage of the obligatory reserve requirements amounted to LL (000) 31,657,500 as at 31 December 2019 (2018: LL (000) 26,532,000).

(a) During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualify for netting under the requirements of IAS 32. Accordingly, as at 31 December 2019, time deposits with the Central Bank of Lebanon amounting to LL (000) 27,018,000 and term borrowings from the Central Bank of Lebanon (Note 22) are reported on a net basis on the statement of financial position. At 31 December 2018, time deposits with the Central Bank of Lebanon amounting to LL (000) 15,894,000 and maturing between 2021 and 2029 were blocked against term borrowings granted by the Central Bank of Lebanon with the same value and maturities (Note 22).

12. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2019 LL (000)	2018 LL (000)
Current accounts	3,515,613	5,093,372
Term placements	7,158,037	6,898,920
Accrued interest receivable	81,124	78,188
	10,754,774	12,070,480
Less: Allowance for expected credit losses (note 38.2)	(293,606)	(151,207)
	10,461,168	11,919,273

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 LL (000)	2018 LL (000)
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit issued by the Central Bank of Lebanon (a)	52,428,614	52,426,470
Treasury bills	5,684,551	5,077,560
Eurobonds	24,147	1,410,067
	58,137,312	58,914,097
Private sector and other securities		
Peterhouse Securities Limited (b)	46,779,464	2,830,083
Investments in start-up companies (c)	9,791,256	8,291,256
Funds	4,034,158	4,363,932
	60,604,878	15,485,271
	118,742,190	74,399,368

(a) As at 31 December 2018, Certificates of deposits issued by the Central Bank of Lebanon amounting to LL (000) 30,150,000 were pledged as collateral against loans obtained from a local bank (note 23).

(b) Peterhouse Securities Limited:
During 2019, the Bank transferred its ownership in several underlying assets to "Peterhouse Securities Limited" as a contribution of capital in exchange for 1,510,001 Class A shares and 23,489,999 Class B shares at GBP 1 (equivalent to a total of LL (000) 49,449,743) representing 100% of the company's total shares. Class B shares are to be re-sold to third party investors. As a result of this transaction, the Bank recorded a deferred income under "Other liabilities" amounting to GBP 15,553,537 (equivalent to a

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

total of LL (000) 29,479,049) being the difference between the carrying amount of the underlying assets and their selling price (representing their fair values). The Bank will recognize this gain in the income statement as it disposes of its ownership in "Peterhouse Securities Limited" to the third party investors on a pro-rata basis. During the year ended 31 December 2019, the Bank sold 1,350,000 Class B shares in "Peterhouse Securities Limited" resulting in a gain of LL (000) 1,335,143 which was recorded under "Net realized gain on disposal of financial assets at fair value through profit or loss" (note 6) and thus decreasing the deferred income balance by the same amount.

(c) Investments in startup companies:

	2019		2018	
Company	**Total investment LL (000)**	**Portion of investment subsidized by BDL LL (000)**	Total investment LL (000)	Portion of investment subsidized by BDL LL (000)
Tourist Tube Holding SAL	**4,522,506**	**(3,391,875)**	4,522,506	(3,391,875)
M Publishing SAL	**3,768,750**	**(2,826,563)**	3,768,750	(2,826,563)
Park Innovation SAL	**1,500,000**	**(1,500,000)**	-	-
Torch SAL	**-**	**-**	-	-
	9,791,256	**(7,718,438)**	8,291,256	(6,218,438)

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019			2018		
	Carrying amount LL (000)	**Cumulative change in fair value LL (000)**	**Dividend income LL (000)**	Carrying amount LL (000)	Cumulative change in fair value LL (000)	Dividend income LL (000)
Equity instruments						
Ace Liberty & Stone PLC	**2,015,899**	**24,264**	**280,563**	5,879,994	1,025,682	109,611
Hill Investment London Ltd	**-**	**-**	**-**	643,844	59,656	-
	2,015,899	**24,264**	**280,563**	6,523,838	1,085,338	109,611
Debt instruments						
Lebanese treasury bills - denominated in LL	**19,777,743**	**388,145**	**-**	18,050,756	19,677	-
	21,793,642	**412,409**	**280,563**	24,574,594	1,105,015	109,611

15. LOANS AND ADVANCES TO ClientS AT AMORTIZED COST

	2019 LL (000)	*2018 LL (000)*
Corporate loans	**27,838,431**	21,453,549
Consumer loans	**26,259,342**	25,794,255
Accrued interest receivable	**72,467**	56,301
	54,170,240	47,304,105
Less: Allowance for expected credit losses (note 38.2)	**(2,054,071)**	(865,839)
	52,116,169	46,438,266

The movement in allowances for expected credit losses on loans and advances to clients at amortized cost under IFRS 9 is presented in the Credit Risk section (note 38.2).

16. FINANCIAL ASSETS AT AMORTIZED COST

	2019 LL (000)	*2018 LL (000)*
Lebanese sovereign and Central Bank of Lebanon		
Eurobonds	**25,459,415**	32,313,853
Treasury bills (*)	**14,167,634**	14,193,015
	39,627,049	46,506,868
Less: Allowance for expected credit losses (note 38.2)	**(2,405,915)**	(269,650)
	37,221,134	46,237,218

The movement in allowances for expected credit losses on financial assets at amortized cost under IFRS 9 is presented in the Credit Risk section (note 38.2).

(*) As at 31 December 2019, Lebanese treasury bills amounting to LL (000) 6,656,000 were pledged against term borrowings granted by the Central Bank of Lebanon with the same value (2018: the same) (Note 22).

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17. INVESTMENTS IN SUBSIDIARIES

Investments	Country of incorporation	%of ownership 2019 %	2018 %	2019 LL (000)	2018 LL (000)
Sola SAL	Lebanon	99.96	99.96	4,145,625	4,145,625
LiBank Investment Management Company	Cayman Islands	100	100	201,456	126,270
				4,347,081	4,271,895

During the year 2018, the Bank acquired 9,996 shares in "Sola SAL", a real estate company based in Lebanon, for US$ 2,750,000 (equivalent to a total of LL (000) 4,145,625) representing 99.96% of the company's total shares.

During the year 2015, the Bank acquired one share in "LiBank Investment Management Company", a company established in the Cayman Islands, for US$ 1 representing 100% of the company's total shares. The Bank's share of profits from this investment amounted to LL (000) 2,369 for the year ended 31 December 2019 (2018: LL (000) 70,228).

18. INVESTMENTS IN ASSOCIATES

Company	Country of incorporation	%of ownership 2019 %	2018 %	Bank's share of equity 2019 LL (000)	2018 LL (000)
Peterhouse Capital Limited	United Kingdom	48.52	37.34	5,501,928	2,422,117
GMT Aviation Limited	Cyprus	19.83	19.83	3,933,130	2,691,984
				9,435,058	5,114,101

During the year 2018, the Bank acquired 37,565 additional shares in "Peterhouse Capital Limited" for an amount of LL (000) 192,702 increasing the percentage ownership to 37.34% of the company's total shares. During the year 2019, the Bank acquired 272,727 additional shares in "Peterhouse Capital Limited" for an amount of LL (000) 2,966,985 increasing the percentage ownership to 48.52% of the company's total shares. The Bank's share of profits from this investment amounted to LL (000) 220,311 for the year ended 31 December 2019 (2018: LL (000) 110,384).

During the year 2018, the Bank acquired 507 shares in "GMT Aviation Limited", a company based in Cyprus, for a total amount of EUR 1,355,211 (equivalent to LL (000) 2,399,429) representing 19.83% of the company's total shares. The Bank's share of profits from this investment amounted to LL (000) 14,006 for the year ended 31 December 2019 (2018: LL (000) 292,555).

19. PROPERTY AND EQUIPMENT

	Building LL (000)	Computer hardware LL (000)	Motor vehicle LL (000)	Furniture and fixture LL (000)	Equipment LL (000)	Advances on property and equipment LL (000)	Total LL (000)
Cost:							
At 1 January 2019	10,321,017	754,059	37,401	2,922,519	260,154	219,050	14,514,200
Additions	-	48,732	119,919	8,586	-	73,407	250,644
Transfers	-	131,378	-	-	-	(164,321)	(32,943)
At 31 December 2019	**10,321,017**	**934,169**	**157,320**	**2,931,105**	**260,154**	**128,136**	**14,731,901**
Depreciation:							
At 1 January 2019	(329,402)	(580,504)	(13,849)	(994,429)	(72,546)	-	(1,990,730)
Charge for the year	(315,113)	(95,566)	(10,465)	(185,664)	(20,813)	-	(627,621)
At 31 December 2019	**(644,515)**	**(676,070)**	**(24,314)**	**(1,180,093)**	**(93,359)**	**-**	**(2,618,351)**
Net carrying amount: At 31 December 2019	**9,676,502**	**258,099**	**133,006**	**1,751,012**	**166,795**	**128,136**	**12,113,550**

	Building LL (000)	Computer hardware LL (000)	Motor vehicle LL (000)	Furniture and fixture LL (000)	Equipment LL (000)	Advances on property and equipment LL (000)	Total LL (000)
Cost:							
At 1 January 2018	7,599,968	691,285	86,546	2,785,447	218,742	110,663	11,492,651
Additions	-	62,774	-	137,072	41,412	108,387	349,645
Disposals	-	-	(49,145)	-	-	-	(49,145)
Revaluation	2,721,049	-	-	-	-	-	2,721,049
At 31 December 2018	**10,321,017**	**754,059**	**37,401**	**2,922,519**	**260,154**	**219,050**	**14,514,200**
Depreciation:							
At 1 January 2018	(177,403)	(494,234)	(35,920)	(810,940)	(54,030)	-	(1,572,527)
Charge for the year	(151,999)	(86,270)	(7,853)	(183,489)	(18,516)	-	(448,127)
Related to disposals	-	-	29,924	-	-	-	29,924
At 31 December 2018	**(329,402)**	**(580,504)**	**(13,849)**	**(994,429)**	**(72,546)**	**-**	**(1,990,730)**
Net carrying amount: At 31 December 2018	**9,991,615**	**173,555**	**23,552**	**1,928.090**	**187,60**	**219,050**	**12,523,470**

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19 PROPERTY AND EQUIPMENT (CONTINUED)

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. The valuation report prepared by the real estate expert resulted in a revaluation surplus of LL (000) 2,721,049 on the Bank's building. The Extraordinary General Assembly meeting of shareholders held on 6 December 2018 resolved to approve this revaluation. As at 31 December 2019, the finalization of this transaction is pending the necessary regulatory approvals. The revaluation reserve resulting from this transaction is not eligible to be included in the Bank's Tier 1 nor Tier 2 Capital as per the definition of the Central Bank of Lebanon's rules and regulations.

20. INTANGIBLE ASSETS

	Software	
	2019 LL (000)	2018 LL (000)
Cost:		
At 1 January	802,648	671,644
Additions	42,127	131,004
Transfers	32,943	-
At 31 December	877,718	802,648
Amortization:		
At 1 January	(568,369)	(481,032)
Amortization for the year	(109,267)	(87,337)
At 31 December	(677,636)	(568,369)
Net carrying amount: **At 31 December**	200,082	234,279

21. OTHER ASSETS

	2019 LL (000)	2018 LL (000)
Deferred tax asset (notes 10 and 26)	4,784,464	-
Mandatory deposit with the Lebanese Treasury (a)	4,500,100	4,500,100
Advance on investment in Kingdom Bank Limited (b)	1,072,963	1,033,792
Receivables from advisory services	1,191,280	503,001
Prepayments	513,360	450,971
Advances on wages and salaries	149,446	146,461
Others	931,292	375,948
Less: Provision for impairment of advance on an investment (b)	(1,072,963)	(1,033,792)
	12,069,942	5,976,481

(a) This deposit represents a blocked amount with the Lebanese Treasury made by the Bank on its constitution date (according to paragraph b of Article 132 of the Code of Money and Credit) which will only be recovered upon the Bank's liquidation.

(b) The Bank was in the process of acquiring a 35% stake in "Kingdom Bank Limited", located in the United Kingdom, through the purchase of 1,475,990 ordinary shares. On 9 November 2015, the Bank paid an amount of GBP 327,000 (equivalent to LL (000) 730,014) representing a down payment on acquisition of this investment pending the approvals of the Central Bank of Lebanon and the Central Bank of England. The remaining balance represents capitalized expenses related to this acquisition. During 2016, the Bank decided to withdraw from the acquisition and accordingly fully provided for the unrecoverable balance related to this acquisition amounting to GBP 542,451 (equivalent to LL (000) 1,072,963) as at 31 December 2019 (2018: LL (000) 1,033,792).
The movement in the provision for impairment of advance on an investment is as follows:

	2019 LL (000)	2018 LL (000)
Balance at 1 January	1,033,792	1,104,203
Exchange difference	39,171	(70,411)
Balance at 31 December	1,072,963	1,033,792

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22. DUE TO CENTRAL BANK

	2019 LL (000)	2018 LL (000)
Central Bank of Lebanon		
Term borrowings under leverage arrangements	6,656,000	22,550,000
Other borrowings	736,298	-
Accrued interest	237,065	156,799
	7,629,363	22,706,799

Term borrowings under leverage arrangements

Term borrowings under leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in Lebanese Lira, bearing an interest rate of 2% per annum and having maturities ranging between 2021 and 2029, fully invested in pledged Lebanese treasury bills and blocked term placements with the Central Bank of Lebanon in Lebanese Lira earning coupon rates ranging between 6.5% per annum and 10.5%. Simultaneously the Bank has further deposited with the Central Bank of Lebanon term placements in foreign currencies at 6.5% per annum and in Lebanese Lira at 10.5% per annum carrying the same maturities. During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placements with the Central Bank of Lebanon in Lebanese Lira. This agreement qualifies for netting under the requirements of IAS 32.

The below table summarises the leverage arrangements and related financial assets subject to offsetting, and enforceable similar agreements, and whether offset is achieved in the statement of financial position. The table identifies the amounts that have been offset in the statement of financial position and also those amounts that are covered by enforceable netting arrangements (financial collateral) but do not qualify for netting under the requirements of IAS 32 described in the accounting policies:

Leverage arrangements	2019 LL (000)	2018 LL (000)
Gross amounts	33,674,000	22,550,000
Amounts offset against [1]		
Placements with the Central Bank of Lebanon (note 11)	(27,018,000)	-
Net amounts reported on the statement of financial position	6,656,000	22,550,000
Financial collateral		
Lebanese treasury bills (note 16)	6,656,000	6,656,000
Placements with the Central Bank of Lebanon (note 11)	-	15,894,000
	6,656,000	22,550,000

(1) Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon have also been reported in the statement of financial position net of the amounts above.

23. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2019 LL (000)	2018 LL (000)
Current accounts	144,636	7,252,071
Sight deposits	40,653,587	18,066,361
Borrowings (*)	-	19,075,000
	40,798,223	44,393,432

(*) During 2018, the Bank obtained a loan from a local bank amounting to LL (000) 19,075,000. This loan was secured by the pledge of Certificates of deposit issued by the Central Bank of Lebanon amounting to LL (000) 30,150,000 included under "Financial assets at fair value through profit or loss" as of 31 December 2018 (note 13).

24. ClientS' DEPOSITS AT AMORTIZED COST

	2019 LL (000)	2018 LL (000)
Current accounts	68,090,535	41,936,545
Term deposits	109,274,574	98,615,836
Accrued interest	1,762,030	1,401,112
	179,127,139	141,953,493

25. DEPOSITS FROM RELATED PARTIES AT AMORTIZED COST

	2019 LL (000)	2018 LL (000)
Current accounts	2,733,194	2,156,167
Term deposits	3,685,999	1,350,762
Accrued interest	64,538	20,560
	6,483,731	3,527,489

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26. OTHER LIABILITIES

	2019 LL (000)	2018 LL (000)
Deferred income (a)	28,143,906	-
Subsidies related to investments in start-up companies (note 13)	7,718,438	6,218,438
Current tax liability (note 10)	4,856,104	-
Payables related to investments	1,682,335	301,500
Subscriptions and other payables	714,759	355,995
Other taxes payable	494,492	255,262
Accrued charges	163,400	103,868
Deferred tax liability (note 10)	141,008	-
Taxes on salaries and remunerations	91,024	75,251
Due to the National Social Security Fund	30,687	40,497
Payable to committee members	-	30,150
Advances on capital increase (b)	-	1,115,200
	44,036,153	8,496,161

(a) As disclosed in note 13, this balance represents the difference between the carrying amounts of the underlying assets transferred to "Peterhouse Securities Limited" and their selling prices (representing their fair values). The Bank will recognize this gain in the income statement as it disposes of its ownership in "Peterhouse Securities Limited" to third party investors on a pro-rata basis. Deferred tax asset related to this balance amounted to LL (000) 4,784,464 as at 31 December 2019 (note 21).

(b) The Extraordinary General Assembly meeting of shareholders held on 6 December 2018 resolved to increase the share capital of the Bank by LL (000) 1,500,000 through the issue of 15,000 shares of a nominal value ofLL (000) 100 each. Advances on capital increase amounted to LL (000) 1,115,200 as at 31 December 2018. The Bank's Board of Directors meeting held on 9 May 2019 resolved to cancel the capital increase transaction and proposed this resolution to the General Assembly meeting of shareholders which approved this resolution on 12 June 2019.

27. PROVISIONS FOR RISKS AND CHARGES

	2019 LL (000)	2018 LL (000)
Retirement benefit obligations (a)	228,466	85,242
Other provisions	28,079	28,123
	256,545	113,365

(a) The movement of the retirement benefit obligations is as follows:

	2019 LL (000)	2018 LL (000)
Balance at 1 January	85,242	85,489
Charge for the year (note 8)	156,941	-
Paid during the year	(13,717)	(247)
	228,466	85,242

28. SHARE CAPITAL

	Authorized, issued and fully paid	
	2019 LL (000)	2018 LL (000)
600,000 shares of a nominal value of LL (000) 100 each	60,000,000	60,000,000

29. DIVIDENDS PAID

In accordance with the resolution of the General Assembly meeting of shareholders held on 12 June 2019, dividends declared and paid during the year ended 31 December 2019 amounted to LL (000) 600,000 (2018: LL (000) 900,000).

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30. RESERVES

Non-distributable reserves

a) Reserve for general banking risks
During the year ended 31 December 2018, the Bank transferred an amount of LL (000) 402,378 to Reserve for general banking risks and transferred the entire balance of this reserve to General reserve to comply with the Central Bank of Lebanon requirements.

b) Legal reserve
As required by the Lebanese Code of Money and Credit, 10% of the net profit for the year has to be transferred to legal reserve. An amount of LL (000) 2,887 was transferred to legal reserve for the year ended 31 December 2019 (2018: LL (000) 45,103). This reserve is not available for distribution.

c) General reserve
According to the Central Bank of Lebanon Main Circular 143, banks in Lebanon are required to transfer to General Reserve, the balance of Reserve for General Banking Risks and General Reserve for Loans and Advances previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Bank's equity and is not available for distribution. During the year ended 31 December 2018, the Bank transferred to this reserve the balance of Reserve for General Banking Risks in the amount of LL (000) 1,335,992 and the balance of General Reserve for Loans and Advances in the amount of LL (000) 116,234.

Distributable reserves (Other reserves)

a) General reserve
In accordance with the resolution of the General Assembly meeting of shareholders held on 12 June 2019, the bank distributed dividends from this reserve amounting to LL (000) 423,990. This reserve amounting to LL (000) 4,518 as at 31 December 2019 (2018: LL (000) 427,531) is available for distribution.

31. CUMULATIVE CHANGES IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement of the cumulative changes in fair value of financial assets at fair value through other comprehensive income during the year was as follows:

	2019 LL (000)	2018 LL (000)
Balance at 1 January	1,105,015	1,454,868
Net unrealized gain (loss) on financial assets at fair value through other comprehensive income	3,154,908	(349,853)
Disposal of equity instruments at fair value through other comprehensive income	(3,847,514)	-
Balance at 31 December	**412,409**	1,105,015

32. ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2019 LL (000)	2018 LL (000)
Fiduciary deposits	1,507,500	17,504,793
Financial instruments under custody	214,414,727	126,644,969
	215,922,227	144,149,762

33. RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled or significantly influenced by such parties.

The lists of the Bank's principal subsidiaries and associates are shown in notes 17 and 18 to the financial statements. Transactions between the Bank and its subsidiaries and associates meet the definition of related party transactions.

Transactions with related parties included in the statement of comprehensive income are as follows:

	2019 LL (000)	2018 LL (000)
Chairman and General Manager remunerations (note 8)	(730,229)	(701,364)
Committee members remunerations (note 8)	(236,677)	(108,390)
Consultancy fees (note 9)	(180,900)	(198,128)
Interest expense on deposits from related parties (note 4)	(160,505)	(108,580)
Interest income on loans and advances to related parties (note 3)	54,700	51,298

Balances and transactions with related parties included in the statement of financial position are as follows:

	2019 LL (000)	2018 LL (000)
Deposits from related parties at amortized cost (note 25)	6,483,731	3,527,489
Deposits from subsidiaries at amortized cost	-	4,206,723
Loans and advances to related parties at amortized cost	815,036	820,495
Purchase of shares in Sola SAL	-	2,787,971

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34. CASH AND CASH EQUIVALENTS

	2019 LL (000)	2018 LL (000)
Cash and balances with the Central Bank	15,157,588	6,134,263
Due from banks and financial institutions	3,515,613	5,093,372
Due to banks and financial institutions	(40,798,223)	(44,393,432)
	(22,125,022)	(33,165,797)

35. CONTINGENT LIABILITIES AND COMMITMENTS

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of loss has been reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank did not have any unresolved legal claims.

Other Commitments and Contingencies

Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank's books remain subject to the review of the tax authorities and the review of the National Social Security Fund (NSSF) since inception. Management believes that the results of any such reviews will not have a material effect on the Bank's financial statements.

36. COMPARATIVE INFORMATION

The Bank's investment in Peterhouse Securities Limited has been reclassified from "Investments in subsidiaries" to "Financial assets at fair value through profit or loss" in the statement of financial position. Comparative amounts of LL (000) 2,830,083 have been reclassified accordingly.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Bank as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted Market Prices - Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation Technique Using Observable Inputs - Level 2

Financial instruments classified as Level 2 have been valued using models whose most significant inputs are observable in an active market. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets, and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads.

Valuation Technique Using Significant Unobservable Inputs - Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Fair value measurement hierarchy of the Bank's financial assets and liabilities carried at fair value:

	2019			
		Valuation techniques		
	Quoted market price Level 1 LL (000)	Observable inputs Level 2 LL (000)	Unobservable inputs Level 3 LL (000)	Total LL (000)
Financials assets at fair value through profit or loss:				
Lebanese treasury bills	24,147	5,684,551	-	5,708,698
Certificates of Deposit issued by the Central Bank of Lebanon	-	52,428,614	-	52,428,614
Peterhouse Securities Limited	-	-	46,779,464	46,779,464
Funds	-	4,034,158	-	4,034,158
Investments in start-up companies	-	-	9,791,256	9,791,256
Financials assets at fair value through other comprehensive income:				
Lebanese treasury bills	-	19,777,743	-	19,777,743
Equity securities	2,015,899	-	-	2,015,899
	2,040,046	**81,925,066**	**56,570,720**	**140,535,832**

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37. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	2018			
		Valuation techniques		
	Quoted market price Level 1 LL (000)	Observable inputs Level 2 LL (000)	Unobservable inputs Level 3 LL (000)	Total LL (000)
Financials assets at fair value through profit or loss:				
Lebanese treasury bills	1,410,067	5,077,560	-	6,487,627
Certificates of Deposit issued by the Central Bank of Lebanon	-	52,426,470	-	52,426,470
Peterhouse Securities Limited	-	-	2,830,083	2,830,083
Funds	-	4,363,932	-	4,363,932
Investments in start-up companies	-	-	8,291,256	8,291,256
Financials assets at fair value through other comprehensive income:				
Lebanese treasury bills	-	18,050,756	-	18,050,756
Equity securities	6,523,838	-	-	6,523,838
	7,933,905	**79,918,718**	**11,121,339**	**98,973,962**

There were no transfers between levels during 2019 (2018: the same).

Assets and liabilities carried at fair value using a valuation technique with significant unobservable inputs (Level 3)

Funds and Equity Shares of Non-listed Entities
Units held in funds are measured based on their net asset value (NAV), taking into account redemption and/or other restrictions. Classification between Level 2 and Level 3 is dependent on whether the NAV is observable or unobservable (i.e. recent and published by the fund administrator or not).

Equity shares of non-listed entities are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Bank determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value. Classification between Level 2 and Level 3 is based on whether the financial statements of the investee are recent and published or not. These instruments are fair valued using third-party information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Bank in accordance with IFRS 13.93 (d).

Comparison of carrying and fair values for financial assets and liabilities not held at fair value:

Financial assets and liabilities concentrated in Lebanon
These assets and liabilities consist of balances with the Central Bank of Lebanon and Lebanese banks, Lebanese government securities, loans and advances to clients and related parties, due to the Central Bank of Lebanon and Lebanese Banks and clients and related parties deposits. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. Due to the situation described in Note 1 and the unprecedent levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, management is unable to produce faithful estimation of the fair value of these financial assets and liabilities.

Financial assets and liabilities not concentrated in Lebanon
These are not significant to the Bank's financial statements.

38. Risk Management

38.1 INTRODUCTION

The Bank is exposed to various types ofrisks, some of which are:
- Credit risk: the risk of default or deterioration in the ability of a borrower to repay a loan.
- Liquidity risk: the risk that the Bank cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Market risk: the risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- Other risks faced by the Bank include prepayment risk, litigation risk, and political risk.

38.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its clients or counterparties fail to discharge their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including interbank, loans and advances, and investments in debt securities (including sovereign). Credit Risk Appetite and limits are set at the Bank level by the Board. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established various credit quality review processes to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions of credit files, including ratings and collateral quality. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

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December 31, 2019

38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

The Bank has also established authorization structure for the approval and renewal of credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to the limit assigned to them, which depends on the size of the exposure and the obligor's creditworthiness as measured by its internal rating. Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

During 2019, the 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. In order to address the challenging operating conditions, the Bank has implemented a series ofremedial actions that included: i) risk deleveraging by reducing its assets size, ii) increasing collection capacity across various business lines, iii) increasing specific and collective provision coverages, and iv) setting-up an independent, centralised and specialised remedial function to proactively manage borrowers showing weak or deteriorating credit profiles and not yet classified Stage 3.

38.2.1 Expected Credit Losses

Governance and oversight of expected credit losses

The Bank's IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the ECL estimation framework by: i) approving the IFRS 9 impairment policy, ii) reviewing key assumptions and estimations that are part of the ECL calculations; iii) approving the forward-looking economic scenarios; iv) approving staging classifications on a name-by-name basis for material exposures and v) reviewing ECL results.

Impairment policy requirements are set and reviewed regularly, at a minimum annually, to maintain adherence to accounting standards and evolving business models. Key judgements inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, macroeconomy, and collateral information among other. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs. To manage the model risks, the Bank has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models are statistically validated by a qualified independent party to the model development unit, before first use and at a minimum annually thereafter. Each model is designated an owner who is responsible for:

- Monitoring the performance of the model, which includes comparing estimated ECL versus actual ECL; and
- Proposing post-model development adjustments to enhance model's accuracy or to account for situations where known or expected risk factors and information have not been considered in the modelling process.

Each model used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data, reconciliation with Finance data, and documentation of the calculation steps.

ECL estimation takes into account a range of future economic scenarios, which are set by economists within the Bank's Research Department using independent models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum annually, to align with the Bank's medium-term planning exercise, but also in the event of significant change in the prevailing economic conditions. The scenario probability weights are also updated when the scenarios are updated.

Definition of default and cure

The Bank considers a financial asset to be in default when:

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

As a part of a qualitative assessment of whether a client is in default, the Bank carefully considers whether the events listed above should result in classifying the exposures in Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time and after obtaining the approval of the Credit Committee. The decision whether to classify an asset as Stage 2 or Stage I once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case by case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed, ii) three consecutive payments under the new repayment schedule have been made, iii) the borrower has no past dues under any obligation to the Bank, and iv) all the terms and conditions agreed to as part of the restructuring have been met.

The Bank's internal rating and PD estimation process

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its clients are rated in I to 7 performing bands using internal grades with "+" and "-" modifiers. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. The Corporate rating model was reviewed in a validation and calibration consultancy that led to the creation in early 2018 ofa new rating and PD scale. The analysis was based on the Bank's historical default history, whereby the central default tendency was adjusted with conservatism to account for a low default and data portfolio. The final through-the-cycle (TTC) PD scale was mapped to Moody's Corporate default scale. TTC PDs are then adjusted for IFRS 9 ECL calculations to incorporate point-in-time (PIT) and forward-looking information, and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

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38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

38.2.1 Expected Credit Losses (continued)

The Bank's internal rating and PD estimation process (continued)

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise Lebanese and other sovereign institutions, financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., available external ratings published by international rating agencies such as Moody's, Standard and Poor's and Fitch, and assigns the external rating, during 2019, sovereign exposures including central bank balances follow guidelines set out in the Central Bank of Lebanon Intermediary Circular 543. These are continuously monitored and updated.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit rating model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, leverage ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the client. Some of the less complex small business loans are rated within the Bank's models for retail products.

Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Review and Credit Risk function, which are independent from business lines. Credit Review and Credit Risk functions are responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

Consumer lending and retail mortgages

Consumer lending comprises unsecured and secured personal loans, secured auto loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are scored by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

The Bank also relies on account behavior to predict the probability of default within a specific timeframe. This is primarily based on the repayment history of consumer borrowers.

For the estimation of expected losses for retail products, the Bank uses currently the loss approach by product based on the net flow of exposures from one days-past-due bucket to another. This estimation incorporates a forward-looking component in line with IFRS 9.

Exposure at Default

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD based on the history of recovery rates of claims against defaulted counterparties. It is estimated using information on the counterparty, the collateral type and coverage, recovery costs of any collateral that is integral to the financial asset and other criteria. For portfolios in respect of which the Bank has limited historical data, credit external opinion benchmark against related regulators is used to supplement the internally available data.

Significant increase in credit risk

The Bank continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition using reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment including forward-looking information. The Bank considers an exposure to have significantly increased in credit risk by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

NOTES TO THE FINANCIAL STATEMENTS
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38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

38.2.1 Expected Credit Losses (continued)

Significant increase in credit risk (continued)
For determining whether there has been a significant increase in credit risk, the Bank uses a quantitative test based on movement in ORR of the counterparty (which reflects the movement of the PD).

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a client/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in "Definition of default and cure" are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in "Grouping financial assets measured on a collective basis"), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Expected Life
With the exception of credit cards and other revolving facilities the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the client behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Forward Looking Information
The Bank incorporates forward-looking information at the level of Probability of Default.

On the PD level, the Bank formulates three economic scenarios: a base case, which is the median scenario assigned with a certain probability of occurring, and two other scenarios, one upside and one downside, each assigned a specific chance of occurring, then, a weighted average PD is generated and used for the calculation of the ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, organizations such as World Bank and the International Monetary Fund, IIF and selected private-sector and academic forecasters. A team of specialists within the Bank's Credit Risk Department verifies the accuracy of inputs to the Bank's ECL models including determining the weights attributable to the multiple scenarios of the PD.

The Bank has identified the real GDP growth among other, as the key driver of expected credit losses for several countries where it operates. Using an analysis of historical data, the Bank has estimated relationships between this macro-economic variable and credit losses. The expected credit losses' estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. With respect to countries other than Lebanon, the impact on expected credit losses is not material. With respect to Lebanon, the environment is subject to rapid change due to the effects of the economic crisis and uncertainties disclosed in Note 1. Forecasts and scenario are based on the best available information at the reporting date, combined with expert judgment. It is not practical at this time to determine and provide sensitivity analysis that is reasonably possible.

38.2.2 Overview of modified and forborne loans
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, client retention and other factors not related to a current or potential credit deterioration of the client. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in the Summary of significant accounting policies above.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to clients in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A client needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

From a Risk Management point of view, once an asset is forborne or modified, the Bank's special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

NOTES TO THE FINANCIAL STATEMENTS

38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

38.2.2 Overview of modified and forborne loans (continued)

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the year.

	2019 LL (000)	2018 LL (000)
Amortized costs of financial assets modified during the year	**5,364,846**	6,262,872

NOTES TO THE FINANCIAL STATEMENTS
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38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

38.2.3 Financial Assets and ECLs by stage

The tables below present an analysis of financial assets at amortized cost by gross exposure and impairment allowance by stage allocation as at 31 December 2019 and 2018. The Bank does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross exposure				Impairment allowance				
31 December 2019	**Stage 1** *LL (000)*	**Stage 2** *LL (000)*	**Stage 3** *LL (000)*	**TOTAL** *LL (000)*	**Stage 1** *LL (000)*	**Stage 2** *LL (000)*	**Stage 3** *LL (000)*	**TOTAL** *LL (000)*	**Net exposure** *LL (000)*
Balances with the Central Bank	62,136,826	-	-	62,136,826	1,078,629	-	-	1,078,629	61,058,197
Deposits with banks and financial institutions	10,754,774	-	-	10,754,774	293,606	-	-	293,606	10,461,168
Loans and advances to clients at amortised cost	36,292,881	12,543,669	5,333,690	54,170,240	48,801	392,662	1,612,608	2,054,071	52,116,169
Loans and advances to related parties at amortised cost	815,036	-	-	815,036	-	-	-	-	815,036
Financial assets at amortised cost	39,627,049	-	-	39,627,049	2,405,915	-	-	2,405,915	37,221,134
Financial assets at fair value through other comprehensive income	19,777,743	-	-	19,777,743	-	-	-	-	19,777,743
Total	**169,404,309**	**12,543,669**	**5,333,690**	**187,281,668**	**3,826,951**	**392,662**	**1,612,608**	**5,832,221**	**181,449,447**

	Gross exposure				Impairment allowance				
31 December 2018	**Stage 1** *LL (000)*	**Stage 2** *LL (000)*	**Stage 3** *LL (000)*	**TOTAL** *LL (000)*	**Stage 1** *LL (000)*	**Stage 2** *LL (000)*	**Stage 3** *LL (000)*	**TOTAL** *LL (000)*	**Net exposure** *LL (000)*
Balances with the Central Bank	55,096,521	-	-	55,096,521	56,212	-	-	56,212	55,040,309
Deposits with banks and financial institutions	12,070,480	-	-	12,070,480	151,207	-	-	151,207	11,919,273
Loans and advances to clients at amortised cost	36,159,233	4,882,000	6,262,872	47,304,105	30,304	55,715	779,820	865,839	46,438,266
Loans and advances to related parties at amortised cost	820,495	-	-	820,495	-	-	-	-	820,495
Financial assets at amortised cost	46,506,868	-	-	46,506,868	269,650	-	-	269,650	46,237,218
Financial assets at fair value through other comprehensive income	18,050 ,756	-	-	18,050,756	-	-	-	-	18,050,756
Total	**168,704,353**	**4,882,000**	**6,262,872**	**179,849,225**	**507,373**	**55,715**	**779,820**	**1,342,908**	**178 ,506,317**

NOTES TO THE FINANCIAL STATEMENTS
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38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

38.2.3 Financial Assets and ECLs by stage (continued)

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of loans and advances at amortized cost:

	Stage 1 LL (000)	Stage 2 LL (000)	Stage 3 LL (000)	TOTAL LL (000)
Balance at 1 January 2019	30,304	55,715	779,820	865,839
Charge for the year (note 7)	121,159	234,285	609,539	964,983
Transfer between stages	(102,662)	102,662	-	-
Other movements	-	-	223,249	223,249
Balance at 31 December 2019	**48,801**	**392,662**	**1,612,608**	**2,054,071**

	Stage 1 LL (000)	Stage 2 LL (000)	Stage 3 LL (000)	TOTAL LL (000)
Balance at 1 January 2018	-	-	-	-
Effect of IFRS 9 adoption	26,721	451,021	-	477,742
Amended balance as of l January 2018	26,721	451,021	-	477,742
Charge for the year (note 7)	3,583	-	16,566	20,149
Transfer between stages	-	(395,306)	395,306	-
Other movements	-	-	367,948	367,948
Balance at 31 December 2018	**30,304**	**55,715**	**779,820**	**865,839**

Net re-measurements and reallocations include re-measurement as a result of changes in size of portfolios, reclassifications between stages and risk parameter changes.

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of balances with central banks:

	2019 LL (000)	2018 LL (000)
Balance as of 1 January	56,212	-
Effect of IFRS 9 adoption as at 1 January 2018	-	25,006
	56,212	25,006
Charge for the year (note 7)	1,038,087	31,206
Other movements	(15,670)	-
At 31 December	**1,078,629**	**56,212**

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of financial assets at amortized cost:

	Stage 1	
	2019 LL (000)	2018 LL (000)
Balance as of 1 January	269,650	-
Effect of IFRS 9 adoption as at 1 January 2018	-	200,709
	269,650	200,709
Charge for the year (note 7)	2,174,391	68,941
Other movements	(38,126)	-
At 31 December	**2,405,915**	**269,650**

NOTES TO THE FINANCIAL STATEMENTS
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38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

38.2.4 Analysis of risk concentrations

Geographical location analysis

The Bank controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location. The distribution of financial assets by geographic region as of 31 December is as follows:

	2019		
	Lebanon LL (000)	*Other LL (000)*	*Other LL (000)*
Balances with the Central Bank	61,058,197	-	61,058,197
Deposits with banks and financial institutions	9,383,305	1,077,863	10,461,168
Financial assets at fair value through profit or loss			
Certificates of deposit issued by the Central Bank of Lebanon	52,428,614	-	52,428,614
Treasury bills	5,684,551	-	5,684,551
Eurobonds	24,147	-	24,147
Loans and advances to clients at amortized cost	30,675,754	21,440,415	52,116,169
Loans and advances to related parties at amortized cost	60,616	754,420	815,036
Financial assets at amortized cost			
Eurobonds	*23,053,500*	-	*23,053,500*
Treasury bills	*14,167,634*	-	*14,167,634*
Financial assets at fair value through other comprehensive income			
Treasury bills	*19,777,743*	-	*19,777,743*
Other assets	12,069,942	-	12,069,942
Total credit exposure	228,384,003	23,272,698	251,656,701

The Bank controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location. The distribution of financial assets by geographic region as of 31 December is as follows:

	2018		
	Lebanon LL (000)	*Other LL (000)*	*Other LL (000)*
Balances with the Central Bank	55,040,309	-	55,040,309
Deposits with banks and financial institutions	8,993,855	2,925,418	11,919,273
Financial assets at fair value through profit or loss			
Certificates of deposit issued by the Central Bank of Lebanon	52,426,470	-	52,426,470
Treasury bills	5,077,560	-	5,077,560
Eurobonds	1,410,067	-	1,410,067
Loans and advances to clients at amortized cost	30,287,572	16,150,694	46,438,266
Loans and advances to related parties at amortized cost	60,631	759,864	820,495
Financial assets at amortized cost			
Eurobonds	*32,044,203*	-	*32,044,203*
Treasury bills	*14,193,015*	-	*14,193,015*
Financial assets at fair value through other comprehensive income			
Treasury bills	*18,050,756*	-	*18,050,756*
Other assets	5,976,481	-	5,976,481
Total credit exposure	223,560,919	19,835,976	243,396,895

NOTES TO THE FINANCIAL STATEMENTS
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38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

38.2.5 Credit Quality

The Bank assesses the quality of its credit portfolio using the following credit rating methodologies:
(i) External ratings from approved credit rating agencies for governments and central banks, financial institutions and financial assets.
(ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing. These internal rating models include a Corporate model, SME model, and Contracting model. The bank developed in 2018 a new Real Estate model.
(iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision-making process.
(iv) Supervisory ratings, comprising six main categories: (a) *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. (b) *Follow up* represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *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. (d) *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. (e) *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, (f) *Bad loans* with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

Sovereign
The Bank applies two different PDs based on rating agencies' external studies. A forward-looking adjustment is performed on both PDs via beta regression by considering the relevant macro-economic factors as published by International data sources. The resulting PiT and forward-looking PDs are then used in the ECL calculation under the base case. The Bank then projects these factors under a lower and upper scenario. This year and in compliance with the Central Bank of Lebanon Intermediary Circular 543, the Bank applied the regulatory ECL's ceiling for sovereign exposures (i.e. ECL of 1.89% and 9.45% for Central Bank of Lebanon exposures in foreign currencies and Eurobonds respectively and ECL of 0% for Central Bank of Lebanon exposures in local currency and Lebanese treasury bills).

Banks and Financial Institutions
The Bank considers that the credit spread above a given LIBOR rate is a reflective rate for expected credit loss. The cost of risk is considered as a proxy for PD and LGD.

Debt securities
The Bank assigns the second lowest rating amongst the three rating agencies (Moody's, Standard & Poor's and Fitch) for each instrument. The Bank also segregates the country of issuance of these debt securities between Emerging and Advanced Economies based on the International data sources studies. The Bank then conducts a correlation analysis per rating grade for each of the considered group of Advanced Economies and Emerging Economies. The resulting PDs are PiT and forward looking. The Bank then generated scenarios at the PD level.

Commercial Loans
In accordance to the Bank's policy, default is defined when the borrower is 90 days' past due, along with other qualitative indicators on a case-by-case basis. The default definition is reflected in the collection of the default rates on a yearly basis, to be used in the calibration stage of the PD calculation.

Consumer Loans
For the purpose of the loss rate calculation, the Bank segregates its Consumer loans portfolio by product and displays the portfolio breakdown by DPD bucket. The Bank adopts this approach for its Consumer facilities that fall within Stage 1. The Bank then analyzes monthly net flow rates whereby the loss rate for each delinquency bucket is computed by considering the flow into the designated loss bucket at which write-off is assumed to occur. Forward looking loss rate is then projected through analysis of correlation with macro-economic factors and regressed under lower, base and upper scenarios.

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system.

	2019			
	Stage 1 LL (000)	Stage 2 LL (000)	Stage 3 LL (000)	TOTAL LL (000)
Balances with the Central Bank	62,136,826	-	-	62,136,826
Deposits with banks and financial institutions	10,754,774	-	-	10,754,774
Loans and advances to clients at amortized cost	36,292,881	12,543,669	5,333,690	54,170,240
Loans and advances to related parties at amortized cost	815,036	-	-	815,036
Financial assets at amortized cost:				
Lebanese treasury bills	14,167,634	-	-	14,167,634
Eurobonds	25,459,415	-	-	25,459,415
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills	19,777,743	-	-	19,777,743
Balance at 31 December 2019	**169,404,309**	**12,543,669**	**5,333,690**	**187,281,668**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

38.2.5 Credit Quality (continued)

	2018			
	Stage 1 *LL (000)*	**Stage 2** *LL (000)*	**Stage 3** *LL (000)*	**TOTAL** *LL (000)*
Balances with the Central Bank	55,096,521	-		55,096,521
Deposits with banks and financial institutions	12,070,480	-	-	12,070,480
Loans and advances to clients at amortized cost	36,159 ,233	4,882,000	6,262,872	47,304,105
Loans and advances to related parties at amortized cost	820,495	-	-	820,495
Financial assets at amortized cost:				
Lebanese treasury bills	14,193 ,015	-	-	14,193,015
Eurobonds	32,313,853	-	-	32,313,853
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills	18,050,756	-	-	18,050,756
Balance at 31 December 2019	**168,704,353**	**4,882,000**	**6,262,872**	**179,849,225**

38.2.6 Analysis of maximum exposure to credit risk and collateral and other credit enhancements

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

	2019				
	Maximum exposure *LL (000)*	**Cash** *LL (000)*	**Securities** *LL (000)*	**Real estate** *LL (000)*	**Net credit exposure** *LL (000)*
Balances with the Central Bank	61,0 58,197	-	-	-	61,058,197
Deposits with banks and financial institutions	10,461,1 68	-	-	-	10,461,168
Financial assets at fair value through profit or loss	118,742 ,190	-	-	-	118,742,190
Financial assets at fair value through other comprehensive income	21, 793, 642	-	-	-	21,793,642
Loans and advances to clients at arnonized cost	52,116,169	17,271,336	2,043,864	27,167,968	5,633,001
Loans and advances to related parties at amortized cost	815, 03 6	755,928	-	-	59,108
Financial assets at amortized cost	37,221, 134	-	-	-	37,221,134
	302,207 ,536	18,027,264	2,043,864	27,167,968	254,968,440
Utilized collateral	-	18,027,264	2,043,864	27,167,968	-
Guarantees received from banks, financial institutions and clients	**-**	**18,027,264**	**2,043,864**	**27,167,968**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

38. Risk Management (CONTINUED)

38.2 CREDIT RISK (CONTINUED)

38.2.6 Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)

	2018				
	Maximum exposure LL (000)	Cash LL (000)	Securities LL (000)	Real estate LL (000)	Net credit exposure LL (000)
Balances with the Central Bank	55,040,309	-	-	-	55,040,309
Deposits with banks and financial institutions	11,919,273	-	-	-	11,919,273
Financial assets at fair value through profit or loss	74,399,368	-	-	-	74,399,368
Financial assets at fair value through other comprehensive income	24,574,594	-	-	-	24,574,594
Loans and advances to clients at arnonized cost	46,438,266	21,394,455	1,424	25,042,387	
Loans and advances to related parties at amortized cost	820,495	753,750	-	-	66,745
Financial assets at amortized cost	46,237,218	-	-	-	46,237,218
	259,429,523	22,148,205	1,424	25,042,387	212,237,507
Utilized collateral	-	22,148,205	1,424	25,042,387	-
Guarantees received from banks, financial institutions and clients	**-**	**22,148,205**	**1,424**	**25,042,387**	**-**

38.2.7 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

The main types of collateral obtained are as follows:

- *Securities:* the balances shown represent the fair value of the securities.
- *Letters of credit/guarantees:* the Bank holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Bank.
- *Real estate (commercial and residential):* the Bank holds, in some cases, a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.

In addition to the above, the Bank also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by indivi duals, second degree mortgages, and assignments of insurance or bills proceeds and revenues, which are not reflected in the table above.

38.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Bank, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at an excessive cost. The Bank's policy with regards to the liquidity Risk Management is centered on a conservative approach, whereby the liquidity is managed strongly in normal times and adequate liquidity buffers are maintained, in a way that enables the Bank to withstand a prolonged period of liquidity stress.

Net immediate cash and near cash in foreign currencies are held at sight in prime international banks to keep the Net Immediate Liquidity above the defined tolerance level by the Board of Directors, at all times.

The Bank has updated its Liquidity Risk Policy to include Liquidity Standards such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), based on Basel III and its own conservative assumptions. The LCR is kept well above the established internal minimum, ensuring that the Bank maintains High Quality Liquid Assets (HQLAs), both in local and foreign currencies, which allow the Bank to cover more than 100% of a potentially stressed net outflow in a liquidity crisis based on severe internal estimates and haircuts. The NSFR is designed to ensure that long term assets are funded with at least a minimum amount of stable resources in relation to their liquidity characteristics.

Moreover, the policy defined a set of Early Warning Indicators (EWIs) along with other liquidity ratios and monitoring tools that are continuously screened by Senior Management and the Board of Directors.

Monitoring process

Daily
Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets rather than the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Bank's activities. On a daily basis, a report of highly liquid assets showing the change in the position compared to the previous day is submitted to the members of the ALCO. Also, Treasury monitors daily the inflows and outflows in the main currencies used by the Bank.

Weekly
A weekly report of expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods is prepared. This report is submitted to the Central Bank of Lebanon.

Monthly
Tables are prepared indicating compliance with internal and regulatory liquidity ratios for the Bank and are submitted to the ALCO.

Quarterly
The Board of Directors is informed of compliance with internal and regulatory liquidity ratios for the Bank on at least a quarterly basis.

Periodic
The liquidity position is assessed under various scenarios, including simulation of Bank-specific crisis and market-wide crisis. The stress scenarios are applied to both on-balance sheet and off-balance sheet commitments, to provide a complete picture of potential cash outflows.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

38. Risk Management (CONTINUED)

38.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Monitoring process (continued)
As part of the Bank's procedures for monitoring and managing liquidity risk, the Bank sets out a response in the event of liquidity difficulties.

As per applicable regulations, the Bank must retain obligatory reserves with the central bank where the Bank operates.

Liquidity ratios
The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The ratio of foreign currency liquid assets to foreign currency total deposits and other liabilities falling due in the next month is prepared monthly by the Bank Risk Management and monitored by ALCO. Foreign currency liquid assets are defined as foreign currency bonds and placements with banks and subsidiaries maturing within thirty days.

The Bank is not in breach with the regulatory Liquidity Coverage Ratio (LCR) which is calculated in accordance with Basel III liquidity standards as implemented by the Central Bank of each jurisdiction where the Bank operates. It aims at ensuring that each entity has sufficient unencumbered high-quality-liquid assets (HQLA) to meet its liquidity needs in a 30 calendar day liquidity stress scenario during which the entity is assumed to experience outflows at a severe stress level. However, due to the economic crises facing Lebanon, as discussed above, management believes it is more important to monitor daily the inflows and outflows in the main currencies used by the Bank rather than the supervisory liquidity ratios.

Sources of funding
Client deposits were the main funding source of the Bank as at 31 December 2019 and 2018. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a large number of depositors. The Bank monitors the percentage of time deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels.

The Bank stresses the importance of client deposits as source of funds to finance its lending activities. This is monitored by using the loans to deposits ratio, which compare loans and advances to clients as a percentage of deposits from clients.

Loans to deposits ratio	2019	2018
Year-end	**28.52%**	32.48%

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities
The table below summarizes the maturity profile of the Bank's financial assets and liabilities at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations . The contractual maturities were determined based on the period remaining to each maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

	31 December 2019					
	Up to 1 month LL (000)	**1 to 3 months** LL (000)	**3 to 12 months** LL (000)	**1 to 5 years** LL (000)	**Over 5 years** LL (000)	**Total** LL (000)
FINANCIAL ASSETS						
Cash and balances with Central Bank	31,886,307	6,030,000	17,861,132	1,507,500	6,793,500	64,078,439
Deposits with banks and financial institutions	3,222,007	-	7,459,867	-	-	10,681,874
Financial assets at fair value through profit or loss	118 ,742 , 190	1,250,332	2,556,749	13,769,173	11 ,483 ,804	147, 802,248
Financial assets at fair value through other comprehensive income	-	116,707	1,299,191	19,371,710	6,182 ,347	26,969,955
Loans and advances to clients and related parties at amortized cost	14,145,252	352,188	10,282,528	22,079,838	15,165,993	62,025,799
Financial assets at amortized cost	111,900	517,215	6,222,199	17,633,684	33,257,677	57,742,675
Total undiscounted financial assets	**168,107,656**	**8,266,442**	**45,681,666**	**74,361,905**	**72,883,321**	**369,300,990**
FINANCIAL LIABILITIES						
Due to Central Bank	-	-	-	7,966,103	-	7,966,103
Due to banks and financial institutions	25,058,980	-	16,163,909	600,252	-	41,823,141
Clients' deposits at amortized cost	103,295,963	35,816,326	42,685,657	622,133	-	182,420,079
Deposits from related parties at amortized cost	3,447,731	1,037 ,705	2,088 ,949	34,893	-	6,609,278
Total undiscounted financial liabilities	**131,802,674**	**36,854,031**	**60,938,515**	**9,223,381**	**-**	**238,818,601**
Net undiscounted financial assets	**36,304,982**	**(28,587,589)**	**(15,256,849)**	**65,138,524**	**72,883,321**	**130,482,389**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

38. Risk Management (CONTINUED)

38.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (CONTINUED)

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities (continued)

	31 December 2018					
	Up to 1 month LL (000)	**1 to 3 months** LL (000)	**3 to 12 months** LL (000)	**1 to 5 years** LL (000)	**Over 5 years** LL (000)	**Total** LL (000)
FINANCIAL ASSETS						
Cash and balances with Central Bank	18,812,165	6,048,466	9,101,920	919,825	23,603,139	58,485,515
Deposits with banks and financial institutions	4,942,273	-	7,313,819	-	-	12,256,092
Financial assets at fair value through profit or loss	-	233,644	2,567,034	15,743,012	88,409,613	106,953,303
Financial assets at fair value through other comprehensive income	-	111,900	1,181,352	8,553,052	22,732,434	32,578,738
Loans and advances to clients and related parties at amortized cost	12,740,099	-	2,652,310	27,132,727	18,637,829	61,162,965
Financial assets at amortized cost	-	629,113	2,700,991	23,671,586	44,177,660	71,179,350
Total undiscounted financial assets	**36,494,537**	**7,023,123**	**25,517,426**	**76,020,202**	**197,560,675**	**342,615,963**
FINANCIAL LIABILITIES						
Due to Central Bank	-	-	-	267,904	26,735,935	27,003,839
Due to banks and financial institutions	37,490,232	-	6,982,466	-	-	44,472,698
Clients' deposits at amortized cost	41,763,459	41,847,662	61,267,624	-	-	144,878,745
Deposits from related parties at amortized cost	1,402,489	387,170	1,796,095	-	-	3,585,754
Total undiscounted financial liabilities	**80,656,180**	**42,234,832**	**70,046,185**	**267,904**	**26,735,935**	**219,941,036**
Net undiscounted financial assets	**(44,161.643)**	**(35,211,709)**	**(44,528,759)**	**75,752,298**	**170,824,740**	**119,844,844**

38.4 MARKET RISK

Market risk is defined as the potential loss in both on balance sheet and off-balance sheet positions resulting from movements in market variables such as interest rates, foreign exchange rates and equity prices.

The market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market Risk Management, including the Board, the ALCO committee, the business lines and risk functions.

It is the responsibility of the ALCO to manage the Bank's investment portfolio. While striving to maximize portfolio performance, the ALCO shall keep the management of the portfolio within the bounds of good banking practices, satisfy the Bank's liquidity needs, and ensure compliance with both regulatory and internally set limits and requirements.

The Risk Management division sets the framework necessary for identification, measurement and management of market risk.

(a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities that mature or are re-priced in a given period. The Bank manages the risk by matching the re-pricing of assets and liabilities through Risk Management strategies. Positions are monitored on a daily basis by management.

Interest rate sensitivity

The following table shows the sensitivity to a reasonably possible to 100 basis points parallel changes in interest rates, with all other variables held constant, of the Bank's income statement.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. Given the novel and prolonged nature of current economic crisis and the high levels of uncertainties, the Bank expects lower interest rates during 2020. However, the Bank is unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates though issuance of Intermediary Circulars 536 and 544 (refer to Note 1).

The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

The effect of any future associated hedges made by the Bank is not accounted for.

CURRENCY	Increase in basis points	Effect on net interest income	Effect on net interest income
LBP	100 basis point	290,507	517,126
US Dollar	100 basis point	(209,292)	113,640
Other	100 basis point	233,702	(52,829)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

38. Risk Management (CONTINUED)

38.4 MARKET RISK (CONTINUED)

(a) Interest rate risk (continued)
Interest rate sensitivity (continued)
The Bank's interest sensitivity position based on the contractual re-pricing date at 31 December is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of client demand deposits.

	31 December 2019					
	Up to 1 month LL (000)	1 to 3 months LL (000)	3 to 12 months LL (000)	1 to 5 years LL (000)	Over 5 years LL (000)	Total LL (000)
FINANCIAL ASSETS						
Cash and balances with Central Bank	31,876,075	6,030,000	15,792,560	1,507,500	6,793,500	61,999,635
Deposits with banks and financial institutions	3,222,007	-	7,239,161	-	-	10,461,168
Financial assets at fair value through profit or loss	118,742,190	-	-	-	-	118,742,190
Financial assets at fair value through other comprehensive income	2,015,898	-	-	14,276,411	5,501,333	21,793,642
Loans and advances to clients at amortized cost	11,768,859	28,825	8,303,639	17,204,579	14,810,267	52,116,169
Loans and advances to related parties at amortized cost	755 ,928	-	59,108	-	-	815,036
Financial assets at amortized cost	-	-	4,065,791	8,819,277	24, 336,066	37,221,134
Total financial assets	**168,380,957**	**6,058,825**	**35,460,259**	**41,807,767**	**51,441,166**	**303,148,974**
FINANCIAL LIABILITIES						
Due to Central Bank	-	-	-	7,629,363	-	7,629,363
Due to banks and financial institutions	25,056,309	-	15,741,914	-	-	40,798,223
Clients' deposits at amortized cost	103,290,139	35,598,000	40,239,000	-	-	179,127,139
Deposits from related parties at amortized cost	3,447,731	1,028,000	2,008,000	-	-	6,483,731
Total financial liabilities	**131,794,179**	**36,626,000**	**57,988,914**	**7,629,363**	**-**	**234,038,456**
Net financial assets	**36,586,778**	**(30,567,175)**	**(22,528,655)**	**34,178,404**	**51,441,166**	**69,110,518**

	31 December 2018					
	Up to 1 month LL (000)	1 to 3 months LL (000)	3 to 12 months LL (000)	1 to 5 years LL (000)	Over 5 years LL (000)	Total LL (000)
FINANCIAL ASSETS						
Cash and balances with Central Bank	18,807,991	6,030,000	9,046,000	754,000	20,650,545	55,288,536
Deposits with banks and financial institutions	4,942,273	-	6,977,000	-	-	11,919,273
Financial assets at fair value through profit or loss	-	-	-	677,000	73,332,433	74,009,433
Financial assets at fair value through other comprehensive income	-	-	-	3,509,000	21,065,594	24,574,594
Loans and advances to clients at amortized cost	12,735,266	-	1,880,000	21,362,000	10,461,000	46,438,266
Loans and advances to related parties at amortized cost	4,000	-	756,000	60,495	-	820,495
Financial assets at amortized cost	-	-	-	11,827,000	34,410,218	46,237,218
Total financial assets	**36,489 ,530**	**6,030 ,000**	**18,659,000**	**38,189,495**	**159,919,790**	**259,287,815**
FINANCIAL LIABILITIES						
Due to Central Bank	-	-	-	248,000	22,458,799	22,706,799
Due to banks and financial institutions	37,429,432	-	6,964,000	-	-	44,393,432
Clients' deposits at amortized cost	41,503,493	40,550,000	59,900,000	-	-	141,953,493
Deposits from related parties at amortized cost	1,402,489	376,000	1,749,000	-	-	3,527,489
Total financial liabilities	**80,335,414**	**40,926,000**	**68,613,000**	**248,000**	**22,458,799**	**212,581,213**
Net financial assets	**(43,845,884)**	**(34,896,000)**	**(49,954,000)**	**37,941,495**	**137,460,991**	**46,706,602**

(b) Currency risk
Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

In addition to regulatory limits, the positions by currency are monitored constantly to ensure they are maintained within established limits.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

38. Risk Management (CONTINUED)

38.4 MARKET RISK (CONTINUED)

(b) Currency risk (continued)
Interest rate sensitivity (continued)
The following represents the breakdown of assets and liabilities by currency as at 31 December:

	31 December 2019					
	LL LL (000)	USD LL (000)	GBP LL (000)	EUR LL (000)	Others LL (000)	Total LL (000)
ASSETS						
Cash and balances with the Central Bank	5,765,546	49,435,151	1,739	6,796,301	898	61,999,635
Deposits with banks and financial institutions	197,963	3,317,117	383	6,945,555	150	10,461,168
Financial assets at fair value through profit or loss	19,050,603	52,461,563	46,779,464	450,560	-	118,742,190
Financial assets at fair value through other comprehensive income	19,777,74 4	-	2,015,898	-	-	21,793,642
Loans and advances to clients at amortized cost	3,092,147	38,401,251	3,967,794	6,654,977	-	52,116,169
Loans and advances to related parties at amortized cost	-	815,036	-	-	-	815,036
Financial assets at amortized cost	14,167,633	23,053,501	-	-	-	37,221,134
Investments in subsidiaries	4,145,625	201,456	-	-	-	4,347,081
Investments in associates	-	-	5,501,928	3,933,130	-	9,435,058
Property and equipment	12,099,621	13,929	-	-	-	12,113,550
Intangible assets	200,082	-	-	-	-	200,082
Non-current assets held for sale	-	806,701	-	-	-	806,701
Other assets	10,930,039	545,436	124,281	470,186	-	12,069,942
Total assets	**89,427,003**	**169,051,141**	**58,391,487**	**25,250,709**	**1,048**	**342,121,388**
LIABILITIES						
Due to Central Bank	7,629,363	-	-	-	-	7,629,363
Due to banks and financial institutions	6,501,327	15,419,357	-	18,877,539	-	40,798,223
Clients' deposits at amortized cost	4,644,901	157,498,905	4,745,542	12,237,791	-	179,127,139
Deposits from related parties at amortized cost	395,915	5,045,899	645,704	396,177	36	6,483,731
Other liabilities	11,899,748	32,136,405	-	-	-	44,036,153
Provisions for risks and charges	254,357	2,188	-	-	-	256,545
Total liabilities	**31,325,611**	**210,102,754**	**5,391,246**	**31,511,507**	**36**	**278,331,154**
Net exposure	**58,101,392**	**(41,051 ,613)**	**53,000,241**	**(6,260,798)**	**1,012**	**63,790,234**

	31 December 2018					
	LL LL (000)	USD LL (000)	GBP LL (000)	EUR LL (000)	Others LL (000)	Total LL (000)
ASSETS						
Cash and balances with the Central Bank	16,768,690	38,519,846	-	-	-	55,288,536
Deposits with banks and financial institutions	387,063	11,532,210	-	-	-	11,919,273
Financial assets at fair value through profit or loss	62,682,847	8,886,438	2,830,083	-	-	74,399,368
Financial assets at fair value through other comprehensive income	15,050,756	6,523,838	-	-	-	24,574,594
Loans and advances to clients at amortized cost	3,473,000	37,663,748	3,420,000	1,881,518	-	46,438,266
Loans and advances to related parties at amortized cost	-	820,495	-	-	-	820,495
Financial assets at amortized cost	14,193,015	32,044,203	-	-	-	46,237,218
Investments in subsidiaries	3,447,996	823,899	-	-	-	4,271,895
Investments in associates	12,509,541	13,929	2,422,117	2,691,984	-	5,114,101
Property and equipment	-	-	-	-	-	12,523,470
Intangible assets	234,279	-	-	-	-	234,279
Other assets	4,236,170	1,740,311	-	-	-	5,976,481
Total assets	**135,983,357**	**138,568,917**	**8,672,200**	**4,573,502**	**-**	**287,797,976**
LIABILITIES						
Due to Central Bank	22,706,799	-	-	-	-	22,706,799
Due to banks and financial institutions	4,022,356	33,285,831	2,342	7,041,957	40,946	44,393,432
Clients' deposits at amortized cost	5,701,000	113,303,000	8,745,544	14,192,000	11 ,949	141,953,493
Deposits from related parties at amortized cost	128,000	2,538,000	860,489	1,000	-	3,527,489
Other liabilities	2,706,689	5,711,300	73,349	2,283	2,540	8,496,161
Provisions for risks and charges	111,133	226	-	2,006	-	113,365
Total liabilities	**35,375,977**	**154,838,357**	**9,681,724**	**21,239,246**	**55,435**	**221,190,739**
Net exposure	**100,607,380**	**(16,269,440)**	**(1,009,524)**	**(16,665,744)**	**(55,435)**	**66,607,237**

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38. Risk Management (CONTINUED)

38.4 MARKET RISK (CONTINUED)

(b) Currency risk (continued)
The Bank's exposure to currency risk
The Bank 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, Euros and Sterling Pounds. As disclosed in Note 1, the Bank's assets and liabilities in foreign currencies are valued at the official exchange rate, and due to the high volatility and the significant variance in exchange rates between the multiple markets, management is unable 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 change in the official exchange rate is implemented by the Lebanese Government.

(c) Equity price risk
Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies/maturities) in which the Bank holds equity-related positions.

The Bank sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock/index position, and also in price sensitivi tie s, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 per cent increase in the value of the Bank's equities at 31 December 2019 would have increased other comprehensive income by LL (000) 100,795 (2018: LL (000) 326,192). An equivalent decrease would have resulted in an equivalent but opposite impact.

(d) Prepayment risk
Prepayment risk is the risk that the Bank will incur a financial loss because its clients and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Bank ope rates. Accordingly, the Bank considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

38.5 OPERATIONAL RISK

Operational risk is the risk of loss or damage arising from inadequate or failed internal processes, people, systems, or from ex.temal events (including legal ris ks). When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses.

To reduce operational risk , the Bank has developed an Operational Risk Management framework with the objective of ensuring that operational risks within the component of the framework is a set of core operational risk policies designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines were placed on the Bank's intranet site for quick access and referrals. The critical operational risk issues were handled by a separate Operational Risk Committee which meetings are attended by business lines Senior Managers including the Chief Risk Officer and the General Manager.

The framework for managing and controlling operational risks encompasses various tools including Risk and Control Assessment (RCA), operational risk event reporting and loss database management and key risk indicators (KRIs). The RCA is performed by each business and support unit to identify key operational risks and assess the degree of effectiveness of internal controls. Inadequate controls are subject to action plans that will help track and timely resolve deficiencies. This tool is subject to a proactive approach to minimize operational risk loss. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/ existing activities, and continuous awareness sessions.

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Bank's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are being established to facilitate the operational risk monitoring in a forward looking manner with pre defined escalation triggers. The Bank gives particular attention to preventive measures when it comes to operational Risk Management and has established continuing training and awareness programs to fulfill them.

The Bank's operational risk mitigation program involves both business continuity management and insurance management program, whereby the former is set to oversee the business continuity of essential business service during unforeseen events mainly business disruption and system failures events - with enterprise wide impact - along with natural disasters and terrorism/ vandalism events. As to the latter the Bank purchases group wide insurance policies to mitigate significant losses. These policies cover fraud, property damage and general liability, and Director's and officers' liability.

NOTES TO THE FINANCIAL STATEMENTS
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39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. The maturity profile of the Bank's assets and liabilities as at 31 December was as follows:

As at 31 December 2019	Less than 12 months LL (000)	Over 12 months LL (000)	Total LL (000)
ASSETS			
Cash and balances with Central Bank	53,698,635	8,301,000	61,999,635
Deposits with banks and financial institutions	10,461,168	-	10,461,168
Financial assets at fair value through profit or loss	46,779,464	71,962,726	118,742,190
Financial assets at fair value through other comprehensive income	2,015,898	19,777,744	21,793,642
Loans and advances to clients at amortized cost	20,101,323	32,014,846	52,116,169
Loans and advances to related parties at amortized cost	815,036	-	815,036
Financial assets at amortized cost	4,065,791	33,155,343	37,221,134
Investments in subsidiaries	-	4,347,081	4,347,081
Investments in associates	-	9,435,058	9,435,058
Property and equipment	-	12,113,550	12,113,550
Intangible assets	-	200,082	200,082
Non-current assets held for sale	-	806,701	806,701
Other assets	12,069,942	-	12,069,942
Total assets	**150,007,257**	**192,114,131**	**342,121,388**
LIABILITIES			
Due to Central Bank	-	7,629,363	7,629,363
Due to banks and financial institutions	40,798,223	-	40,798,223
Clients' deposits at amortized cost	179,127,139	-	179,127,139
Deposits from related parties at amortized cost	6,483,731	-	6,483,731
Other liabilities	44,036,153	-	44,036,153
Provisions for risks and charges	-	256,545	256,545
Total liabilities	**270,445,246**	**7,885,908**	**278,331,154**
Net exposure	**(120,437,989)**	**184,228,223**	**63,790,234**

As at 31 December 2018	Less than 12 months LL (000)	Over 12 months LL (000)	Total LL (000)
ASSETS			
Cash and balances with Central Bank	33,883,991	21, 404,545	55,288,536
Deposits with banks and financial institutions	11,919 ,273	-	11,919,273
Financial assets at fair value through profit or loss	-	74,399,368	74,399,368
Financial assets at fair value through other comprehensive income	-	24,574,594	24,574,594
Loans and advances to clients at amortized cost	14,615,266	31,823,000	46,438,266
Loans and advances to related parties at amortized cost	760,000	60,495	820,495
Financial assets at amortized cost	-	46,237,218	46,237,218
Investments in subsidiaries	-	4,271,895	4,271,895
Investments in associates	-	5,114,1 01	5,114,101
Property and equipment	-	12,523,470	12,523,470
Intangible assets	-	234,279	234,279
Other assets	5,976,481	-	5,976,481
Total assets	**67,155,011**	**220,642,965**	**287,797,976**
LIABILITIES			
Due to Central Bank	-	22,706,799	22,706,799
Due to banks and financial institutions	44,393,432	-	44,393,432
Clients' deposits at amortized cost	141,953,493	-	141,953,493
Deposits from related parties at amortized cost	3,527,489	-	3,527,489
Other liabilities	8,496,161	-	8,496,161
Provisions for risks and charges	-	113,365	113,365
Total liabilities	**198,370,575**	**22,820,164**	**221,190,739**
Net exposure	**(131,215,564)**	**197 ,822,801**	**66,607,237**

NOTES TO THE FINANCIAL STATEMENTS
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40. LITIGATION RISK

The Bank may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Bank and in the event that legal issues are not properly dealt with by the Bank. Since 17 October 2019, the Bank has been subject to an increased litigation risk level as a result of the restrictive measures adopted by Lebanese banks. Management has carefully considered the impact of existing litigation and claims against the Bank in relation to these restrictive measures. While there are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices, Management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Bank.

41. POLITICAL RISK

External factors which are beyond the control of the Bank, such as political developments and government actions in Lebanon (Note 1) and other countries may adversely affect the operations of the Bank, its strategy and prospects. Other important political risk factors include government intervention on the Bank's activities and social developments in the countries in which the Bank operates, political developments in Lebanon, and the political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas. Given the above, the Bank recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its clients and other counterparties which will result in significant impact on Bank's activities, operating results and position.

42. CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent resulting from potential stressed situations, retain sufficient financial strength and flexibility to meet changes in capital requirements and comply with national and international minimum regulatory capital adequacy ratios levels at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Lebanon, which is the lead supervisor of the Group.

The Group recognizes that the adequacy of its capital levels may come under increasing pressure should the deteriorated operating environment be prolonged and depending also on any measures taken by the government and the regulating authorities.

On 3 February 2020, the Central Bank of Lebanon issued Intermediary Circular 543 in which it decreased the minimum regulatory capital adequacy ratios levels as reflected in the table below. Under the same circular, the regulator has increased the risk weight on foreign currency exposures to the Central Bank of Lebanon from 50% to 150%, excluding deposits with original maturities less than one year, which are still subject to a 50% risk weight. The Central Bank of Lebanon also requires minimum levels of 7%, 10% and 12% for CET1, Tier 1 and Total CAR respectively for dividends' distributions eligibility.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Year ended 31 December 2019	**7.00%**	**8.50%**	**10.50%**
Year ended 31 December 2018	10.00%	13.00%	15.00%

	2019 LL (000)	*2018 LL (000)*
Risk-weighted assets:		
Credit risk	226,812,000	118,078,000
Market risk	156,930,000	97,381,100
Operational risk	15,070,625	12,763,670
Total risk-weighted assets	398,812,625	228,222,770
The regulatory capital as of 31 December is as follows:		
Tier 1 capital	58,377,039	59,840,940
Of which: common Tier 1	58,377,039	59,840,940
Tier 2 capital	2,375,205	1,324,880
Total capital	60,752,244	61,165,820
The capital adequacy ratio as of 31 December is as follows:		
Capital adequacy - Common Tier 1	14.64%	26.22%
Capital adequacy - Tier 1	14.64%	26.22%
Capital adequacy - Total capital	15.23%	26.80%

NOTES TO THE FINANCIAL STATEMENTS

42. CAPITAL MANAGEMENT (CONTINUED)

On 4 November 2019 the Central Bank of Lebanon 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 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020. The Bank did not comply with Central Bank of Lebanon intermediary circular 532 towards increasing its regulatory capital by I0% by 31 December 2019; however, the process of increasing regulatory capital was initiated subsequently during 2020.

The capital adequacy ratios as at 31 December 2019 were calculated based on the recorded figures and do not take into consideration the adjustments that will result from the resolution of the uncertainties reflected in Note 1. The Bank is currently assessing the impact of the future effects of the economic crisis and the restructuring plan on its capital adequacy ratios, based on the various available scenarios. However, until all uncertainties are resolved, the amount of the recapitalization needs that will be required cannot be determined presently.

43. SUBSEQUENT EVENTS

Outbreak of COVID-19
The COVID-19 pandemic has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. It has caused disruption to businesses and economic activities and increased the level of uncertainty in domestic and international markets. Regulators and governments across the globe have introduced schemes to provide financial support to parts of the economy most impacted by the COVID-19 pandemic.

In the case of the Bank, similar to many entities for which the operating environment is mostly in Lebanon, the impact of COVID-19 cannot be isolated and assessed independently from the economic crisis that the country is witnessing, which is described in Note 1. COVID-19 will add up to the severity of the economic downturn from a commercial, regulatory and risk perspective. Future impairment charges, already subject to high uncertainty and volatility due to the severe crisis in Lebanon described in Note 1, may be subject to further uncertainty and volatility as a result of the COVID-19 pandemic and related containment measures. More adverse economic scenarios and macro-economic variables, with higher probabilities than as at 31 December 2019 will be considered for Expected Credit Losses financial impact in the first half of 2020.

It remains unclear how this will evolve through 2020 and thereafter, and the Bank continues to monitor the situation closely. Any and all such events mentioned above will add up to the already material adverse prospects on the Bank's business, financial condition, results of operations, prospects, liquidity and capital position which is disclosed in Note 1.

Acquisition of Optimum Invest SAL
During 2020, the Bank signed a sales and purchase agreement to acquire 100% of the voting shares of Optimum Invest SAL, an unlisted financial institution based in Lebanon, for a total consideration of US$ 10 million. On the other hand, the shareholders of Optimum Invest SAL subscribed in the cash contribution to capital that was executed by the Bank in accordance with the requirements of the Central Bank of Lebanon, in the amount equivalent to the overall consideration of US$ 10 million . The Bank has requested and is awaiting the approval of the Central Bank of Lebanon to be able to proceed with the completion of these transactions.

Accounting Policies

As part of our Internal Policy, LIBANK applies international accounting standards, and our Accounting Department adheres to the highest standards of professionalism throughout its adoption and implementation of these standards. In order to accurately prepare, report and present financial statements, our Accounting Department has established a set of internal accounting policies in line with local and international regulatory authorities. A few of the local governmental bodies that require our accounting reports are the Central Bank of Lebanon, the Banking Control Commission in Lebanon (BCCL), and the Capital Markets Authority (CMA). Due to this high caliber of procedures, our Accounting Department has enforced internal reporting, control measures, rules and regulations, and deadlines to ensure timely and accurate reporting.
The aforementioned processes and controls ensure that LIBANK Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), and all BDL/BCCL regulations.
IFRS serves as an international accounting framework, and contains relevant guidelines for our industry and operations, such as:

- IFRS 9 Stipulations (Valuation of investments),
- IFRS 7 Financial Instruments Disclosures,
- IAS 32 Financial Instruments Presentation,
- International Accounting Standards IAS 1, IAS 7, IAS 12, IAS 16, IAS 17, IAS 18, and
- IAS 24 Related Party Disclosures.

Consolidated Financial Statements
As of December 31, 2019, and as a result of our international network of subsidiaries and operations, LIBANK prepares and reports Consolidated Financial Statements in compliance with:

- IAS 27 Separate Financial Statements,
- IFRS 3 Business Combinations, and
- IFRS 10 Consolidated Financial Statements.

When preparing these consolidated financial statements, our Accounting Department must thoroughly analyze the level of control/ownership. As per IFRS 10, an investor must consolidate an investee if its control level presents it with:
- power over 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 the amount of the investor’s returns

These three elements must undergo periodical reassessments to ensure that appropriate changes are made when analyzing the level of control.

Comments on Risk Management & Types of Risks

CREDIT RISK

Credit Risk is defined as the possibility of a loss due to a borrower's (counterparties and clients) inability to fulfill any contractual obligations towards LIBANK, such as full and timely payments of principal/ interest. Credit Risk arises from on- and off-balance sheet exposures, including interbank transactions, credit facilities, corporate debt investments, or sovereign instruments. To best manage Credit Risk throughout the Bank, we have setup internal controls to limit the acceptable risks and exposures associated with individual counterparties, industries and geographic locations. Our team has also established a Credit Quality Review Process which allows us to thoroughly analyze Credit Risk, accurately assess potential losses, and take corrective action.
LIBANK hedges against this type of risk by implementing a Credit Risk Strategy whereby we avoid a concentration of risks by maintaining and managing an internationally diversified loan and bond portfolio. Our emphasis on business development and growth means we apply a top-down Risk Appetite framework, which sets concentration limits for countries, individual clients, sectors, products, secondary risks (collateral/ guarantees) and investment activities.
The LIBANK Credit Risk approach consists of the following steps:

- Measuring, monitoring and managing any credit risks in our portfolio.
- Challenging and approving new/ modified transactions and borrower reviews.
- Managing provision levels and risk costs and advising on impairments.
- Providing consistent Credit Risk policies, systems and tools to manage credit lifecycles.

During 2019, the bleak economic and political situation in Lebanon rendered our assets and operations vulnerable to external risks and pressures. The Lebanese banking sector was crippled by the financial crisis, which eventually led to a Sovereign default on debt, and, subsequently and expectedly, a credit downgrading of Lebanon from international rating agencies. Consequentially, LIBANK had to reflect that downgrade in its credit portfolio and perform asset quality reviews across the board.

IFRS9 / EXPECTED CREDIT LOSSES

Expected Credit Loss (ECL) is the estimated loss of credit over the expected life of a Financial Instrument (applicable to all instruments held at amortized cost or at fair value through other comprehensive income). Under IFRS 9's new impairment approach, an entity must *always* account for ECL.
In order to accurately evaluate Estimated Credit Losses and comply with updated regulations, LIBANK established:
- A committee which oversees our internal ECL framework and mobilizes collaborative efforts among our different departments, and
- An internal software specifically designed to calculate Expected Credit Losses (ECL) based on the Probability of Default (PD), Loss-Given Default (LGD) and Exposure at Default for our various financial assets.

After carefully reviewing and evaluating the analysis prepared by the Credit and ALCO Committees, our Risk Department classified the loan portfolio and other assets portfolio under stages 1,2, and 3. Based on this, the Impairment Committee approximates the Probability of Default.

	2019 LL (000)	2018 LL (000)
Amortized costs of financial assets modified during the year	5,364,846,000	6,262,872,000

RISK CONCENTRATIONS BY GEOGRAPHICAL LOCATION

LIBANK reiterates its emphasis on internationally diversifying its asset exposure (and thus reducing its Credit Risk exposure) by closely monitoring assets and operations by geographic location.

The following table shows the distribution of financial assets as at 31/12/2019:

	2019			2018		
	Lebanon LL (000)	Other LL (000)	Total LL (000)	Lebanon LL (000)	Other LL (000)	Total LL (000)
Balances with the Central Bank	61,058,197	-	61,058,197	55,040,309	-	55,040,309
Deposits with banks and financial institutions	9,383,305	1,077,863	10,461,168	8,993,855	2,925,418	11,919,273
Financial assets at fair value through profit or loss						
Certificates of deposit issued by the Central Bank of Lebanon	52,428,614	-	52,428,614	52,426,470	-	52,426,470
Treasury bills	5,684,551	-	5,684,551	5,077,560	-	5,077,560
Eurobonds	24,147	-	24,147	1,410,067	-	1,410,067
Loans and advances to clients at amortized cost	30,675,754	21,440,415	52,116,169	30,287,572	16,150,694	46,438,266
Loans and advances to related parties at amortized cost	60,616	754,420	815,036	60,631	759,864	820,495
Financial assets at amortized cost						
Eurobonds	23,053,500	-	23,053,500	32,044,203	-	32,044,203
Treasury bills	14,167,634	-	14,167,634	14,193,015	-	14,193,015
Financial assets at fair value through other comprehensive income						
Treasury bills	19,777,743	-	19,777,743	18,050,756	-	18,050,756
Other assets	12,069,942	-	12,069,942	5,976,481	-	5,976,481
Total credit exposure	228,384,003	23,272,698	251,656,701	223,560,919	19,835,976	243,396,895

LOAN PORTFOLIO

Management and classification
Our internal assessment of the quality of our Credit Portfolio is based on the following factors:

- External ratings approved by international Credit Rating Agencies.
- Internal rating models which are based on various financial and non-financial factors.
- Supervisory ratings from the Central Bank of Lebanon.

In 2019, the LIBANK Credit Portfolio mainly consisted of:

Sovereign Debt
In compliance with BDL Intermediate Circular No. 543 (February 2020), LIBANK applied the following regulatory ceilings on ECL for sovereign exposures:
- 1.89% for Central Bank of Lebanon exposures in foreign currencies,
- 9.45% for Central Bank of Lebanon Eurobonds, and
- 0% for Central Bank of Lebanon exposures in local currency and treasury bills.

Banks and Financial Institutions
On all interbank transactions, we include a credit spread above LIBOR. This spread is typically considered a proxy for PD and LGD.

Debt securities
For each individual debt instrument, our team calculates the average rating of the three main international rating agencies: Moody's, Standard & Poor's and Fitch. We also segregate these debt securities by Emerging Markets or Developed Economies (based on international, reliable data sources). From there, we conduct a correlation analysis between ratings and geography, allowing us to generate probabilistic default scenarios.

Commercial Loans
According to LIBANK policy, a Commercial Loan defaults when the borrower is 90 days late on the agreed due date; however, we analyze defaulted Commercial Loans on a case-by-case basis where we factor in other qualitative indicators. We calculate internal default rates on an annual basis, which are later utilized to calibrate expected PD values.

COLLATERAL ON CREDIT PORTFOLIO

The following table indicates maximum exposure to Credit Risk by class of financial asset. It shows the total fair value of collateral and net exposure to credit risk as at 31/12/2019.

	2019				
	Maximum exposure LL (000)	Cash LL (000)	Securities LL (000)	Real estate LL (000)	Net credit exposure LL (000)
Balances with the Central Bank	61,058,197	-	-	-	61,058,197
Deposits with banks and financial institutions	10,461,168	-	-	-	10,461,168
Financial assets at fair value through profit or loss	118,742,190	-	-	-	118,742,190
Financial assets at fair value through other comprehensive income	21,793,642	-	-	-	21,793,642
Loans and advances to clients at amortized cost	52,116,169	17,271,336	2,043,864	27,167,968	5,633,001
Loans and advances to related parties at amortized cost	815,036	755,928	-	-	59,108
Financial assets at amortized cost	37,221,134	-	-	-	37,221,134
	302,207,536	18,027,264	2,043,864	27,167,968	254,968,440
Utilized collateral	-	18,027,264	2,043,864	27,167,968	-
Guarantees received from banks,financial institutions and clients	-	18,027,264	2,043,864	27,167,968	-

Based on local Investment Banking laws, the loan portfolio must always be collateralized in accordance with appropriate BDL guidelines. LIBANK's loan portfolio is collateralized as follows:

- Mortgage on Real Estate: 51%
- Cash collateral: 35%
- Listed Securities: 4%
- Other Instruments: 10%

MARKET RISK

Our team recognizes the importance of Market Risk Management and has implemented a framework to identify, assess, control and manage Market Risks. In order to appropriately calculate this risk, LIBANK follows the Market Risk Standardized Approach. This approach is considered a cycle consisting of the following steps: risk identification, assessment, control, monitoring and reporting.

The main Market Risks LIBANK is exposed to are:

Interest Rate Risks are the risks associated with holding interest-related instruments in a portfolio. Risks arising from changes in the interest rate of a security, and consequent price changes of that security, are regularly provisioned for. Given the existing socioeconomic crisis and volatility of currency-value, LIBANK anticipated a significant decrease in interest rates in 2020.

BDL later decreased interest rates through intermediary circulars No. 536 on December 4, 2019 and No. 544 on February 13, 2020.

Foreign Exchange Risk is a risk which arises when a financial transaction is denominated in a foreign currency; it arises when exchange rates fluctuate, thus affecting any assets held in a portfolio in a foreign currency. These risks are managed by internally set guidelines and within regulatory limits. Foreign currency positions are constantly monitored to ensure they remain within the established framework.

Equity Risk is the financial risk associated with holding equity in a particular investment. LIBANK hedges against this risk by placing restrictions on equity exposures and the types of equity instruments that traders are allowed to hold positions in.

Our Management is responsible for supervising Market Risks, and delegates this task to the Assets and Liabilities Committee (ALCO). This committee is the highest approval authority, sets the internal market Risk Appetite and manages the Bank's investment portfolio. Additionally, ALCO ensures that LIBANK applies good banking practices, and that its operations are soundly governed, satisfy the Bank's liquidity needs and comply with regulatory and internally set frameworks.

OPERATIONAL RISK

Operational risk is the risk of losses due to inadequate internal processes/ stakeholders/ systems, or external events (including legal risks). The presence of this type of risk usually indicates an inefficiency in internal controls - causing damage to reputation, legal or regulatory implications, and even financial losses.

LIBANK's Operational Risk Management approach involves:

- Business Continuity Management, a framework which covers all types of potential emergencies and is in alignment with best practices. This framework is typically created from multiple scenario-analyses.
- An Insurance Program, covering a variety of needs such as fraud, property damage, general liabilities , Director's liabilities, and other potentially threatening Operational Risks.

These efforts ensure that Operational Risks are properly monitored and managed within acceptable levels in a sound operating system. In order to best mitigate and hedge against these risks, we classify them in accordance with BASEL Standards and thoroughly analyze any incident which may impact our reputation or profits.

LIQUIDITY RISK

This type of risk is linked to the Bank's ability to fund on an on-going basis, which includes any decreases in liabilities or increases in assets. Our internal Liquidity Risk Management function works to ensure LIBANK's ability to adequately fund business activities, whether in normal or stressed market conditions. Our Liquidity Risk Policy is based on a conservative approach, under which we established buffers and restrictions to maintain healthy liquidity ratios even in prolonged periods of liquidity stress.

Liquidity Ratios
Our liquidity position is assessed and managed under various scenarios, while accounting for internal and external stress factors. Our Risk Management Department, under the supervision of ALCO, calculates the ratio of foreign currency liquid assets to foreign currency total deposits and other liabilities falling due, on a monthly basis. Foreign currency liquid assets are defined as foreign currency bonds and placements with banks and subsidiaries to mature within thirty days.

LIBANK unwaveringly abides by the Central Bank of Lebanon's regulatory Liquidity Coverage Ratio (LCR) which is calculated in accordance with Basel III liquidity standards. However, due to the economic crisis facing Lebanon since Q2 2019, we have been calculating our Liquidity Ratios on a daily basis by monitoring the inflows and outflows of our main currencies.

The main source of these inflows is clients' deposits which by regulation must be held by us for a minimum period of six months. This has allowed us to maintain an impressive Loans-to-Deposits ratio, which was at 28 % as at December 31, 2019.

AMOUNTS IN THOUSANDS OF LBP	31-12-2019	31-12-2018
Tier 1 capital	58,377,039	59,840,950
Tier 2 capital	2,375,606	1,324,886
Total capital	60,752,645	61,165,836
Solvency ratio	15.23%	26.80%
Liquidity ratio	30.43%	28.62%

REPUTATION RISK

At LIBANK we consider a positive reputation and public image to be invaluable assets, essential in the banking industry. In order to best manage Reputational Risks, our Risk Management Department implemented an internal code of conduct and appropriate governance practices, policies and procedures.

POLITICAL RISK

Political Risks are dependent on external factors which are beyond our control, such as the political unrest in the region. Towards the end of 2019, Lebanon witnessed numerous unforeseen political events, internally and globally. Seeing how this could negatively impact our global banking activities (especially with regards to contractual relationships and counterparty obligations), LIBANK immediately implemented the appropriate remedial procedures to mitigate the effects of these circumstances.

COMMENTS ON CAPITAL MANAGEMENT

LIBANK actively works towards a diversified investment portfolio and capital base in efforts to:

- Hedge against a wide variety of internal and external risks,
- Maintain a high level of financial strength and flexibility to ensure compliance with capital requirements, and
- Abide by national and international minimum regulatory Capital Adequacy Ratios levels at all times.

We recognize that the adequacy of our capital levels/ratios may be placed under increased scrutiny in the near future due to the prolonged socioeconomic turmoil affecting Lebanon and further measures being taken by regulating authorities.

LIBANK strictly abides by the rules and regulations of the BASEL Committee on Banking Supervision and the Central Bank of Lebanon. On February 3, 2020, the Central Bank of Lebanon issued Intermediary Circular No. 543 decreasing minimum regulatory Capital Adequacy Ratio levels as shown in the table below. This circular called for an increase in the risk-weight assigned to foreign currency exposures to the Central Bank of Lebanon from 50% to 150%. This excludes deposits with original maturities under one year, which are still subject to a 50% risk-weight. The Central Bank of Lebanon also requires minimum levels of 7%, 10% and 12% for CET1, Tier 1 and Total CAR respectively for dividends' distributions eligibility.

Dividends

On November 4, 2019, the Central Bank of Lebanon issued Intermediary Circular No. 532 which prohibited Lebanese banks from distributing dividends from profits earned in 2019. In accordance, LIBANK did not distribute dividends to its shareholders.

Information Policy

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