ANNUAL REPORT
2018

BBAC

CONTENTS

Chairman's Letter

The year 2018 saw profound changes to the operating environment of the banking industry. Haunted by the long shadow of the regional financial conditions, the Lebanese economy is struggling to recover. Despite the latter, Lebanese banks proved once again their solid existence while recording progress in 2018 and maintaining stability. According to the Central Bank of Lebanon's annual report for the year 2018, the sector's total assets grew by 13.5%, total deposits increased by 3.7% and loans and advances rose by 1.9%.

With many key performance indicators exceeding the banking sector's averages, BBAC exhibited an increase in total deposits from LBP 9,021 billion in 2017 to LBP 9,520 billion in 2018, with a growth rate of 5.53% compared to 4.87% in 2017. Foreign branches' share in deposits increased from 4.64% in 2017 to 7.38% in 2018. This growth in deposits is attributed to the Bank's solid and wide customer base.

Loans and advances to customers did not show any growth in 2018, despite the increase in deposits. In 2018, loans to customers stood at LBP 2,639 billion compared to LBP 2,646 billion in 2017. The funds deposited by customers were directed to investments with the Central Bank of Lebanon.

In 2018, the Bank held high liquidity levels, recovering after the decline in 2017. Net liquid assets increased by 8.0% in 2018 compared to 4.76% in 2017. As a result, net liquidity ratio increased from 79.77% in 2017 to 81.61% in 2018. Consolidated assets reached LBP 12,189 billion in 2018, growing by 16.70% from the consolidated 2017 figure of LBP 10,445 billion. Concerning capital adequacy, BBAC scored a ratio of 16.09% against 14.75% in 2017, exceeding Basel III and supervisory requirements.

In terms of profitability, BBAC acheived good results in 2018. Despite the increase in taxes on interest and income, net profit grew by 5.30% from LBP 74,075 million in 2017 to LBP 78,002 million in 2018 following a negative growth of 4.46% in 2017. It is worth mentioning that the Bank ranked 4th in terms of year-over-year growth in net profits among Alpha Banks. Return on Average Assets (ROAA) and Return on Average Equity (ROAE) declined to 0.69% and 8.33% respectively in 2018, due to high growth rates achieved by assets and equity.

Challenges in the banking sector are increasing year after year, along with the competition among banks to retain their customers, attract new ones and expand their business. BBAC's slogan "Your Caring Bank" is manifested through the strong relationship with its customers and the premium services offered. In this regard, BBAC was awarded the "Best Bank for Banking Services Quality" by the World Union of the Arab Bankers (WUAB) in 2019. BBAC always strives to adopt the latest technologies in the banking sector and tailor products and services to meet customers' demands and expectations.

BBAC strongly believes in the importance of a robust human capital, thus it attracts new talents and continuously updates employees on the latest banking products and solutions. Well informed and trained employees provide customers with the best banking experience and consequently contribute to customer satisfaction and higher profits.

Local and regional expansion has always been a strategic objective for BBAC. Throughout the years, the Bank has expanded its branch network among the Lebanese territories to serve the largest segment of customers and to enhance its presence in vital business areas. In 2018, BBAC inaugurated a new branch in Kousba, the commercial center of the Koura district. BBAC now has 41 branches that are spread over all Lebanese territories, 4 branches abroad in Iraq and Cyprus and 2 representative offices in Abu Dhabi (UAE) and Lagos (Nigeria).

Remaining competitive and profitable in the current operating situations is challenging and requires higher effort and potential, but our future expectations remain positive. We share our success and accomplishments with our shareholders and all stakeholders, and we thank them for their dedication, loyalty and confidence in our Bank.

Sincerely,

Ghassan T. Assaf
Chairman and General Manager

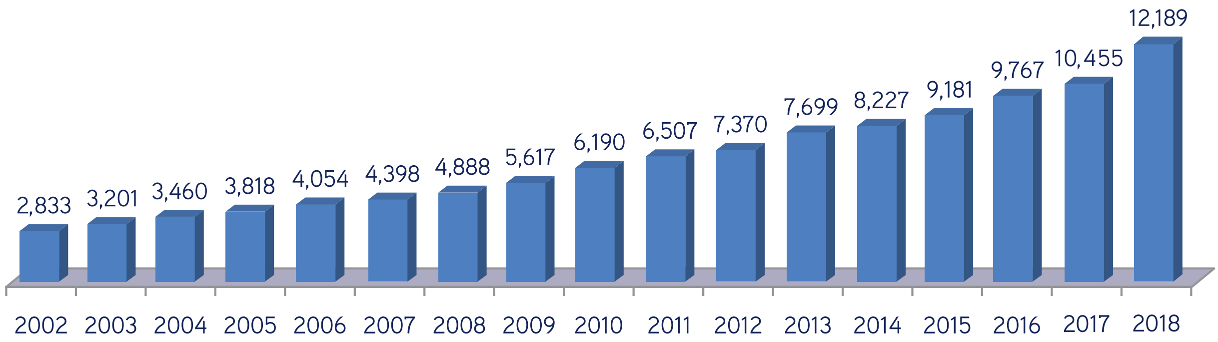
01

MANAGEMENT

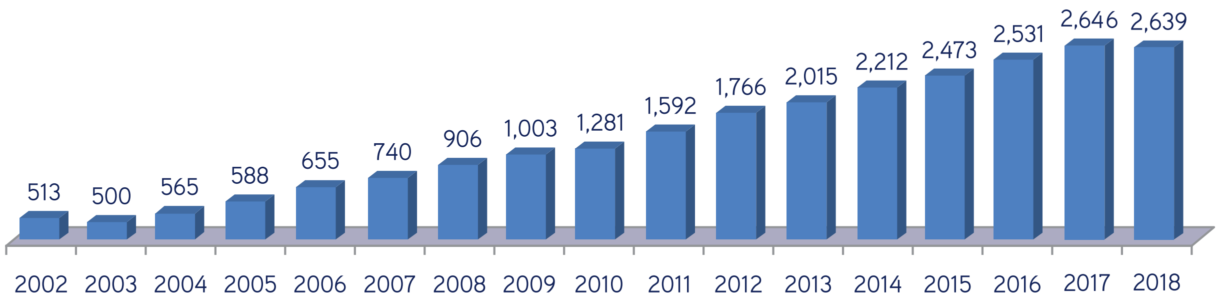
Financial Highlights

Evolution of Key Indicators (LBP billion)

Assets

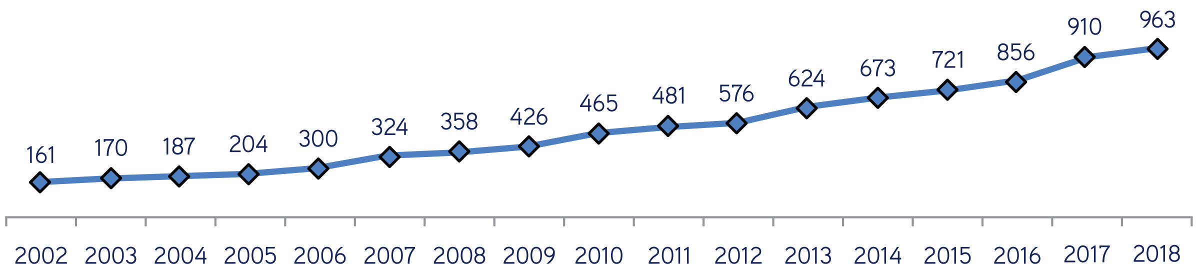


Loans to Customers and Related Parties

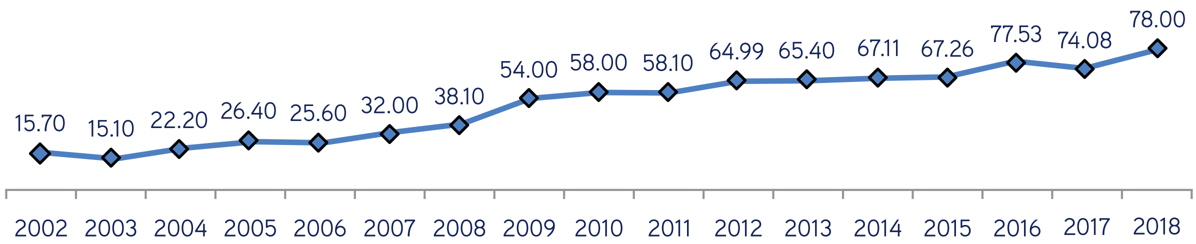


Deposits from Customers and Related Parties

Shareholders' Equity



Net Profit



Selected Financial Data

	Amount (LBP million)		Growth
	2018	2017	2018/2017
Total Assets	12,189,445	10,444,808	16.70%
Total Loans	2,639,227	2,645,669	-0.24%
Total Deposits[1]	9,520,483	9,021,309	5.53%
Net Liquid Assets[2]	7,769,283	7,196,091	7.97%
Shareholders' Equity	963,412	910,211	5.84%
Net Profit	78,002	74,075	5.30%

1- Exclude financial liabilities held at fair value through profit or loss (FVTPL)
2- "Liquid Assets" less "Deposits from Banks and Financial Institutions"

Loan Quality: Loans and Advances by BDL Classification	Amount (LBP million)		Growth
	2017	2016	2017/2016
Net Regular Loans (1)	**2,605,038**	**2,536,915**	**2.69%**
Add Collective Impairment on Loans and Advances	95,915	101,503	-5.51%
Gross Regular Loans (2)	**2,700,953**	**2,638,418**	**2.37%**
Net Substandard Loans (3)	**54,511**	**26,193**	**108.11%**
Add Unrealized Interest	7,659	3,029	152.86%
Gross Substandard Loans (4)	**62,170**	**29,222**	**112.75%**
Net Doubtful and Bad Loans (5)	**(13,880)**	**(31,728)**	**-56.25%**
Add Unrealized Interest	18,920	43,801	-56.80%
Add Provisions	119,561	130,084	-8.09%
Gross Doubtful and Bad Loans (6)	**124,601**	**142,157**	**-12.35%**
Net Non-Performing Loans (3+5)	**40,631**	**(5,535)**	**-834.07%**
Net Loans	**2,645,669**	**2,531,380**	**4.51%**
Gross Loans	**2,887,724**	**2,809,797**	**2.77%**
Net Non-Performing to Gross Loans (3+5)/(2+4+6)	**1.41%**	**-0.20%**	**1.60 %**

	Amount (LBP million)		Change
	January 1, 2018	December 2018	
Credit-Impaired Loans (Net of Unrealized Interest)			
Of which Corporate	228,554	228,901	60,347
Of which Retail	9,071	17,677	8,606
Total Credit-Impaired Loans	**237,625**	**306,578**	**68,953**
Allowance For Expected Credits Loss (ECL) Stage 3	126,018	137,056	11,038
Net Credit-Impaired Loans	**111,607**	**169,522**	**57,915**
Gross Loans			
Of which Corporate	2,069,624	2,009,834	(59,790)
Of which Retail	790,107	789,747	(360)
Total Gross Loans	**2,859,731**	**2,799,581**	**(60,150)**
Allowance For Expected Credit Loss (ECL) Stage 1 & 2	31,819	23,298	(8,521)
Net Loans	**2,701,894**	**2,639,227**	**(62,667)**
Credit-Impaired Loans/Gross Loans	8.31%	10.95%	2.64%
Net Credit-Impaired Loans/Gross Loans	3.90%	6.06%	2.15%
Credit-Impaired Loans Coverage (ECL Stage 3)	53.03%	44.71%	-8.33%
Net Credit-Impaired Loans/Total Assets	0.92%	1.39%	0.48%
Allowance for ECL Stage 1 & 2/Net Loans	1.18%	0.88%	-0.29%

Asset Quality

Upon the implementation of IFRS 9 on January 2018, loans and provisions have been classified into 3 different stages. Stages 1 and 2 resemble performing and under-performing loans respectively while Stage 3 resembles non-performing or credit-impaired loans. Loan provisions or allowance for Expected Credit Loss (ECL) in IFRS 9 is a forward looking metric that is calculated based on a 12-month period for Stages 1 and 2 and lifetime ECL for Stage 3.

Credit-impaired loans increased by 29% which is LBP 68,953 million as at December 2018 from the previous year and they resembled 10.95% of gross loans. The increase in credit-impaired loans to gross loans ratio from 8.31% to 10.95% is partially attributed to the 2.1% decline in gross loans from January 2018 to December 2018.

Net credit-impaired loans increased by LBP 57,915 million in 2018. As a result, net credit-impaired loans/gross loans ratio increased from 3.90% to 6.06% in 2018.

Credit-impaired loans coverage ratio decreased to 44.71% due to 29% growth in credit-impaired loans.

Key Ratios

Liquidity Ratios (%)	2018	2017
Net LBP Liquidity	91.60%	90.44%
Net FC (Foreign Currency) Liquidity	76.77%	73.43%
Net Liquidity (Total)	81.61%	79.77%
Loans/Deposits (LBP)	23.99%	20.22%
Loans/Deposits (FC)	29.53%	34.73%
Loans/Deposits (Total)	27.72%	29.33%
Liquid Assets/Total Assets	75.94%	72.23%

Capital Adequacy Ratios (%)	2018	2017
Capital adequacy ratio according to Basel III	16.09%	14.75%

Profitability	2018	2017
Average assets (million)	11,317,127	10,106,074
Average equity (million)	936,812	882,948
Return on average assets ROAA after tax (%)	0.69%	0.73%
Return on average equity ROAE after tax (%)	8.33%	8.39%
Number of common shares outstanding (million)	144	144
Number of preferred shares "B" outstanding (million)	8	8
Number of preferred shares "C" outstanding (million)	5	5
Earnings per common share (EPS) in LBP[1]	542	514
Earnings per common share (EPS) in LBP[2]	446	419
Dividends per common share (DPS) in LBP[3]	45	70
Dividends per preferred share "B" in LBP	1,055	1,055
Dividends per preferred share "C" in LBP	1,055	1,055
Dividends payout ratio	25.90%	32.13%
Retention ratio	74.10%	67.87%
Book value per common share in LBP[4]	5,329	4,960

Management Efficiency Ratios (%)	2018	2017
Interest paid/Interest received	72.23%	70.29%
Net commissions/Income[5]	16.95%	18.83%
Cost/Income[5]	56.07%	58.01%
Cost per average branch (LBP million)	3,352	2,926

1 - Before allocation of any dividends
2- After the allocation of dividends on Preferred Shares
3- An interest payment of LBP 1.4 million was made on Cash Contributions for the year 2018
4- Before distribution of dividends
5- Income before "Operating Expenses" and "Taxes"

Sources of Funds

Customer deposits constitute the largest share across all types of deposits and are the main funding source of BBAC. Customer deposits increased from LBP 9,021 billion in 2017 to LBP 9,520 billion in 2018, growing by 5.53% compared to 4.87% in 2017. The growth in deposits can be attributed to the high interest rates paid to customers, which led to competition among Lebanese banks to attract and retain deposits. Term deposits make 76.56% of total deposits and they increased by 7.18% in 2018 versus 5.96% in 2017. Current/settlement accounts increased by 6.62% in 2018 and they constitute 15.94% of total deposits.

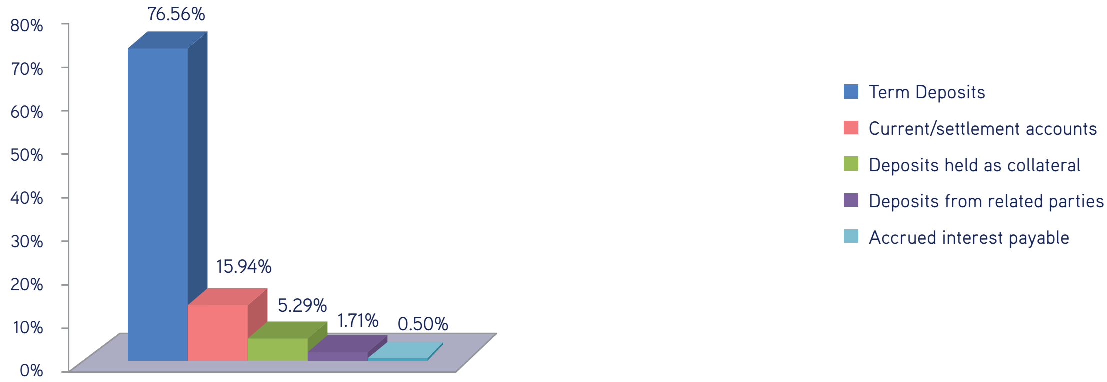
Approximately 95% of customer deposits are denominated in LBP and USD. USD deposits constitute 63% of total deposits followed by 33% for LBP. In terms of growth, USD deposits grew by 14% while LBP deposits decreased by 8% in 2018. As to maturity, 83.3% of deposits are current and mature within 12 months of which 67.1% mature within a one-month period.

Due to the Central Bank account increased by LBP 1,045 billion in 2018, reaching LBP 1,224 billion with a growth of 582.7%. This is due to the LBP loans granted by the Central Bank of Lebanon against term placements denominated in USD. These loans are equal to 125% of the USD term placements and should be re-invested in long-term placements with the Central Bank of Lebanon, which amounted to LBP 1,193 billion as of December 2018.

In 2018, BBAC's shareholders' equity increased by 5.84% from LBP 910,211 million in 2017 to LBP 963,412 million in 2018 and this growth is tied to the increase of 9.92% in retained earnings and 8.91% in other reserves.

Breakdown of Customer Deposits by Type and Currency Mix

Customer Deposits by Type and Currency Mix	Amount (LBP million)		Structure		% Change
	2018	2017	2018	2017	2018/2017
Term Deposits	7,289,276	6,801,204	76.56%	75.39%	7.18%
Current/Settlement Accounts	1,517,244	1,423,087	15.94%	15.77%	6.62%
Deposits Held as Collateral	503,534	573,283	5.29%	6.35%	-12.17%
Deposits from Related Parties	163,264	183,074	1.71%	2.03%	-10.82%
Accrued Interest Payable	47,165	40,661	0.50%	0.45%	16.00%
Total	**9,520,483**	**9,021,309**	**100%**	**100%**	**5.53%**
Of which Current	8,321,251	8,614,603	-	-	-
Of which Non-Current	1,199,232	406,706	-	-	-
Denominated as Follows					
LBP	32.62%	37.26%	-	-	-
Foreign Currencies	67.38%	62.74%	-	-	-



Deposits by Type

Liquidity

BBAC is keen on the importance of maintaining high liquidity to fulfill its short-term obligations especially in the event of economic turmoil and instability. Despite the shortage in liquidity that hit the banking sector in the last quarter of 2018, the Bank was able to maintain high liquidity levels in both LBP and foreign currencies. Total liquid assets increased by 22.7% in 2018 from LBP 7,544,675 million in December 2017 to LBP 9,256,473 million in December 2018 compared to a growth of 8.12% in 2017. This high growth is mainly attributed to the 74% increase in cash and balances with central banks as a result of placements with the Central Bank of Lebanon.

It is worth noting that cash and balances with central banks constitute the highest share of total liquid assets (47.2% in December 2018 versus 33.3% in December 2017) followed by investment securities (42.8% in December 2018 versus 52.8% in December 2017). As to net liquid assets, they increased by 8.12% in 2018, compared to 4.76% in 2017, due to the large growth of 326.6% in deposits from banks primarily from loans granted by the Central Bank of Lebanon.

Liquidity ratio increased from 79.77% in 2017 to 81.61% in 2018. LBP liquidity recovered from a growth of 90.44% in 2017 to 91.60% in 2018. Foreign currency liquidity witnessed a larger growth from 73.43% in 2017 to 76.77% in 2018.

Liquid assets to total assets ratio increased from 72.23% in 2017 to 75.94% in 2018. This growth is attributed to the 22.7% increase in liquid assets. The Bank's primary liquidity in foreign currency decreased from 57% in 2017 to 55% in 2018 while LBP primary liquidity increased from 43% in 2017 to 45% in 2018.

On the other hand, loans to deposits ratio decreased from 29.33% in 2017 to 27.72% in 2018 as a result of a 0.2% decline in loans in 2018.

There was a remarkable growth in liquid assets to deposits ratio from 83.6% in 2017 to 97.2% in 2018 driven by 22.7% growth in liquid assets, supporting the Bank's aim to maintain high liquidity level.

Profitability Ratios

Despite the increase in corporate tax rate from 15% to 17% and income tax rate from 5% to 7% as per the new tax Law No. 64 effective October 2017, which had a full year impact on 2018, the Bank's net profit increased from LBP 74,075 million in 2017 to LBP 78,002 million in 2018, growing by 5.3%. BBAC ranked 4th in terms of year-over-year growth in net profit among Alpha banks, where a majority of them witnessed a decline in their profits for the year.

In December 2018, total operating income increased by 14.10% from LBP 229,550 million in December 2017 to LBP 261,923 million largely driven by a growth of 14.16% in net interest income despite the increase in cost of deposits. The long-term placements with the Central Bank of Lebanon were the main drivers of the increase in interest income in 2018.

Although net income increased by 5.3% in 2018, Return on Average Assets (ROAA) decreased from 0.73% in 2017 to 0.69% in 2018. Return on Average Equity (ROAE) also declined from 8.39% in 2017 to 8.33% in 2018. This decline in these ratios is attributed to the growth of 12.0% and 6.1% in average assets and average equity respectively in 2018 that was not compensated by the growth in net income. It is worth mentioning that the magnitude of the decrease in these ratios in 2018 is less than that in 2017.

Dividend payout ratio declined from 32.1% in 2017 to 25.9% in 2018. Consequently, retention ratio increased from 67.9% in 2017 to 74.1% in 2018.

Board of Directors

Chairman and General Manager
Executive Member
Sheikh Ghassan T. Assaf

Vice Chairman
Executive Member
Judge Abbas El Halabi

Mr. Walid T. Assaf	Non-Executive Member
Mr. Ali Assaf	Non-Executive Member
Assaf Holding Company s.a.l.	Non-Executive Member
Mr. Ali Ghandour	Independent Member
Mr. Michel Tueni	Independent Member
Mr. Farouk Mahfouz	Independent Member
Mr. Marc Maamary	Independent Member
Me. Amine Rizk	Secretary of the Board

Major Shareholders and General Management

Major Shareholders

Assaf Family	54.453%	Other Shareholders	8.479%
Fransabank s.a.l.	37.068%		

Legal Affairs Office

Judge Abbas El Halabi

Solicitors

Me. Chafic Khalaf
Me. Amine Rizk
Me. Ramzi Haikal
Me. Assaad Najm
Me. Hadi Diab
Me. Paul Morcos
Me. Mazen Tajeddine
Bat. Bassam Daye
Me. Adnan Jisr
Me. Amine El Halabi

Auditors

PricewaterhouseCoopers – KPMG

Executive Advisors to the Chairman

Mr. Georges Mirza	Credit Affairs
Dr. Amalia Azoury	Economic Affairs
Mr. Anwar Abou Ghaida	Financial Management
Dr. Ali Darwish	Branches' Development (North Region)
Mr. Omar Saab	Business Development

General Management

Mr. Nadim Hamadeh	Assistant General Manager - Banking
Mr. Chawki Bader	Assistant General Manager - External Expansion
Mr. Marwan Abou Assi	Assistant General Manager - Finance and Administration
Mrs. Lina Makarem	Assistant General Manager - Treasury
Mr. Bachir Yakzan	Assistant General Manager - Governance, Risk and Compliance
Mrs. Wafaa Abed	Group Internal Audit
Mr. Anwar Abou Ghaida	Accounting and Financial Control
Mr. Raja Makarem	Project Finance and SME
Mr. Camille Moujaes	Branch Network
Mr. Bachir Yakzan	Risk Management - CRO
Mr. Mohamad Chamseddine	Human Resources
Ms. Najwa Kaid Bey	Assistant Head of Human Resources
Mr. Francois Balaa	Digital Banking
Mr. Ali Al Danaf	Recovery and Restructuring
Mr. Wissam Maroun	Compliance
Mr. Salim Karam	Insurance
Mr. Toufic Abi Farraj	Information Technology
Mr. Samer Abi Rafeh	Administration
Mr. Tarek Bilal	Marketing
Ms. Nahed Zeid	Cards and Electronic Banking Operations
Mr. Elie Nakad	Financial Institutions
Mr. Ibrahim Itani	Private Banking
Mrs. Hilda Ashkar	Operations
Mr. Georges Moarbes	SME Credit
Mr. Elias Moukayed	Branch Management and Support
Mr. Marwan Abou Ibrahim	Corporate Credit
Mr. Maher Rahhal	Subsidized and Kafalat Loans
Mr. Salah Saab	Market Intelligence
Mrs. Joyce Abdelnour	Consumer Credit
Mr. Fadi Barakeh	Organization and Methods
Ms. Nawal Aziz	Project Finance
Mr. Wissam Al Aridi	Project Management
Mrs. Hiam Halabi	Management Information System
Mr. Labib Abou Dehn	Customers' Rights Protection

Corporate Governance

BBAC believes in the importance of sound Corporate Governance that guides the Bank forward while promoting the highest standards of conduct. Corporate Governance is a set of laws, regulations, and policies that define the functions of the Board of Directors (BOD) and the top management of the Bank. These policies also govern the relationship between the BOD, senior management, shareholders, and other related parties.

BBAC recognizes that the key to its long-term success is to sustain public trust in the Bank which is accomplished through serving the Bank's clients and communities in the best way with the right values. Holding the highest standards of corporate governance and ethical conduct requires a set of strong corporate governance practices that allocate rights and responsibilities among the Bank's stockholders, BOD, and management in a manner that enhances shareholder value.

The Bank's management's processes, structures, and policies help ensure compliance with laws and regulations and provide clear lines of responsibility, decision-making and accountability. Accordingly, corporate governance practices are designed not just to satisfy regulatory requirements, but also to provide effective oversight and management of the Bank as a trustee for all stakeholders.

BBAC builds and protects its culture by aggressively promoting its core values and Code of Conduct to employees. Moreover, the Bank's current organizational structure aims to divide the different functions and responsibilities between the BOD, Executive Management, Operating Management, Board Committees, and Management Committees, which are involved in decision making; by setting clear grounds for control, separation of authorities, job specialization, responsibility and accountability. These functions ensure that the values of the clients and shareholders are preserved and that the resources are utilized in the most effective and appropriate manner.

Excerpts from BBAC's Ordinary General Assembly of Shareholders

Held on June 13, 2019

Resolution No. 1

The Ordinary General Assembly of BBAC Shareholders approved the activities, accounts, balance sheet and the profit and loss statements for the year ending December 31, 2018.

Resolution No. 2

The Ordinary General Assembly of BBAC Shareholders resolved the appropriation of the profits for the year 2018 as follows:

(LBP thousand)	2018
Profits for the Year 2018	78,001,648
Less: Appropriation of Reserves for "General Banking Risks"	-
Appropriation of Reserves for "Legal Reserves"	7,851,632
Appropriation of Reserves for "Property in Settlement of Debt"	2,364,122
Appropriation of Reserves for "Retail Portfolio"	-
Unrealized Gain on Financial Instruments Held at Fair Value through Profit or Loss	582,917
Profits after Allocations	67,202,977
Add: Retained Earnings - December 2018	239,514,573
Total Retained Earnings - December 2018	306,717,551
Less: Dividends on Preferred Shares B	8,442,000
Less: Dividends on Preferred Shares C	5,276,250
Dividends on Common Shares	6,480,000
Interest on Cash Contribution	1,405
Retained Earnings Carried Forward	286,517,896

02

MANAGEMENT DISCUSSION AND ANALYSIS

Basis of Presentation

The discussion and analysis that follows have been prepared by the management and are based on the audited financial statements of the Bank as at December 31, 2018.

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis highlights the performance of BBAC in 2018.

Any reference to "BBAC" or the "Bank" stands for BBAC s.a.l. and its international branches and any reference to "BDL" signifies the Central Bank of Lebanon. Any reference to "Central Banks" implies BDL as well as the Central Banks, in countries where BBAC's branches operate.

Unless otherwise indicated, all figures are expressed in Lebanese Pounds, whereas all US Dollar amounts have been translated at the closing exchange rate, which is published by BDL at the relevant dates, which remained at LBP 1507.50/USD.

Corporate Profile

BBAC s.a.l was established as a commercial bank in 1956 under the name of "Bank of Beirut and the Arab Countries" by a group of prominent investors headed by Sheikh Toufic Assaf, Mr. Nashaat Sheiklard, and Mr. Jamal Shehaiber. Currently, 54.453% of the Bank's shares are owned by the Assaf family, 37.068% are owned by Fransabank s.a.l., and the remaining 8.479% are held by other shareholders.

BBAC offers a broad range of commercial and personal financial services including Retail Banking, Corporate and Commercial Banking, Trade Finance, Private Banking, Treasury and Capital Markets.

BBAC currently has 41 branches spread over the Lebanese territories and it always aims to open new branches to strengthen its presence locally, regionally and internationally. BBAC also has four international branches - one in Limassol, Cyprus, and three in Iraq (Erbil, Baghdad and Sulaymaniyah), in addition to two representative offices in Abu Dhabi, UAE and Lagos, Nigeria.

Mission Statement

Integrity

BBAC believes that a sound banking relationship is built on integrity and trust. Trust is achieved by conducting clients' personal and business transactions efficiently and with strict confidentiality.

Service

BBAC constantly strives to recognize and satisfy evolving customers' needs by developing services, products and solutions tailored to meet their requirements.

Growth

BBAC is committed to being a leading participant in the economic development of the community where it is present. The extent of the Bank's success in attaining this objective is reflected positively in the measure of its growth.

Business Overview

BBAC offers clients a wide range of financial products and services that varies from the traditional banking activities to the most recent financially engineered products.
These are provided through:

Corporate and Commercial Banking

Fulfilling its role in stimulating the growth of the Lebanese economy, BBAC continuously seeks to provide existing and potential participants in the economy with optimum solutions for their business needs.

By supporting and funding clients' business plans, whether they are business-oriented individuals or organizations, BBAC is able to capitalize on development opportunities.

BBAC continued to expand its credit portfolio benefiting from its high liquidity and its excess in deposits. In this regard, 2018 witnessed an increase in commercial and corporate portfolio, mainly due to the extension of new loans to corporate clients as well as to Small and Medium Enterprises (SMEs), whilst preserving the conservative credit practices of the Bank.

Despite the continuing economic challenges and political conditions prevailing in several key markets that triggered a slowdown in new lending in some markets and a decrease of exposure in other markets, BBAC managed to sustain a solid growth of lending, which was the outcome of a strategy followed by the Corporate and Commercial Banking department to maintain a strong relationship with customers during those challenging times and provide them with suitable solutions across the Bank's network.

In fulfilling the diverse needs of its clients, BBAC offers short and long-term loans as well as a variety of fixed and variable repayment loans. In addition, the range of facilities at BBAC extends from simple lines of credit and term loans to the more advanced forms of financing. These products are granted to entities in numerous industries, such as real estate development, construction, manufacturing and trading, among many others.

Moreover, as a way to support SMEs, BBAC presents various types of specialized loans, such as Kafalat Loans and Subsidized Loans for non-costly financing. These loans benefit from interest rate subsidies and expand to industries, such as tourism and agriculture, which are considered key players in increasing Lebanon's GDP and providing job opportunities to the population.

BBAC extended new loans covering a variety of sectors including fertilizer production, retail and commercial development, construction and contracting and real estate, and is currently processing to mandate and participate in several syndicated loans to finance oil drill and gas projects.

High expertise, integrity and quality of service represent the basis of the Corporate and Commercial Banking department's philosophy, whilst strictly adhering to the regulatory environment and internal policies governing project finance activities.

Retail Banking

BBAC offers a wide variety of innovative products and services, including retail loans, credit cards, mortgages and savings, and term deposit accounts to cater to the various financial needs of customers and help them reach their goals and aspirations.

BBAC is committed to building long-term relationships with its customers, and aims at making daily banking and financial decisions easier, as well as creating the best experience for its customers across all touch points.

In 2018, BBAC installed two ATMs in strategic locations at The Bridge Complex in Sin El Fil and Sawfar Municipality. Moreover, BBAC opened a new branch in the Northern city of Kousba, district of Koura, increasing the number of local branches to 41, in addition to 73 ATMs distributed across Lebanon.

BBAC has tailored a collection of secure electronic banking services (Online Banking for personal and business customers and Mobile Banking) to provide supreme comfort and satisfaction to customers, as well as accelerate and facilitate the completion of banking operations, wherever they are and at any time. BBAC has also taken every precaution necessary to ensure a climate of trust and to protect the confidentiality and the security of its customers' financial and payment information.

In order to match the customers' needs and preferences, BBAC recommends customized banking accounts and products to clients who wish to control their payments, save money or make future plans. These particular accounts and products include Domiciliation Accounts, Current Accounts, Savings Accounts and Fixed Term Accounts, in addition to the direct debit of service bills.

BBAC also offers a number of personal loans, such as Public Sector Loans, Private Sector Loans, Small Business Loans, Educational Loans, and Outlet Loans to meet consumers' diverse plans easily. With a strong emphasis on providing unparalleled customer service, the Bank continually invests in evolving its products and services to meet the varying needs of its customers.

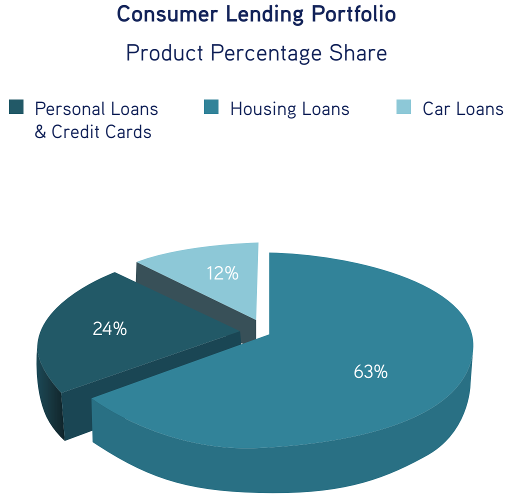
Moreover, BBAC strives to meet the increasing financial demands of the Lebanese housing sector through various mortgage offers, including the Iskan Housing Loan, Military Housing Loan, Internal & General Security Forces Housing Loan, BDL Housing Loan, Displaced Housing Loan, Expatriate Housing Loan and BBAC's own Housing Loan Program.

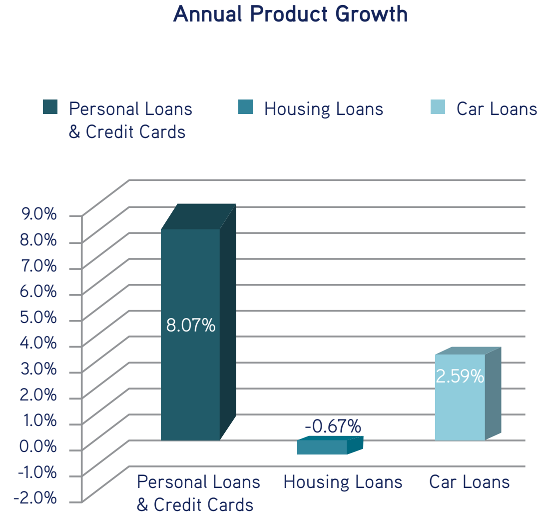
However, taking into consideration the restricted ceiling set for 2018 by BDL regarding BBAC's Supported Housing Loan, which has been already saturated and consumed throughout the first quarter of the year, the Bank did not realize positive growth in the housing loan portfolio.

Consumer Loan Portfolio Statistics and Annual Growth for 2018

The Consumer Lending Portfolio is distributed among Housing Loans, Personal Loans, Credit Cards and Car Loans. In 2018, as illustrated below Housing Loans backed by mortgages made approximately two thirds of the consolidated total consumer loan portfolio, whereas Personal Loans (including Credit Cards) and Car Loans made up for the remaining third.

The Consumer Credit portfolio witnessed an aggregate growth of 1.75% throughout 2018. The chart below displays the segregated growth of each consumer product separately.





BBAC has always demonstrated its commitment to women through a collection of products and services designed to cater to their banking and financial needs. Through the 'Mother Account', BBAC became the first bank in Lebanon to welcome and allow mothers to open an account for their children, independently of the father's legal consent. Moreover, BBAC dedicates the whole month of March each year to honor and celebrate women, by presenting exclusive offers on a uniquely arranged bouquet of banking products that suit their tastes and meet their financial needs. In parallel, the Bank also offers the 'Diamond Card', which is designed exclusively for women, and offered to them free of charge for life, with a chance to win diamonds.

In light of the growing payment services, BBAC also offers a diversified payment cards portfolio, such as the 'Classic', 'Gold' and 'Platinum' Credit Cards, designed to offer financial flexibility and purchasing power relative to every need and lifestyle. Other credit cards are also available, such as the 'Euro Card' for travel enthusiasts, which helps avoid the hassle of exchange rates when travelling to Europe and the 'AED Card' that targets Lebanese expatriates in the UAE.

BBAC also provides its elite customers with the 'Visa Infinite Card', which offers a range of exclusive services that fall in line with their distinctive and luxurious lifestyle. For customers looking for a secure online shopping experience, BBAC offers the 'Internet Card', which is a charge card designed to provide a sense of confidence and flexibility when making purchases over the Internet.

Always keeping in mind the responsibility it bears as a Lebanese institution, BBAC offers its clients an opportunity to contribute to a humanitarian cause through the 'CCCL Card' that donates 1% of made purchases to the Children's Cancer Center of Lebanon (CCCL) to help treat children with cancer.

BBAC also gives cardholders access to its loyalty program, 'MyRewards', that rewards the Bank's cardholders with points they collect automatically when they use their BBAC credit cards for purchases at any point of sale in Lebanon and abroad. These points can be redeemed for a variety of rewards that range from cash, travel, and electronics to gift vouchers, leisure and donations, all of which value is determined according to the number of points accumulated.

With 'MyRewards' program, cardholders can combine the points earned on BBAC's different credit cards into one account, and benefit from a higher point balance and more valuable rewards, as well as redeem lesser points for valuable rewards online, by following easy steps on the program's website: www.bbacmyrewards.com.

The Bank is also working on introducing new types of cards, focusing particularly on the needs of the young demographic.

Private Banking

The Private Banking Unit offers personal financial and investment services to the Bank's high-net-worth clients through a dedicated professional team. The timely services are rendered with confidentiality and trust and include trade execution, portfolio administration and advice on investment opportunities and market insights.

The Private Banking team performs global market research to identify new active markets in financial services; in addition to monitoring Money and Capital markets and carrying out market studies and technical analysis. The Private Banking Unit offers a wide variety of trading services in several simple and sophisticated financial products such as derivatives, futures, options, equities, and commodities.

The Private Banking Unit has a wide client base and is continuously targeting high-net-worth individuals by promoting the Bank's financial products and wealth management services, which allows the Bank to constantly improve its profitability and financial stability.

Digital Banking

BBAC's digital growth is driven by an innovative digital strategy, which is focused on a Banking-as-a-Service (BaaS) business model through transforming its core banking activities as follows:

- Changing the front end by making all products and services available under all digital channels in a seamless way through the adoption of an Open Digital Banking Platform that is based on open Application Programming Interfaces (APIs) and built on micro service architecture.

- Investing in Self Service capabilities to enable clients to self-execute their operations through both traditional and e-branches, starting with ATM Cash & Cheque deposit features.

- Enriching the Self Card Control capabilities through Mobile Application and move towards Mobile Payment, Cards Tokenization starting with the launch of new cards supporting Contactless technology and Online Payments based on Dynamic 3D Secure.

- Renovating the back end activities by re-engineering, digitizing and automating all banking processes to accelerate process delivery time using Business Process Management techniques.

- Opening up the Bank's APIs to third-party app development abiding by the European Revised Payment Service Directive (PSD2).

- Working on agile data-driven organization to rely on Big Data Analytics and Artificial Intelligence (AI) to ensure a predictive marketing approach with respect to GDPR rules and regulations.

- Maintaining high security levels to protect BBAC's clients from situations that may negatively impact their financial well-being, because the Bank highly believes that digital transformation cannot be productive and successful without relying on high security measures.

In addition to the aforementioned, BBAC is working on providing a consistent experience across channels to enable interactions across multiple customer touch points, while maintaining single digital ID for sign on and a digital signature to authenticate and sign banking documents without the need to be physically present at branch level.

Treasury and Capital Markets

The main function of the Treasury Department is to manage the Bank's liquidity and cash position by evaluating the daily liquidity report and interest rate fluctuations. Through its various sections, the Treasury Department engages in several foreign exchange, money market and capital market operations guided by the regulatory authorities' rules and regulations and the policies and procedures set by concerned committees such as the BOD and Asset Liability Management Committee (ALCO).

When conducting its transactions, the Treasury Department aims at maximizing the Bank's return and profit by seeking suitable market opportunities and investments given the Bank's risk exposure limits.

The Treasury Department manages a diversified investment portfolio with various asset classes including equities and fixed income securities, aiming at investing excess liquidity to generate high returns in compliance with ALCO and the BOD decisions. The Treasury Department also identifies placements and borrowing needs in line with the Bank's policies in order to maintain strong liquidity position.

The Treasury Department performs its trading and investment activities through Beirut Stock Exchange, regional and international exchanges and major correspondent banks. It provides the Bank's clients with round-the-clock services in FX spots, forwards and financial instruments, among others. The transactions are executed in a fast and accurate manner ensuring high quality customer service.

Insurance Services

BBAC differentiates itself by providing its clients with ultimate customer care and a broad portfolio of products and services that address the entire range of its clients' financial well-being objectives. Accordingly, the Bank offers insurance services as well as savings plans throughout its branch network in partnership with insurers known for their solidity, security, and expertise.

In collaboration with The Capital Insurance and Reinsurance Co. s.a.l., a subsidiary of BBAC, the Bank offers flexible and competitive insurance products that are especially designed to satisfy all clients' requirements in terms of premium, cover, security, and services. These products include: (1) Term Life Insurance & Personal Accidents; (2) Private Car Insurance (All Risk, TPL, Total Loss, Orange Card); (3) Cargo & Marine Insurance (Sea Freight, Air Freight, Hull & Machinery); (4) Public Liability; (5) Workmen's Compensation (Employer's Liability); (6) Money Insurance & Financial Risks (Cash in Safe, Cash in Transit, Fidelity Guarantee); (7) Foreign Domestic Helper Insurance (life and medical expenses covering domestic workers); (8) Home Insurance (Burglary, Fire, Neighbors, Earthquake & Allied Perils); (9) Travel Insurance; (10) Engineering Risks (C.A.R., E.A.R., Machinery Breakdown, Electronic Equipment All Risks).

BBAC offers two investment plans, JANA Retirement Plan and NAJAH Education Plan, in partnership with Allianz SNA s.a.l., that were certified by the Lebanese Capital Markets Authority under resolution No. 6/5/15 for JANA and 7/5/15 for NAJAH issued on March 10, 2015. These plans are designed to give BBAC's clients and their families' protection and guaranteed benefits, offering the opportunity to safeguard their financial future.

Information Technology

The Information Technology (IT) Department continuously works on updating the foundation of the business applications. This ensures proper alignment with the Bank's strategy of having a platform that is able to undertake the digital transformation program and reply to future development and capabilities.

The IT Department's strategy is to follow the digital banking trend with respect to data availability, confidentiality and security, as well as to deliver innovative products and services in-line with evolving technologies.

The Bank invested in an integrated solution based on Service Oriented Architecture (SOA), which enables easier streamlined integration across systems/channels and ensures a fast time-to-market.

The Bank also introduced a loyalty system that is not only linked to cards, but also covers a wider scope where it tracks all customer activities and translates them into points, in addition to the introduction of "Online Redemption" that is available through an advanced portal with the aim of facilitating the redemption of loyalty points.

The IT Department's existing information system infrastructure allows the Bank to easily introduce new products and services to its clients across multiple channels. This infrastructure is being frequently improved regarding agility, reliability and high availability based on enterprise storage consolidation, servers and desktop virtualization.

On the other hand, the IT Department is highly committed to maintaining and enhancing the security of the IT infrastructure in order to protect customer channels and services that are provided online, as well as improving the hardening of internal application platforms.

Regarding Business Continuity, disaster recovery sites and data protection technologies, the IT Department provides a robust infrastructure through the implementation of a three-site data center replication setup that links together the Bank's primary, high availability and remote disaster recovery data centers.

The Bank successfully tested IT continuity drill scenarios, covering the critical operations in Lebanon and overseas branches. This test is repeated on a yearly basis.

Compliance

BBAC, including the members of the Board, senior management, and all employees at its local and foreign branches and representative offices, is committed to play an effective role in the global effort in fighting financial crimes by maintaining a sound and effective Compliance Program.

BBAC's BOD had set comprehensive Compliance Policies that include but are not limited to the: Fighting Money Laundering and Combating Terrorist Financing Policy, Sanctions Policy, Data Protection Policy, FATCA/CRS Policy, and Anti-Bribery and Anti-Corruption Policy in compliance with the requirements and recommendations communicated by local and international regulatory and intergovernmental bodies and supervisory authorities including but not limited to the Central Banks and the Financial Intelligence Units in the jurisdictions where the Bank operates, the US regulations and guidelines including those set by the US Department of Treasury such as the Financial Crimes Enforcement Network (FinCEN) and the Office of Foreign Assets Control (OFAC)], the United Nations (UN), the Financial Action task Force (FATF), Wolfsberg, and the European Union (EU).

The BOD established a Board AML/CFT Compliance Committee to oversee the Bank's compliance with all internal policies and applied local and international "AML/CFT and Sanctions" laws, regulations and guidelines, where it follows up on all the findings reported by the AML/CFT Executive Committee, the Compliance Department, or the Audit Department.

Furthermore, the Bank established an AML/CFT Executive Compliance Committee to assist the Board in identifying and mitigating compliance risks and to handle day to day issues that require senior management intervention.

The Compliance Department, with all its three sections (AML/CFT and Sanctions, Legal Compliance, and FATCA/CSR) has an independent function from other business units within the Bank and plays a major role in overseeing the Bank's overall implementation of the Compliance Program and in reporting noted risks along with the related mitigating controls, to both the Board and Executive AML/CFT Committees.

The Bank has assigned AML/CFT Compliance Officers (AMLCO) in each branch responsible for coordinating and overseeing the AML framework at the branch. The AMLCO reports directly to the Head of AML/CFT and Sanctions Section within the Compliance Department.

The Compliance Program is subjected to periodical review, at least annually, or ad hoc, in case of any reported changes in the applied regulations in order to account for any required amendment.

It is the core responsibility of all BBAC employees across all its branches in Lebanon and abroad, to abide by the Bank's Compliance Program, including the Fighting Money Laundering and Terrorist Financing and Sanctions Policies, in order to ensure that the Bank's products and services are not used to process illicit activities.

The AML/CFT and Sanctions Programs cover, at least, the following areas:

Customer Acceptance Policy

In order to prevent and identify Money Laundering, Terrorist Financing and Sanctions Risks associated with any potential customer, the Bank's Compliance Program is designed to ensure the implementation of an effective Customer Acceptance Policy that includes the identification and verification of prohibited and high risk customers and the implementation of the due diligence measures required upon boarding a new customer or updating an existing relationship, depending on the customer's risk as determined by the Applied Risk Based Approach Methodology.

Sanctions and Embargo

The Bank has set a sound Sanction Compliance Policy determined based on the implemented Sanctions Risk Assessment, and the sanction programs and guidelines issued by the local regulators, where the Bank operates, in addition to those issued by the international bodies including OFAC, EU, UN and HMT.

BBAC is committed to implement an on-going sanction screening and due diligence measures in order to protect the Bank from processing any transaction or maintaining any account or relationship that could be associated directly or indirectly with sanctioned parties or with an applied sanction program.

Risk Based Approach

BBAC has set an effective Risk Based Approach (RBA) methodology based on the result of the financial crimes risk assessment implemented on the Bank's business lines, provided products and services, in addition to the jurisdictions where the Bank or its customers operate.

The implemented RBA assists the Bank in identifying the financial crime risks, including Money Laundering, Terrorist Financing, Sanctions, Fraud, Corruption, Bribery or Tax Evasion risks associated with the customers or their related transactions and in ensuring fair allocation of the Bank's resources in order to implement the necessary required due diligence or enhanced due diligence measures determined based on the customer's overall risk score (low, medium or high).

On-Going Monitoring

BBAC implements on-going monitoring on its customers to ensure that they are not involved in illegal or illicit activities that could expose the Bank to Money Laundering, Terrorist Financing, Sanction Violation or other type of financial crime risks. As part of the customer monitoring, the Bank implements a post-transaction monitoring system to detect, and investigate unusual transactions and report suspicious ones, in addition to on-going monitoring on the customers and their transactions according to their risk rating or based on any noted alerts or risk indicators.

Regulatory Compliance

As part of its continuous effort in fighting financial crimes, and in order to ensure compliance with local and internal regulations, the Bank has established the Legal Compliance and FATCA/CRS sections within the Compliance Department in compliance with the Lebanese law 44 and its related BDL circulars.

The Legal Compliance Section plays a major role in tracking and communicating new or amended regulations and in monitoring the Bank's business activities in order to ensure compliance with the applied laws and regulations. Noted violations are reported periodically to senior management in order to take the necessary corrective measures.

The FATCA/CRS Section is responsible for coordinating with all stakeholders in order to design and develop an effective program for implementing the FATCA and CRS rules, and to enhance the level of awareness among the involved staff through periodic trainings and continuous follow-up on the latest guidelines associated with the applied regulations.

Record Retention

BBAC retains information on the customers through the KYC, account opening forms, due diligence reports and related supporting documents for a period of at least five years after closing the account or terminating the business relation. Furthermore, the Bank retains copies of all operations-related documents, for at least five years following the date of the transaction.

Training

In order to ensure proper communication and implementation of BBAC's Compliance Program and its related policies, including the AML/CFT, Sanctions, Anti-Bribery and Anti-Corruption, and Data Protection Policies, the Bank has developed an enhanced training program that includes providing all new staff, front line team, key personnel and Compliance Officers, whether located at the Head Office or at the branches, with periodical internal and external training covering the applied AML/CFT and Sanctions Policies and Regulations, including and related amendments, in addition to the latest financial crimes emerging risks.

Independent Audit

BBAC's Compliance Program is subject to regular independent audit from the Bank's internal and external auditors in addition to periodical assessment from the supervisory authorities where the Bank is licensed to operate in order to ensure that the procedures in place are in compliance with the applied national and international regulations.

General Provisions

BBAC employees are requested to comply with the applied Fighting Financial Crime Regulations where they are asked to exercise their ethical duty to report any kind of wrongdoings, unethical behaviors, and suspicious or fraudulent activities, whether committed by the customer or their supervisor or colleague.

Based on the Bank's Code of Ethics, any employee violating the terms stated under this section shall be subject to disciplinary action, as stated in the "Bank's Disciplinary Action Policy", up to the discharge from the employment.

Risk Management

BBAC ensures continual improvement of its Risk Management Framework, through enhancing controls, providing employees with ongoing risk awareness and development trainings, and developing various risk measures.

The Bank benefits from strong internal governance, which clearly segregates the functions and responsibilities between the BOD and the executive management. The Chief Risk Officer reports directly to the Chairman and General Manager and to the Board Risk Committee.

The role of the Board Risk Committee reflects the constructive Board engagement in actively exercising judgment as to any change in the risk profile of the Bank. The committee meets regularly to discuss the different risk topics raised by its members; analyze risk reports prepared by the Risk Management Department, review risk management policies, risk limits and methodologies, as well as Internal Capital Adequacy and Assessment Process (ICAAP) reports; and give directions and recommendations on risk related issues to the executive management.

The Bank manages its risks based on the three lines of defense model, where a clear separation of functions exists between front line, support functions and Internal Audit. Business owners are the first line of defense, which is responsible for identifying, assessing and controlling the risks of their business.

The support functions, which consist mainly of Risk Management, Compliance, Legal, Human Resources Management, Financial Control, Operations and Information Technology, form the second line of defense. Along with the business owners, they ensure that risks in the business units have been appropriately identified and managed. Internal Audit operates as the third line of defense by independently assessing and evaluating the Bank's processes.

The department deploys risk management beyond compliance activities to achieve organizational objectives and protect enterprise value while having a clear grasp on business risks and controls and binding risk to return.

Risk Management Framework

BBAC has a main objective to maintain an effective Risk Management Framework. Accordingly, all Risk Management Policies are governed by the Bank's Risk Appetite, and risks are properly monitored against the set limits, which are reviewed periodically. Risk Management Procedures were designed to manage the principal risks the Bank assumes in conducting its activities, through identification, measurement, testing, monitoring and reporting of these risks.

Risks Acceptance follows a predefined Risk Acceptance Matrix governed by well-defined roles and responsibilities depending on the risk level and the underlying process.

In line with BDL requirements for banks to implement IFRS 9 by January 1, 2018, the Bank has developed the necessary policies, processes, and tools to adopt the IFRS 9 requirements. The implementation effort covered the classification, measurements, and reporting of financial assets as part of the business model. The implementation also covered the impairment to identify and formalize staging criteria, models development and validation to compute Expected Credit Loss (ECL).

In compliance with BDL basic Circular No. 141 dated September 18, 2017, the Bank has put in place a recovery plan to restore stability to its financial situation and to cope with any future difficulties in times of crisis. The plan includes a strong governance framework, recovery indicators of quantitative and qualitative nature that signal any deviation from the Bank's business plan. The indicators are seen as triggers to the recovery actions that were defined in response to stress scenarios conducted. The recovery actions are set to sustain the Bank's core business lines and critical functions.

As part of the continuous improvements of its Risk Management Framework, the Bank has set the plan in preparation of meeting the Basel guidelines following the issuance of Basel IV standard.

Credit Risk

Credit Risk Appetite and Limits coupled with a prudent Credit Risk Policy are set in place. The Credit Policy aims to maintain a well-diversified and high quality credit portfolio. This is achieved by the implementation of a well-controlled yet quick and efficient credit granting and underwriting process with different levels of approval limits.

Credit exposures are regularly monitored. Exposures to counterparties are subject to regular portfolio reviews to assess the credit worthiness of counterparties and to ensure the related exposures are maintained within the set credit and concentration risk limits. Approval limits are also monitored on an ongoing basis and are reviewed on annual basis.

For the assessment of its Corporate and Commercial Portfolios, BBAC uses Moody's Risk Analyst as an internal rating tool. The tool produces internal ratings for each Corporate and Commercial Obligor, which is used in the calculation of their Probability of Defaults when calculating Expected Credit Loss as part of the application of IFRS 9 requirements.

For Retail Portfolio, the Bank benefits from an in-house developed application scorecard to assess the creditworthiness of its borrowers. While the scorecard is being back-tested and updated on an annual basis, enhancements are being planned to integrate the scorecard in an automated workflow based loan origination application. The Bank is also setting the ground to implement behavioral scorecards that will be integrated in the decision making process to provide more effective risk-based decisions and thus enhance the retail portfolio and customer management.

Starting January 1, 2018, the Bank implemented the in-house Board-approved impairment model developed to meet IFRS 9 requirements. The model classifies all financial assets at Stage 1, 2 or 3 according to well-defined credit-related criteria. Clear indicators incorporating forward-looking aspects were defined to change the financial asset from one stage to another. The expected credit loss is calculated for all assets as a function of the Probability of Default (PD), the Exposure at Default (EAD) and the Loss Given Default (LGD). Consequently, 12-month expected credit losses are recorded for exposures in Stage 1, while lifetime expected credit losses are recorded for exposures in Stage 2 or 3.

Market Risk

The Market Risk Management Policy developed by BBAC details the roles and responsibilities and sets clear limits for the allowed investments. The limits are reviewed periodically. The Bank maintains a relatively limited trading portfolio (FVTPL) that does not have a substantial impact on the overall performance of the Bank or on its capital adequacy. The Bank's financial securities are mainly held at amortized cost. In adopting the IFRS 9 standard, the Bank established a portfolio of Fair Value Through Other Comprehensive Income (FVTOCI) securities.

During 2018, the Bank reached the final implementation stages of the Asset Liability Management Solution. The solution will support the management of different risk types such as Interest Rate in the Banking Book, Liquidity Risk and Market Risk in a dynamic way and will support the application of advanced techniques introduced by the recent Basel guidelines.

Liquidity Risk

BBAC's Liquidity Risk Policy is regularly updated. The policy sets out the Liquidity Risk Management structure at the Bank and defines internal Liquidity Risk Limits and Early Warning Indicators in addition to a Contingency Funding Plan.

In terms of liquidity level, BBAC maintains comfortable levels within the internal ratios set by the Bank, which exceed the regulatory minimum set by the local regulations. Liquidity Coverage Ratio and Net Stable Funding Ratio are above the minimum requirements after applying major haircuts on High Quality Liquid Assets.

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (IRRBB) is monitored against limits set for the impact on the Net Interest Income and the Economic Value of the Equities. BBAC through its newly implemented Asset Liability Management (ALM) application is applying the new standards of the IRRBB as issued by Basel in 2016, specifically for the Economic Value of the Equities, taking into consideration a replication model set for the Non-Maturing Products, in addition to the six scenarios described by Basel. The Bank will be applying the new standards related to the Net Interest Income in the near future.

Accordingly, the Bank performs regular stress tests as part of Interest Rate Risk monitoring to capture the impact of changes in market on Interest Rate Risk in the Banking Book.

Operational Risk

Operational Risks are identified, assessed and monitored through periodic process-based risk and control assessments conducted across BBAC; a detailed Loss Incidents Database, which is supported by well-applied event capturing procedures and continuous awareness sessions; thorough operational risk assessments which are conducted on all new and updated processes, products, activities and services applied by the Bank before launching them. Key risk indicators are being defined for key risks identified to provide an early-warning indicator of risk exposures.

The risks identified are assessed at inherent and residual levels. To optimize the control environment, action plans are triggered and followed up to maintain the impact and likelihood of operational risks at an acceptable level.

The Bank integrates all operational risk functionalities in a centralized role-based Operational Risk Solution.

Information Security and Business Continuity

BBAC continuously works on enhancing its Management Information Systems and Information Security Systems. Advanced Risk Management Methodologies are set in place to ensure the control environment is efficient in managing human error and fraud risks. Necessary technical measures are taken to keep improving and refining the quality of data.

Information Security Policies and Procedures are updated on a regular basis. Comprehensive IT Risk Assessments are conducted along with physical security visits and reporting to all local and foreign branches.

The Bank deploys enough security defenses and continuously works on the optimization of their corresponding monitoring processes. Information security monitoring is being performed on daily basis along with security review, hardening for the IT infrastructure and necessary security testing for all applications supporting the launching of its new e-services.

Strategically, the Bank follows a standard management framework ISMS (Information Security Management System) based on best practices and ISO27001 standard, which is being practiced by the bank in its day-to-day business.

To preserve high quality of service to its customer and ensure the continuity of its business operations, the Bank has established a disaster recovery site along with a detailed business continuity plan. The plan is designed to ensure continuity of critical business functions in the event of a disaster. The plan is regularly updated in relation to the updates on Business Impact Analysis and Risk Assessments conducted across the Bank. In addition, to ensure the safety of its personnel, the Bank has put in place a detailed evacuation procedure that was tested and continuously enhanced through repeated fire drills.

Other Risks

BBAC continuously monitors its exposure to other types of risks and takes the necessary measures to mitigate them. All material risks such as concentration, legal, compliance and others are routinely identified, assessed and measured, and controls are established to keep these risks at their optimum residual levels.

Internal Capital Adequacy Assessment Process

In compliance with local regulatory requirements, BBAC conducts on yearly basis the Internal Capital Adequacy Assessment Process (ICAAP) at consolidated level. In this process, the Bank ensures the available capital is aligned with the assumed risks. The ICAAP is also coupled with a set of various scenarios applied for different severity levels.

When assessing its capital needs, the Bank follows Basel guidelines and calculates Pillar 1 Credit and Market Risks Capital Charge using the Standardized Measurement Approach and Pillar 1 Operational Risk Capital Charge using the Basic Indicator Approach. Pillar 2 risks are addressed through the ICAAP.

Capital Adequacy

The following table summarizes the composition of the BBAC's capital as of December 31, 2018 and December 31, 2017:

	Capital Funds as per Basel III (LBP million)	
As of December 31	2018	2017
Total CET1	733,625	656,103
Total Tier 1	929,626	852,104
Total Capital (Tier 1+Tier 2)	1,005,322	876,209

Total Capital increased from LBP 876,209 million as of December 31, 2017 to LBP 1,005,322 million as of December 31, 2018. The increase in Capital was driven primarily by a solid capital generation over the year and the inclusion in Tier 2 capital of provisions against Stage 1 expected credit loss related to the implementation of IFRS9 in conformity with BDL Intermediary Circular No. 512 dated December 20, 2018.

BBAC capital position remains strong with a total capital adequacy ratio of 16.88%, a Tier 1 ratio of 15.61% and CET1 capital ratio of 12.32% as of December 31, 2018. All ratios are above the regulatory requirements set by BDL (Circular No. 44) as shown below:

Capital Adequacy Ratio*		BBAC		BDL Circular No. 44
As of December 31	2018	2017	2018	2017
Common Equity Tier 1 Ratio	12.32%	11.09%	10.0%	9.0%
Tier 1 Capital Ratio	15.61%	14.40%	13.0%	12.0%
Total Capital Ratio	16.88%	14.80%	15.0%	14.5%

The major exposure of the Bank is the Credit Risk with 92.82% of total risk weighted assets. Credit Risk Weighted Assets mainly include the sovereign risk exposures in the form of Central Bank Placements, Certificates of Deposits and Eurobonds issued by the Lebanese government, representing 44% of Credit Risk Weighted Assets. The corporate portfolio reached up to 15% while the portfolio of SME, Retail, Housing and Claims Secured by Commercial Real Estate represents 24% of Credit Risk Weighted Assets. The decrease in Market Risk RWA in 2018 compared to 2017 is the result of significant reduction in the trading portfolio over the year.

			Risk Weighted Assets (LBP million)	
As of December 31	2018	% of total RWA	2017	% of total RWA
Credit Risk	5,529,271	92,82%	5,460,125	92.26%
Market Risk	14,378	0.24%	78,415	1.32%
Operational Risk	413,147	6.94%	379,846	6.42%
Total Risk Weighted Assets (RWA)	**5,956,796**	**100%**	**5,918,386**	**100%**

**The ratios are based on the unaudited financial statements as of December 31, 2017 and December 31, 2018.*

Human Resources Management

By the end of 2018, BBAC had a total workforce of 884 employees; 50% of which falling under the age of 40 years and 79% of which are university degree holders.

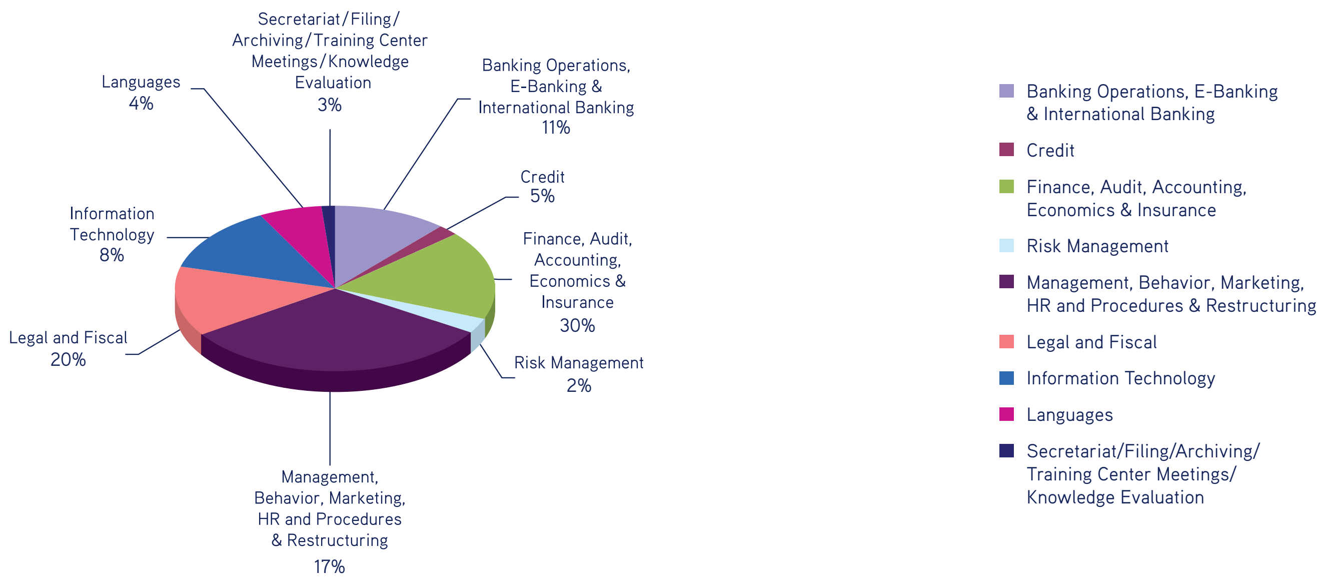
The gender distribution was similar to 2017 with Males constituting 55% of the staff and Females 45% of the total staff population.

BBAC is very keen on providing equal career and growth opportunities for all employees and is committed to developing our workforce by encouraging employees to evolve both on a professional and personal level by offering them the financial support needed to pursue post graduate studies or certifications.

Throughout 2018, BBAC took part in the annual job fairs of major universities such as the American University of Beirut (AUB), Lebanese American University (LAU), Saint Joseph University (USJ) and Sagesse University, in an effort to continuously connect with graduating students and attract potential talent for various positions.

BBAC also offered summer internships at its different branches during which interns were given the opportunity to learn about the various banking operations and services offered by the Bank.

Distribution of Training Hours According to Training Subjects for 2018



Corporate Social Responsibility

Since its inception in 1956, BBAC has been committed to serving the financial needs of its customers, while still upholding the highest ethical standards, and remaining supportive and engaged in local communities. As one of the leading banks in Lebanon, BBAC is cognizant that a responsible approach to business is a decisive factor in determining the long-term viability and success of the Bank. For this reason, BBAC's dedication to sustaining a sound financial standing and performance, providing the best banking solutions to its customers and practicing responsible employment comes in concurrence with a commitment to preserve the common interests of all its stakeholders through a Best Practice Corporate Governance Framework that sets the tone and provides the foundation for all its banking and Corporate Social Responsibility (CSR) activities.

For BBAC, CSR is not a choice; it is a central business need. The Bank believes that its core responsibility as a corporation goes beyond having a purely financial impact and must also have a social impact. The two go hand in hand because it is only by delivering social and economic value today that the Bank can create long-term sustainable benefits for tomorrow. Over the course of more than 60 years, BBAC has consistently enhanced its ethical standards and has balanced social and economic imperatives to address the concerns and expectations of all its stakeholders. Today, it is advancing on its sustainable journey by setting CSR commitments across the whole business because BBAC understands that it is only through its own exemplary actions that it can continue to prove its reputation as Lebanon's 'Caring Bank'.

As part of its community development and strategic philanthropy efforts, BBAC actively engages in a range of well-selected and tailored CSR initiatives. Among some of its most prominent areas of engagement are health and the environment, economic affairs and humanitarian and social issues in addition to contributions in the arenas of culture and arts, sports, education and youth programs.

In addition to having a positive impact in the communities it serves through a spectrum of donations and sponsorships, BBAC relies on the valuable volunteering and fundraising efforts of its employees. It also engages in various types of partnerships with leading Lebanese Nongovernmental Organizations (NGOs) and initiatives to maximize its reach and impact on the country's most vulnerable and disadvantaged community groups.

In another dimension, BBAC aims to contribute to economic growth and revitalization through varied and multiple contributions and targeted initiatives that help stimulate entrepreneurship and job creation. BBAC is specifically keen on assisting Small and Medium-Sized Enterprises (SMEs), which are considered the backbone of the national economy.

In this context, BBAC continued to promote various loans that possess socially responsible attributes, thus offering borrowers favorable conditions such as interest rate subsidies. The Kafalat loan is one example, which is offered to SMEs operating throughout Lebanon in sectors such as tourism, agriculture, industry, high technology and crafts. These loans also encourage environmentally friendly investments and empower startups by committing the Bank's investments directly into different venture capital funds. The ultimate goal is to energize Lebanon's future economic development by creating an ecosystem that promotes investment and production in the country. BBAC also supports the local economy in other ways, including meeting people's financial needs at the various stages of their business and personal life cycles and helping them reach their goals, whether they want to buy a home, expand their business, pay for college or plan for retirement.

BBAC is making steady progress with regard to social and economic responsibilities; however, it still has much work ahead before making sustainability a mainstream component of its business. The continued growth and sustainability journey is sure to present challenges as well as opportunities especially amid the still-difficult economic, social, environmental and political climate facing Lebanon. But whatever lies ahead, BBAC's commitment to responsible banking and its caring nature for the community will remain solid. That's BBAC's responsibility, that's its promise and the mission that inspires it to succeed.

Financial Activities and Performance Highlights

Overview of the Lebanese Economy and Banking Sector

The Lebanese economy has witnessed relatively tough conditions in 2018, while the financial sector continues to grow moderately.
Lebanon faced many social issues in addition to macroeconomic challenges. The massive inflows of Syrian refugees have shaken the country's demographic balance and labor market and are putting pressure on the costs of rent infrastructure and supply of public services. Unemployment has increased dramatically following the inflow of Syrian refugees, which competed with Lebanese workers in the informal sectors and hit over a quarter in the workforce.

Lebanon's external sector increased in Total Foreign Trade Activity by 2.8% as a result of increasing Imports by 2.5% and Exports by 4.3%. Consequently, the Trade Deficit rose by 2.2% from USD 15.4 billion to 15.7 billion. Accordingly, and within the context of a contraction in financial inflows to Lebanon and the positive growth in Trade Deficit in 2018, the balance of payments recorded a rising deficit during the period.

Lebanese banks have gone through a difficult time in 2018 due to the domestic political tensions and lack of a government formation. However, confidence in the banking sector and the adhesive deposit base, along with the banks' sound liquidity at hand allowed the sector to withstand this rough time.

The Alpha Group's (Lebanese banks with deposits over USD 2 billion) total assets witnessed a year-over-year growth of 11.29% in 2018, reaching USD 261.54 billion. Cash and balances with BDL, which are mainly deposits with BDL constituting 39.58% of total assets, increased by 34.35% to USD 103.51 billion. This is mainly due to the financial engineering implemented by BDL since 2017, offering new schemes to encourage banks to attract deposits in foreign currencies.

Total loans declined by 4.64% in 2018 to USD 63.89 billion and local loans decreased by 3.18% to reach USD 48.08 billion. On the other hand, foreign loans dropped by 8.89% to USD 15.80 billion. In fact, the weighted average return on loans in LBP and USD recorded an increase of 27.19% and 17.08% respectively, crowding out the private sector from commercial and individual credit markets, especially after BDL's subsidy to housing loans has stopped in March 2018.

On the liabilities side, the market witnessed an intense competition between banks to attract new deposits. Customers' deposits increased by 2.13% in 2018 to reach USD 188.40 billion. An increase of 2.78% in domestic deposits offset a 1.86% decline in foreign deposits. A high demand on the dollar was translated into a decrease of 3.05% in customer deposits denominated in LBP, while customers deposits denominated in foreign currencies recorded a year-over-year growth of 5.61%. This was mainly due to the investors' fears that the current political situation will affect the Lebanese currency and its stability. As a result, the weighted average interest rates on deposits skyrocketed over the period, in USD and LBP by 35.54% and 28.95%, reaching 7.97% on LBP deposits and 4.9% on deposits denominated in foreign currencies.

In terms of profitability, and for the first time in more than 5 years, the Alpha Group witnessed a decline in net profit by 5.52%, net interest income increased by 10.45% while total operating profit dropped by 4.51% mainly due to a decline of 0.49% in net fee and commission and a remarkable drop in net gains on financial instruments.

Bearing in mind that the banking sector has always been resilient and considered to be the backbone of the Lebanese economy, banks need to attract new deposits and find new lending opportunities and investment projects in the future. Such advancements at all levels will definitely create a positive catalyst that would move Lebanon from its current situation to an economic recovery with a re-alignment of growth with its long-term potential.

Breakdown of Assets and Liabilities

BBAC exploits investment opportunities to increase its return and profit margin. In 2018, the Bank's interest-earning assets constituted 93.93% of total assets compared to 91.63% in 2017 and they grew by 19.64% versus a growth of 7.96% in the previous year.

This high growth in interest-earning assets is attributed to the 87.26% growth in balances with central banks as a result of long-term placements with BDL compared to 32.55% growth in 2017. Balances with central banks comprise 32.68% of total assets and 34.79% of total interest-earning assets followed by trading and investment securities comprising 32.15% of total assets and 34.22% of total interest-earning assets. There was a change in the composition of interest-earning assets where the share of all major interest-earning assets decreased in favor of balances with central banks due to the fact that large investments are made with the BDL generating the highest component of interest income.

Interest-earning loans and advances to customers and trading and investment securities comprise 53.45% of total assets and 56.90% of total interest-earning assets in 2018 compared to 62.79% and 68.52% respectively in 2017.

In 2018, 27.49% of total interest income is generated from loans to customers and 72.51% from investment portfolio compared to 33.48% and 66.52% respectively in 2017.

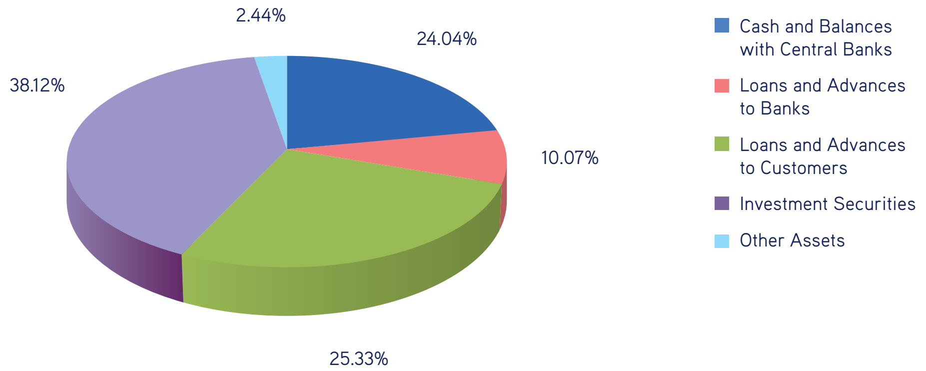
Breakdown of Assets by Interest-Earning and Non-Interest Earning Accounts

Interest and Non-Interest Earning Assets	Amount (LBP million)		Structure		% Change
	2018	2017	2018	2017	2018/2017
Balances with Central Banks	3,982,908	2,126,923	32.68%	20.36%	87.26%
Due from Banks and Financial Institutions	850,070	874,722	6.97%	8.37%	-2.82%
Trading and Investment Securities	3,918,632	3,941,892	32.15%	37.74%	-0.59%
Loans and Advances to Customers and Related Parties	2,596,555	2,616,284	21.30%	25.05%	-0.75%
Others Assets	101,738	10,823	0.83%	0.10%	840.02%
Total Interest-Earning Assets	**11,449,903**	**9,570,644**	**93.93%**	**91.63%**	**19.64%**
Total Non-Interest Earning Assets	**739,542**	**874,164**	**6.07%**	**8.37%**	**-15.40%**
Total Assets	**12,189,445**	**10,444,808**	**100.0%**	**100.00%**	**16.70%**

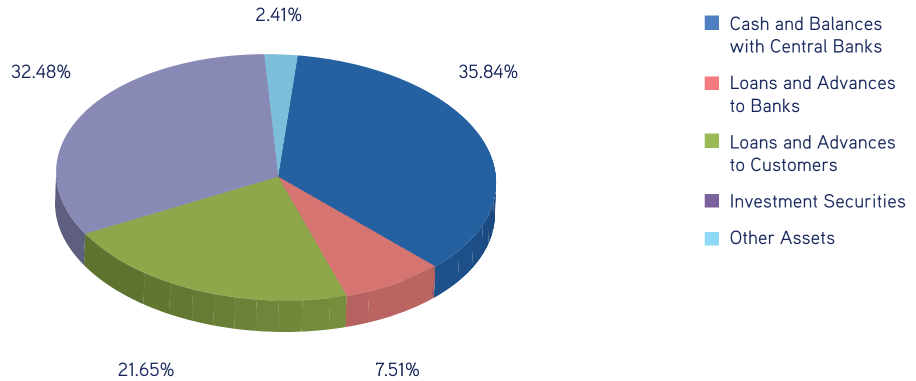
Asset and Liability Management

1. Use of Funds

2017



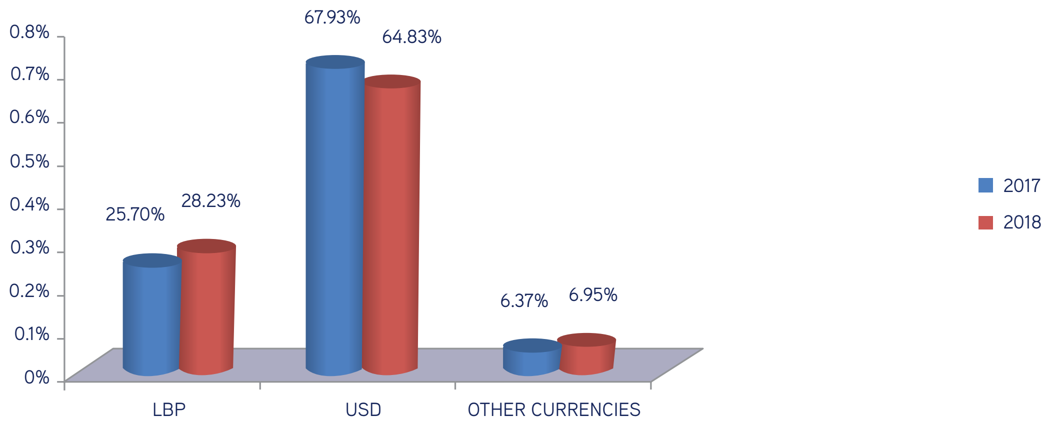
2018



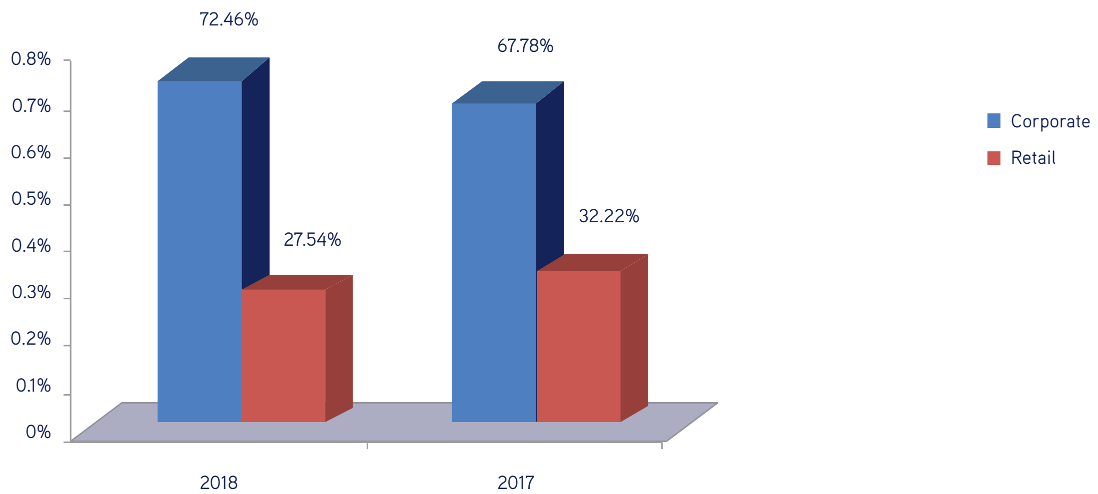
In 2018, BBAC's total assets scored LBP 12,189 billion growing by 16.7% from the 2017 LBP 10,445 billion. The highest growth rate was for cash and balances with central bank's being 73.98%. This is mainly due to the engagement of the Bank in the BDL scheme of long-term deposits denominated in dollars, on which the Bank will borrow 1.25% of this amount in LBP at 2%. Financial assets comprise 32.48% of total assets compared with 38.12% in 2017 while loans and advances to customers comprise 21.65% of total assets versus 25.33% in 2017.

2. Loans and Advances by Currency/Type

By Currency



By Type



The Bank's loans and advances to customers for 2018 were LBP 2,639,227 million compared to LBP 2,645,669 million for 2017 with a slight decline of 0.24%. The highest proportion of loans, 64.83%, is denominated in USD followed by 28.23% denominated in LBP and 6.95% denominated in GBP, EUR and other foreign currencies. This loan currency composition changed in 2018 in which USD loans declined by 3.10% of total loan portfolio in favor of LBP and foreign currencies. In 2018, LBP loans grew by 9.58% while USD loans declined by 4.81% from 2017 values. 93.58% of BBAC's gross loans are net performing and the remaining 6.42% are net non-performing loans.

Loans are divided into two major groups, retail and corporate loans. Corporate loans comprised 72.46% of total net loans while retail loans comprised the remaining 27.54% compared to 67.78% and 32.22% respectively in 2017. Corporate loans increased by LBP 119,262 million in 2018 to reach LBP 1,912,487 million achieving a growth of 6.7%. On the other hand, retail loans declined from LBP 852,444 million in 2017 to LBP 726,740 million in 2018 shrinking by 14.7%.

The Bank holds collateral against credit-impaired loans to mitigate the potential credit losses. In 2018, gross credit impaired loans reached LBP 357,584 million compared to LBP 186,771 million in 2017. Credit impaired loans are categorized into corporate and retail loans. Corporate loans amounted to LBP 340,220 million forming 95.14% of credit impaired loans while retail loans amounted to LBP 17,364 million forming 4.86% of credit impaired loans. The fair value of the collateral was LBP 338,707 million in 2018 compared to LBP 173,084 million in 2017 and it covered 94.72% of credit impaired loans.

3. Loans by Geography

In 2018, LBP 2,272,108 million or 86.09% of total loans were granted in Lebanon compared to 83.63% in 2017. The share of total loans to Arab countries decreased from 10.91% in 2017 to 8.74% in 2018 followed by loans granted to European countries, which decreased slightly from 3.76% to 3.67% in 2018.

Profitability and Efficiency

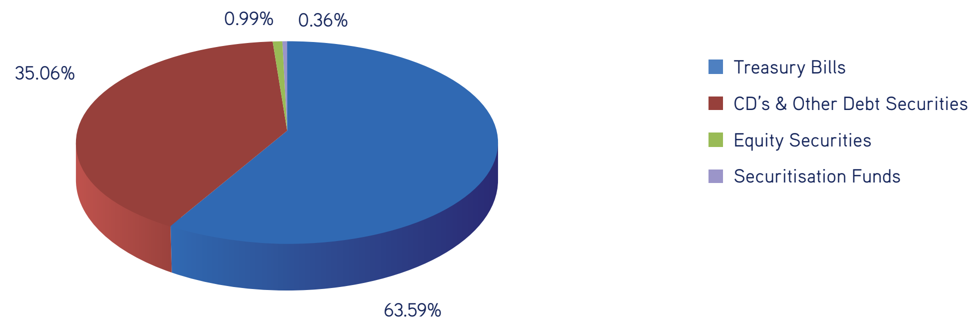
1. Interest Margin Analysis

	Total Amount (LBP million)	
	2018	2017
Average Interest Earning Assets	10,510,274	9,217,976
Interest Paid	487,427	388,447
Interest Received	674,838	522,613
Net Interest Received	187,411	164,166
Cost of Average Interest-Earning Assets (in %)	4.64%	4.21%
Return on Average Interest-Earning Assets (in %)	6.42%	5.99%
Gross Interest Margin (in %)	**1.78%**	**1.78%**
Net Releases (Provisions) on Loans and Advances	4,061	(10,093)
Net Interest Margin (in %)	**1.82%**	**1.67%**
Average Interest-Earning Assets to Average Assets (in %)	92.87%	91.21%
Gross Spread (in %)	1.66%	1.62%
Net Spread (in %)	1.69%	1.52%

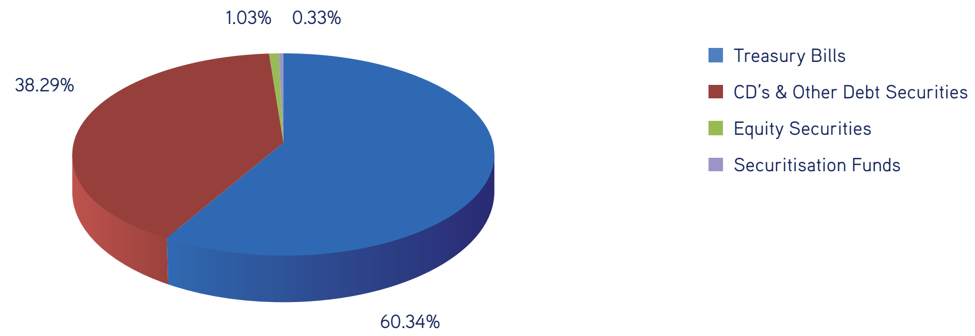
Interest expenses grew in 2018 by 25.5% versus 12.50% in 2017 while interest received grew by 22.12% in 2018 compared to 12.23% in 2017. As a result net interest income increased by 14.16% compared to 11.60% in 2017. The large increase in interest expenses is attributed to the big competition in the market for acquiring new deposits. On the other hand, gross interest margin remained unchanged 1.78% in 2018 in comparison with 2017. This is tied to the increase in interest earning assets in 2018 by 14.02% approximately same growth of net interest income 14.16%. Net interest margin increased from 1.67% in 2017 to 1.82% in 2018. This is tied to the buildup of credit provisions in 2017, while in 2018 another treatment was done after the implementation of IFRS 9. This is also reflected in the growth in the net spread 1.69% in 2018 compared to 1.52% in 2017.

Breakdown of Investment Securities by Type

2017



2018



2. Profit Before Income Tax

In 2018, total operating income excluding the release of deferred gain on special swaps with BDL, increased by 8% compared to a negative growth of 6.77% in 2017 excluding the net gains from special swaps with BDL in 2016. This was mainly boosted by LBP 14,106 million release of deferred gain on special swaps done with BDL in 2016. Net interest income in 2018 grew by 14.12% versus 11.60% in 2017 while net fee and commission income increased by 9.14% in 2018 compared to 14.21% in 2017.

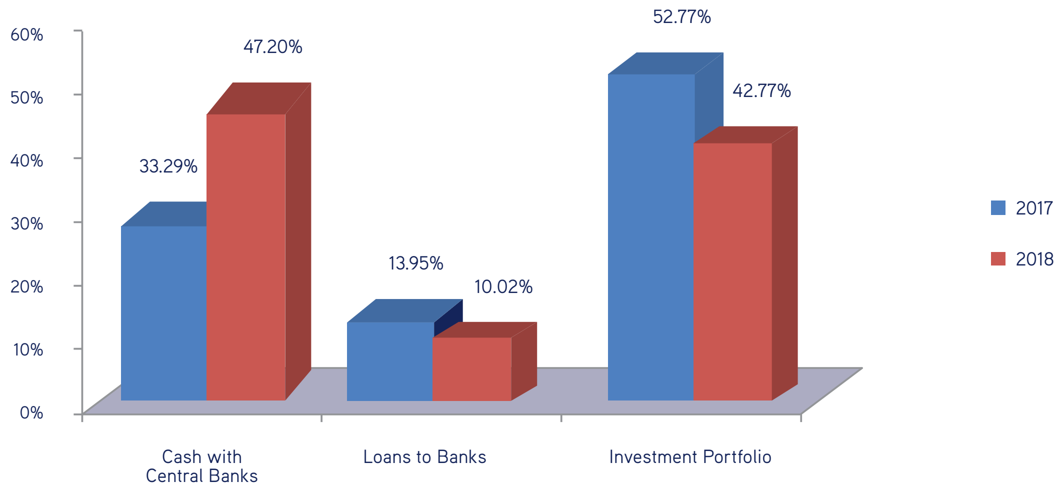
Net operating income was LBP 219,457 million in 2017 against LBP 265,984 million in 2018 with a positive growth of 21.20%. The positive net loan impairment charge of LBP 4,061 million in 2018 after the implementation of IFRS 9 contributed in maximizing the difference in net operating income; thus, boosting the growth from 14.10% in total operating income to 21.20% in net operating income. Excluding the effect of release of deferred gain on special swaps with BDL, the growth in net operating income for 2018 would have been 14.77%.

Total operating expenses in 2018 increased by 17.16% from 2017 figures, mainly due to 29.76% increase in other operating expenses and a 10.86% growth in personnel expenses from 2017. Consequently, profit before income tax in 2018 was LBP 116,836 million compared to LBP 92,158 million in 2017 with a growth of 26,78%. The new tax law of 7% on interest earned on sovereign securities was applied on the full year 2018, thus tax on interest in 2018 was LBP 29,281 million and the net profit after tax in 2018 recorded a profit of 5.3% LBP 78,002 million in 2018 compared to LBP 74,075 million in 2017.

3. Management Efficiency Ratios

Interest paid to interest received ratio increased from 70.29% in 2017 to 72.23% in 2018 due to the 25.5% growth in interest paid at a higher pace than the growth of 22.12% in interest received. As to net commission to income ratio, it decreased from 18.83% to 16.95% in 2018 as a result of 9.14% growth in net commission versus a larger growth of 21.20% in income. Although cost increased in 2018 by 17.16%, cost to income ratio decreased from 58.01% in 2017 to 56.07% in 2018. This is due to the larger growth of 21.20% in income compared to 17.16% growth in cost.

Distribution of Liquid Assets



Net Interest and Similar Income

Interest and similar income witnessed a growth of 22.12% in 2018 against 12.23% in 2017. Interest from loans and advances comprises 27.49% of total interest and similar income compared to 33.48% in 2017. Interest from banks and financial institutions comprises 33.61% from total interest income in 2018 versus 18.10% in 2017.

The largest contribution to interest and similar income comes from interest from investment securities at amortized cost and combined with interest from investment securities at fair value through profit and loss and at fair value through other comprehensive income, they form 38.90% of total interest income in 2018 compared to 48.42% in 2017.

03

AUDITORS' REPORT

CONTENTS

Independent Auditors' Report to the Shareholders of BBAC S.A.L.

Report on the audit of the separate financial statements

Opinion

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

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of BBAC S.A.L. as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate 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 opinion.

Key Audit Matters

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

Key Audit Matter	*How our audit addressed the key audit matter*
Measurement Of Expected Credit Losses Impairment allowances represent management's best estimate of the losses within the loans and advances to customers at the balance sheet date. As described in the notes to the separate financial statements, the impairment losses have been determined in accordance with International Financial Reporting Standard 9 "Financial Instruments" (IFRS 9). We focused on this area because management makes complex and subjective judgments over	We assessed and tested the design and operating effectiveness of the key controls over the credit processes such as loan origination, ongoing monitoring and provisioning of loans and advances; We performed the following substantive procedures: - Read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; - Obtained an understanding of and tested the completeness and accuracy of the historical and current dataset used for ECL calculation including where applicable the relevant

Key Audit Matter	How our audit addressed the key audit matter
both timing of recognition of impairment and the estimation of the size of the impairment, such as: - Determining criteria for Significant Increase in Credit Risk (SICR); - Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD); - Assessing the recoverability of Stage 3 financial assets; - Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; - Establishing portfolios of similar financial assets for the purposes of measuring ECL; and - Determining disclosure requirements in accordance with accounting standards. We also focused on the following areas: - Adjustment that was passed as of 1 January 2018, as part of the transition to IFRS 9 expected loss model of impairment, which resulted in an increase in other reserves of LL 1.8 billion. - At 31 December, assets subject to credit risk together with off-balance sheet finance amounted to LL 13.28 trillion which is considered to be material to the Bank's total assets. Information on the impact of the adoption of the ECL model on opening balances, credit risk and the Bank's credit risk management is provided in notes 3.1.2 and 3. Disclosure of the impairment allowance and net impairment charge is provided in notes 3 and 7.	interface to the expected credit loss model; - Obtained an understanding of and tested the grouping of similar financial assets in the portfolios for the purposes of measuring ECL; - Tested a sample of loans to determine the appropriateness and application of the staging criteria; - Obtained an understanding of the methodology to identify and calculate individual impairment allowance for Stage 3 exposures and tested a sample of credit exposures against the methodology; - Assessed the related financial statement disclosures to determine if they are in accordance with the requirements of accounting standards; and - Checked the appropriateness of the opening balance adjustments; - Assessed the separate financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9. We involved our specialists in areas that required specific expertise (e.g. ECL model) including: - Testing the implementation of IFRS 9 methodology for the ECL calculation; - Testing the reasonableness of historical macroeconomic and forward looking information and assumptions used; - Assessing the appropriateness of the definition of default and testing the application of the default criteria; - Assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD including provisions held against a sample of Stage 3 credit exposures; - Assessing the appropriateness of the criteria used to determine the Significant Increase in Credit Risk (SICR) and the resultant classification of exposures into various stages including movements between stages; - Testing and assessing the reasonableness of the Bank's use of scenarios, weightings and discounting taking into consideration the subsequent downgrade of sovereign credit rating as disclosed in note 4(d) to the financial statements.

Other Information

Management is responsible for the other information. The other information consists of the Annual Report which includes the separate financial statements and our auditors' report thereon. The Bank's 2018 Annual Report is expected to be made available to us after the date of our auditors' report.

Our opinion on the separate financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the 2018 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate that fact to those charged with governance.

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

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

In preparing the separate 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 Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate 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 the management.

- Conclude on the appropriateness of the managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditors' Report to the related disclosures in the separate 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The partners in charge of the audit resulting in this independent auditors' report are Andre Rohayem for PricewaterhouseCoopers and Wissam Safwan for KPMG.

pwc

KPMG

PricewaterhouseCoopers

KPMG

31 May, 2019
Beirut, Lebanon

1330

Balance Sheet at 31 December, 2018

		2018	2017
	Note	LBP Million	LBP Million
ASSETS			
Cash and balances with Central Banks	5	**4,369,248**	2,511,289
Deposits with banks and financial institutions	6	**927,908**	1,052,215
Loans and advances to customers	7	**2,639,227**	2,645,669
Debtors by acceptances	8	**100,175**	63,067
Financial assets:			
- Fair value through profit or loss	9a	**14,022**	206,594
- Fair value through other comprehensive income	9b	**144,496**	-
- Amortized cost	10	**3,800,799**	3,774,577
Investment in subsidiaries	11	**3,524**	3,524
Investment properties	12	**7,338**	7,338
Property and equipment	13	**84,423**	86,423
Intangible assets	14	**1,812**	1,913
Other assets	15	**58,193**	55,754
		12,151,165	10,408,363
Non-current assets held for sale	16	**38,280**	36,445
Total assets		**12,189,445**	10,444,808
LIABILITIES AND EQUITY LIABILITIES			
Due to the Central Bank of Lebanon	17b	**1,223,998**	179,280
Deposits from banks and financial institutions	17a	**263,192**	169,304
Deposits from customers	18	**9,520,483**	9,021,309
Engagements by acceptances	8	**100,783**	63,067
Current income tax liabilities	32	**7,343**	7,096
Retirement benefit obligations	20	**39,288**	34,881
Other liabilities	19	**70,946**	59,660
Total liabilities		**11,226,033**	9,534,597
EQUITY			
Share capital - common shares	21	**148,752**	148,752
Share capital - preferred shares	21	**13,429**	13,429
Share premium reserve - preferred shares	21	**182,547**	182,547
Cash contributions to capital	21	**36**	36
Other reserves	22	**311,930**	286,416
Retained earnings	22	**306,718**	279,031
Total equity		**963,412**	910,211
Total equity and liabilities		**12,189,445**	10,444,808

The separate financial statements on pages 55 to 156 were authorized for issue by the directors on 31 May 2019 and were signed on their behalf by:

Mr. Ghassan Assaf
Chairman and General Manager

The notes on pages 60 to 156 are an integral part of these separate financial statements.

Statement of Comprehensive Income for the Year Ended 31 December, 2018

	Note	2018 LBP Million	2017 LBP Million
Interest and similar income	23	**674,838**	552,613
Interest and similar expenses	23	**(487,427)**	(388,447)
Net interest and similar income		**187,411**	164,166
Net impairment releases (charges)	24	**4,061**	(10,093)
Net interest and similar income after credit impairment charges		**191,472**	154,073
Net fee and commission income	25	**45,092**	41,316
Dividend income		**5,670**	3,474
Net trading income	26	**6,930**	16,266
Net gain (loss) on investment securities at fair value through profit or loss	27a	**316**	(485)
Net (loss) gain on investment securities at amortized cost	27b	**(8)**	2,171
Release of deferred gain on “special swaps” with BDL	19	**14,106**	-
Other income	28	**2,406**	2,642
Personnel expenses	29	**(76,295)**	(68,821)
Depreciation and amortization charges	30	**(6,969)**	(7,703)
Other operating expenses	31	**(65,884)**	(50,775)
Profit before income tax		**116,836**	92,158
Income tax expense	32	**(38,834)**	(18,083)
Profit for the year		**78,002**	74,075
Other comprehensive income			
Items that will not be classified to profit or loss			
Net unrealized loss on financial assets at fair value through other comprehensive income		**(2,801)**	-
Total comprehensive income for the year		**75,201**	74,075

The notes on pages 60 to 156 are an integral part of these separate financial statements.

Statement of Changes in Equity for the Year Ended 31 December, 2018

	Share capital						
	Common shares LBP Million	Preferred shares LBP Million	Share premium reserve LBP Million	Cash contributions to capital LBP Million	Other reserves LBP Million	Retained earnings LBP Million	Total equity LBP Million
At 1 January 2017	148,752	13,429	182,547	36	208,394	302,526	855,684
Profit/total comprehensive income for the year	-	-	-	-	-	74,075	74,075
Transactions with owners of the Bank:							
Appropriations of retained earnings (note 22)	-	-	-	-	78,022	(78,022)	-
Dividends declared relating to 2016 (note 33)	-	-	-	-	-	(19,546)	(19,546)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	-	(2)	(2)
Total transactions with owners recognized directly in equity	-	-	-	-	78,022	(97,570)	(19,548)
At 31 December 2017	**148,752**	**13,429**	**182,547**	**36**	**286,416**	**279,031**	**910,211**
At 1 January 2018, as previously reported	148,752	13,429	182,547	36	286,416	279,031	910,211
Impact of initial application of IFRS 9 (note 2)	-	-	-	-	1,800	-	1,800
At 1 January 2018, as restated	**148,752**	**13,429**	**182,547**	**36**	**288,216**	**279,031**	**912,011**
Profit for the year	-	-	-	-	-	78,002	78,002
Net unrealized loss on financial assets at fair value through OCI	-	-	-	-	**(2,801)**	-	**(2,801)**
Total comprehensive income for the year	-	-	-	-	**(2,801)**	**78,002**	**75,201**
Transactions with owners of the Bank:							
Appropriations of re tained earnings (note 22)	-	-	-	-	26,515	(26,515)	-
Dividends declared relating to 2017 (note 33)	-	-	-	-	-	(23,799)	(23,799)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	-	(1)	(1)
Total transactions with owners recognized directly in equity	-	-	-	-	26,515	(50,315)	(23,800)
At 31 December 2018	**148,752**	**13,429**	**182,547**	**36**	**311,930**	**306,718**	**963,412**

The notes on pages 60 to 156 are an integral part of these separate financial statements.

Statement of Cash Flows
for the Year Ended 31 December, 2018

	Note	2018 LBP Million	2017 LBP Million
Cash flows from operating activities			
Profit before income tax		**116,836**	92,158
Adjustments for non-cash-items:			
Net impairment (releases) charges	24	**(4,061)**	10,093
Depreciation charge	13	**6,131**	6,663
Amortization charge	14	**838**	1,040
Loss on disposal of property and equipment	28	**112**	33
Gain on disposal of assets classified as held for sale	28	**(799)**	(968)
Net loss (gain) on investment securities at fair value through profit or loss		**(242)**	1,704
Net loss (gain) on investment securities at amortized cost	27	**8**	(2,171)
Dividend income		**(5,670)**	(3,474)
Provision for retirement benefit obligations	20	**6,191**	4,251
		119,344	109,329
Change in operating assets and liabilities:			
Balances with Central Banks	5	**(1,776,513)**	(657,825)
Deposits with banks and financial institutions	6	**244,681**	13,320
Investment securities at fair value through profit or loss	9a	**(107,623)**	37,817
Loans and advances to customers	7	**2,073**	(129,442)
Investment securities at amortized cost	10	**132,324**	(10,684)
Other assets	15	**(2,439)**	(3,860)
Due to the Central Bank of Lebanon	17	**1,044,718**	159,873
Deposits from banks and financial institutions	17	**93,888**	79,856
Deposits from customers	18	**499,174**	419,261
Other liabilities	19	**11,286**	5,052
Dividends received		**5,670**	3,474
Employee benefits paid	20	**(1,784)**	(1,812)
Income taxes paid	32	**(38,587)**	(46,543)
Net cash generated from (used in) operating activities		**226,212**	(22,184)
Cash flows from investing activities			
Purchase of intangible assets	14	**(737)**	(591)
Purchase of property and equipment	13	**(7,512)**	(13,475)
Proceeds from disposal of property and equipment		**3,269**	2,225
Proceeds from disposal of assets classified as held for sale		**1,971**	2,264
Net cash used in investing activities		**(3,009)**	(9,577)

The notes on pages 60 to 156 are an integral part of these separate financial statements.

	Note	2018 LBP Million	2017 LBP Million
Cash flows from financing activities			
Interest paid on cash contributions to capital		**(1)**	(2)
Dividends paid	33	**(23,799)**	(19,546)
Net cash used in financing activities		**(23,800)**	(19,548)
Cash and cash equivalents at beginning of year	34	**1,364,143**	1,415,452
Net cash generated from (used in) operating activities		**226,212**	(22,184)
Net cash used in investing activities		**(3,009)**	(9,577)
Net cash used in financing activities		**(23,800)**	(19,548)
Cash and cash equivalents at end of year	34	**1,563,546**	1,364,143

Certain reclassifications of financial assets between categories arising from the initial application of IFRS9 and that are fully set out in note 2.1.1. (ii) are not reflected above as they do not involve the movement of cash.

Notes to the Separate Financial Statements for the Year Ended 31 December, 2018

1 General Information

BBAC S.A.L. ("the Bank") provides retail, private and corporate banking services through its head office in Beirut and its network of forty one branches across Lebanon, in addition to a branch in Cyprus and three branches in Iraq (Erbil, Baghdad, and Sulaymaniah).

The Bank was incorporated in Lebanon in 1956 and registered at the Commercial Court in Beirut under No. 6196. It is registered under number 28 on the list of Lebanese banks at the Central Bank of Lebanon. The address of its registered office is as follows:
P.O. Box: 11-1536, Clemenceau, Beirut - Lebanon.

2 Summary of Significant Accounting Policies

The Principal Accounting Policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The Bank has prepared these separate financial statements in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee (IFRS IC) applicable to Banks reporting under IFRS. The Bank has also prepared, under separate cover, consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries ("the Group"). In the consolidated financial statements, subsidiary undertakings - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. The consolidated financial statements can be obtained from BBAC S.A.L. registered office: P.O. Box: 11-1536, Clemenceau, Beirut - Lebanon.

Users of the separate financial statements should read them together with the Group's consolidated financial statements for the year ended 31 December 2018 in order to obtain full information on the balance sheet, results of operations and changes in balance sheet of the Group as a whole.

The financial statements comply with IFRS as issued by International Accounting Standards Board (IASB). The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss and at fair value through other comprehensive income. The financial statements comprise the balance sheet, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes. The Bank classifies its expenses by the nature of expense method.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in note 3.

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 34 shows the balance sheet captions in which cash and cash equivalents items are included.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates.

It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the balance sheet and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.1.1 Changes in Accounting Policies And Disclosures

(a) New and amended standards adopted by the Bank

The Bank has applied the following standards and amendments to standards for the first time for their annual reporting period commencing 1 January, 2018:

- **IFRS 15, 'Revenue from Contracts with Customers'**
  The standard replaces IAS 11, 'Construction Contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

- **Amendment to IFRS 15, 'Revenue from Contracts with Customers'**
  The amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.

- **Amendment to IAS 40, 'Investment Property'**
  The amendment clarified that to transfer to, or from, investment properties there must be a change in use. To conclude, if a property has changed use there should be an assessment of whether the property meets the definition of an investment property. The change must be supported by evidence. It was confirmed that a change in intention, in isolation, is not enough to support a transfer to or from the investment property.

- **IFRS 9, 'Financial Instruments'**
  The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit and Loss (FVPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value

through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'Hedged Ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The Bank has in previous years adopted the first phase of the IFRS 9 with respect to classification and measurement of financial instruments. The Bank adopted the final phase of IFRS 9 with respect to impairment of financial assets with effect from 1 January 2018.

The impact of IFRS 9 on the separate financial statements of the Bank has been disclosed in paragraph (c) "Changes in Accounting Policies".

Most of the other standards and amendments to standards listed above did not have any impact on the amounts recognized in prior period and are not expected to significantly affect the current or future periods.

(b) New Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretationS have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Bank. The Bank's assessment of the impact of these new standards and interpretations is set out below:

- **Amendment to IFRS 9, 'Financial Instruments'**
  The amendment permits more assets to be measured at amortized cost than under the previous version of IFRS 9, in particular some prepayable financial assets. The amendment also confirms that modifications in financial liabilities will result in the immediate recognition of a gain or loss.

There is no material impact on the separate financial statements of the Bank from the adoption of above amendment on 1 January 2019.

- **IFRS 16, 'Leases'**
  This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Based on the information currently available, the Bank estimates that it will recognize additional lease liabilities as at 1 January 2019 in the financial statements. The Bank estimates that the transition impact will result in an increase in total assets and total liabilities by approximately LL 4.8 billion and a decrease in net profit of approximately LL 944 million.

- **IFRIC 22, 'Foreign Currency Transactions and Advance Consideration'**
  The interpretation considers how to determine the date of transaction when applying the standard to the date of transactions, IAS 21. The date of transaction determines the exchange rate to be used on initial recognition of a related asset, expense or income. The interpretation provides guidance for when a single payment/receipt is made, as well as for situations where multiple payment/receipts are made.

- **IFRIC 23 Uncertainty Over Income Tax Treatments**
  The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

  • Whether tax treatments should be considered collectively
  • Assumptions for taxation authorities
  • The determination of taxable profit (tax loss), tax bases, unused tax losses, and tax rates
  • The effect of changes in facts and circumstance

There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2018 that would be expected to have a material impact on the separate financial statements of the Bank.

(c) Changes in Accounting Policies

This note explains the impact of the adoption of IFRS 9, 'Financial Instruments' on the Bank's financial statements.

- **IFRS 9 - Financial Instruments (effective 1 January 2018) (continued):**
  The Bank has adopted the impairment requirements of IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the separate financial statements. The Bank had in previous years adopted the requirements of IFRS 9 as issued in November 2009 with regards to the classification and measurement of financial assets.

The financial assets held by the Bank include (i) debt instruments classified and measured at amortized cost, (ii) debt and equity instruments classified and measured at fair value through other comprehensive income (FVOCI) and (iii) debt and equity instruments classified and measured at fair value through profit or loss. On 1 January 2018, management reclassified debt securities of LL 118.95 billion previously stated at amortized cost and equity securities of LL 25.66 billion previously stated at fair value through profit or loss to debt and equity securities at fair value through other comprehensive income. This follows a revision of the business model whereby the specified portfolio is held to collect but also to sell under the new hybrid model. The change did not have significant effect on the carrying amounts of these financial assets. The management has also reclassified debt securities of LL 154.94 billion at fair value through profit or loss to debt securities at amortized cost. This also follows a revision of the business model whereby the specified portfolio was reclassified based on management's new strategic decision with respect to how the assets are managed.

As for the Bank's financial liabilities, there was no financial impact, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. The adoption of IFRS 9 as at 1 January 2018 had the effect of increasing the fair value through OCI reserve by LL 1.8 billion.

For disclosure purposes, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period disclosures reflect those made in the prior period.

The adoption of the impairment requirements of IFRS 9 has resulted in changes in accounting policies for impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 3.

(i) Classification and Measurement of Financial Instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39/IFRS 9 Phase I and IFRS 9 at 1 January 2018 are stated as follows:

There were no changes to the classification and measurement of financial liabilities.

	IAS 39/IFRS 9 Phase I		IFRS 9	
Financial assets	Measurement category LBP Million	Carrying amount LBP Million	Measurement category LBP Million	Carrying amount LBP Million
Cash and balances with the Central Banks	Amortized cost	2,511,289	Amortized cost	2,494,235
Deposits with banks and financial institutions	Amortized cost	1,052,215	Amortized cost	1,044,236
Loans and advances to customers	Amortized cost	2,645,669	Amortized cost	2,701,894
Acceptances	Amortized cost	63,067	Amortized cost	61,135
Investment securities	Amortized cost	3,774,577	Amortized cost	3,786,922
	FVPL	206,594	FVPL	25,990
	FVOCI	-	FVOCI	145,983

(ii) Reconciliation of Statement of Financial Position Balances from IAS 39 / IFRS 9 Phase I to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IFRS 9 Phase I to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39/IFRS 9 Phase I			IFRS 9
	Carrying amount 31 December 2017	Re-classification	Re-measurment	Carrying amount 1 January 2018
On-balance sheet	LBP Million	LBP Million	LBP Million	LBP Million
Cash and balances with the Central Banks				
Opening balances	2,511,289	-		
Remeasurement: ECL				
Allowance			(17,054)	
Closing balance under IFRS 9				2,494,235
Deposits with banks and financial institutions				
Opening balances	1,052,215			
Remeasurement: ECL				
Allowance			(7,979)	
Closing balance under IFRS 9				1,044,236
Loans and advances to customers				
Opening balances	2,645,669	-		
Remeasurement: ECL				
Allowance			56,225	
Closing balance under IFRS 9				2,701,894
Acceptances				
Opening balances	63,067	-		
Remeasurement: ECL				
Allowance			(1,932)	
Closing balance under IFRS 9				61,135
Investment securities at amortized cost				
Opening balances	3,774,577			
Reclassified from: - FVPL		154,943		
Reclassified to: - FVOCI		(118,951)		
Closing balance remeasurement: ECL				
Allowance			(23,647)	
Closing balance under IFRS 9				3,786,922
Investment securities at fair value through profit or loss				
Opening balances	206,594			
Reclassified to: - FVOCI		(25,661)		
- Amortized cost		(154,943)		
Closing balance under IFRS 9				25,990
Investment securities at fair value through other comprehensive income				
Opening balances	-			

	IAS 39/IFRS 9 Phase I			IFRS 9
	Carrying amount 31 December 2017	Re-classification	Re-measurment	Carrying amount 1 january 2018
On-balance sheet	LBP Million	LBP Million	LBP Million	LBP Million
Reclassified from:				
- FVPL		25,661		
- Amortized cost		120,751		
Remeasurement: ECL				
Allowance			(429)	
Closing balance under IFRS 9				145,983
Off-balance sheet	LBP Million	LBP Million	LBP Million	LBP Million
Undrawn credit lines, guarantee and other financial liabilities				
Opening balances	1,002,272	-		
Remeasurement: ECL				
Allowance			(5,184)	
Closing balance under IFRS 9				997,088
	11,255,683	**1,800**	**-**	**11,257,483**

(iii) Reconciliation of Impairment Allowance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	IAS 39 ECL		IFRS 9 ECL
	31 December 2017	Re-measurement	1 January 2018
On balance sheet	LBP Million	LBP Million	LBP Million
Cash and balances with the Central Banks	6,943	17,054	23,997
Deposits with banks and financial institutions	-	7,979	7,979
Loans and advances to customers	214,062	(56,225)	157,837
Acceptances	-	1,932	1,932
Investment securities at amortized cost	-	23,647	23,647
Investment securities at FVOCI	-	429	429
Off-balance sheet	LBP Million	LBP Million	LBP Million
Undrawn credit lines, guarantee and other financial liabilities	-	5,184	5,184
	221,005	**-**	**221,005**

Further information on the measurement of the impairment allowance under IFRS 9 can be found in note 3.

There was no net impact on opening reserves or retained earnings as at 1 January 2018.

2.2 Investment in Subsidiaries

Subsidiaries are all entities over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated on the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The Bank has elected to account for its investments in subsidiaries under the cost method, and accordingly:

If the ownership interest in the subsidiary is reduced but significant influence/control is retained, the difference between the carrying value of the portion sold and the amount received on sale is recognized in profit or loss as 'gain/loss on sale of shares in subsidiary' within 'other operating income/loss'.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the subsidiary is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and accordingly the loss is recognized in the profit or loss as 'impairment loss on investment in subsidiary' within 'other operating income/loss'.

The Bank does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the subsidiary.

Dividend income is recognized when the right to receive payment is established. A listing of the Bank's subsidiaries is shown in note 11.

2.3 Foreign Currency

(a) Functional and Presentation Currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Lebanese Pounds, which is the Bank's functional and presentation currency.

(b) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2.4 Financial Assets and Liabilities

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognized immediately in the statement of profit or loss. Immediately after initial recognition, an expected credit loss ("ECL") allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, as described in note 3, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

2.4.1 Financial Assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Classification of Financial Assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Debt Instruments:

Debt instruments are measured at amortized cost if both of the following conditions are met:

(a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(b) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

All other financial assets except for debt instruments carried at amortized cost are subsequently measured at fair value.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortized Cost: Assets that are held for collection of contractual cash flows where those cash flows represent Solely Payments of Principal and Interest ('SPPI'), and that are not designated at Fair Value through Profit or Loss (FVPL), are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in note 3.

- Fair Value through Other Comprehensive Income (FVOCI): financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movement in carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortized cost which are recognized in profit or loss.

- When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Net Gains on Investment Securities".

- Fair Value through Profit or Loss (FVPL): Assets that do not meet the criteria for amortized cost or FVOCI are measured at Fair Value through Profit or Loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within "Net Trading Income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in "Net Investment Income".

Business Model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI Test').

In making this assessment, the Bank considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and there were no material reclassification during the year.

Equity Instruments:

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at Fair Value through Profit or Loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at Fair Value through Other Comprehensive Income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

Amortized Cost and Effective Interest Method

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate 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 (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or Stage 3), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

The Bank assesses on a forward-looking basis the Expected Credit Losses ('ECL') associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts.

(ii) Impairment of Financial Assets

The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 3 provides more detail of how the expected credit loss allowance is measured.

Accounting policies applicable before 1 January 2018

(a) Assets Carried at Amortized Cost

The Bank assessed at each reporting date whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the Bank first assessed individually whether objective evidence of impairment existed for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If the Bank determined that no objective evidence of impairment existed for an individually assessed financial asset, it included the asset in a group of financial assets with similar credit risk characteristics and collectively assessed them for impairment. Assets that were individually assessed for impairment and for which an impairment loss was, or continued to be, recognized were not included in a collective assessment of impairment.

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that had not been incurred). The carrying amount of the asset was reduced through the use of an allowance account and the amount of the loss was recognized in the statement of comprehensive income.

Loans together with the associated allowance were written off when there was no realistic prospect of future recovery and all collateral had been realized or had been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increased or decreased because of an event occurring after the impairment was recognized, the previously recognized impairment loss was increased or reduced by adjusting the allowance account. If a future write-off was later recovered, the recovery was credited to the "Net Loan impairment Charges" in the statement of comprehensive income.

The present value of the estimated future cash flows was discounted at the financial asset's original effective interest rate. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflected the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not the foreclosure was probable.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of the Bank's internal credit grading system, that considered credit risk characteristics such as asset type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently.

Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Renegotiated Loans

Loans that were either subject to collective impairment assessment or individually significant and whose terms had been renegotiated were no longer considered to be past due but were treated as new loans.

(iii) Modification of Loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. Where this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

- Whether any substantial new terms are introduced, such as a profit share/equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecogntion, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

Derecognition Other Than on a Modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownerships, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Bank retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitization transactions in which the Bank retain a subordinated residual interest.

Classification and Subsequent Measurement

Financial liabilities (including deposits from banks and financial institutions, due to the Central Bank of Lebanon and deposits from customers) are initially recognized at fair value and subsequently measured at amortized cost, except for:

Financial liabilities at Fair Value through Profit or Loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at Fair Value through Profit or Loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Bank recognizes any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognized in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners

2.4.3 Financial Guarantee Contracts and Loan Commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance (calculated as described in note 3).

2.4.4 Determination of Fair Value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using widely recognized models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, credit default swap spreads) existing at the dates of the balance sheet.

2.4.5 Sale and Repurchase Agreements

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.5 Classes of Financial Instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category</th><th colspan="2">Class</th><th rowspan="2">Subclass</th></tr>
<tr><th colspan="2">(as defined by IFRS 9)</th><th colspan="2">(as determined by the Bank)</th></tr>
<tr><td rowspan="10">Financial Assets</td><td rowspan="8">At amortized cost</td><td colspan="3">Deposits with banks and financial institutions</td></tr>
<tr><td rowspan="6">Loans and advances to customers</td><td rowspan="4">Loans to individuals</td><td>- Overdrafts</td></tr>
<tr><td>- Credit cards</td></tr>
<tr><td>- Personal loans</td></tr>
<tr><td>- Housing loans</td></tr>
<tr><td rowspan="2">Loans to corporate entities</td><td>- SMEs</td></tr>
<tr><td>- Large corporate entities</td></tr>
<tr><td colspan="2">Investment securities - debt instruments</td><td>Unlisted and listed</td></tr>
<tr><td>At fair value through profit or loss</td><td colspan="2">Investment securities:
Equity instruments
Debt securities</td><td>Unlisted and listed</td></tr>
<tr><td>At fair value through other comprehensive income</td><td colspan="2">Investment securities
Debt instruments
Equity instruments</td><td>Unlisted and listed</td></tr>
<tr><td rowspan="3">Financial liabilities</td><td rowspan="3">Financial liabilities at amortized cost</td><td colspan="3">Deposits from banks</td></tr>
<tr><td colspan="3">Deposits from customers and financial institutions</td></tr>
<tr><td colspan="3">Due to the Central Bank of Lebanon</td></tr>
<tr><td rowspan="2">Off balance sheet financial instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees and other financial facilities</td></tr>
</table>

2.6 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

2.7 Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount of the financial instrument, except for financial assets that have subsequently become credit-impaired (or Stage 3), for which interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision) and are recognized within 'interest income' and 'interest expense' in the statement of profit or loss. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.8 Fee and Commission Income and Expenses

Fees and commissions are generally recognized on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportionate basis.

2.9 Dividend Income

Dividends are recognized in the statement of comprehensive income when the Bank's right to receive payment is established. Usually, this is the ex-dividend date for quoted equity securities.

2.10 Impairment of Non-Financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2018 and 2017.

2.11 Cash and Cash Equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.12 Repossessed Property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "Non-Current Assets Held for Sale".

2.13 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. These charges are recorded within 'Other Operating Expenses'.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.14 Investment Properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Bank, are classified as investment properties. Investment properties comprise office buildings and retail parks leased out under operating lease agreements.

Some properties may be partially occupied by the Bank, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Bank can be sold separately, the Bank accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40.

When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Bank considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Bank uses the size of the property measured in square meter. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment if any.

Land is not depreciated. Depreciation on buildings is calculated using the straight line method to allocate the residual values over 50 years.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the balance sheet. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the statement of profit or loss.

2.15 Property and Equipment

Land and buildings comprise mainly branches and offices and are accounted for using the cost model. All other items in property and equipment are accounted for using the cost model (i.e. at historical cost less accumulated depreciation and net of impairment charges, if any).

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50
Computer equipment	5
Furniture, fixtures and equipment	12 - 13
Vehicles	10
Leasehold improvements	5 - 8

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized within 'Other Operating Income' in the statement of comprehensive income

2.16 Intangible Assets

Intangible assets comprise separately identifiable intangible items arising mainly from computer software licences. Intangible assets are recognized at cost. These intangible assets have a definite useful life and are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 5 years.

2.17 Non-Current Assets Held for Sale

Non-current assets held for sale represent properties acquired from customers in settlement of their debt. The Bank exercises its ownership rights over the real estate collateral or acquires the customer's real estate property when it exhausts all other reasonable means for collecting non-performing loans.

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.18 Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank operates and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred Income Tax

Deferred income tax is provided in full, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when (i) there is a legally enforceable right to offset current tax assets against current tax liabilities and (ii) when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority and (iii) where there is an intention to settle the balances on a net basis.

2.19 Employee Benefits

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 balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the NSSF. 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 and are denominated in the currency in which the benefits will be paid.

Statutory Requirements

With reference to the directives of the National Social Security Fund and Labour laws, the Bank is required to record a provision for staff termination indemnities as if the employment of all staff were to be terminated at the balance sheet date. This provision is calculated as the difference between total indemnities due (a factor of number of years of service and the average monthly salary, based on the last 12 months remunerations) and the total monthly contributions paid to the NSSF (which represents 8.5% of the paid employee benefits).

2.20 Provisions

Provisions for restructuring costs and legal claims are recognized when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Bank recognizes no provisions for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.21 Share Capital

(a) Share Issue Costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Preference shares are redeemable at the sole discretion of the issuer and are classified as equity instruments.

(b) Dividends on Ordinary Shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the date of the balance sheet are dealt with in the subsequent events note.

(c) Cash Contributions to Capital

Cash contributions to capital are classified as equity. A part of these cash contributions generates interest charges paid to the respective shareholders.

2.22 Acceptances

Acceptances are recognized as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

2.23 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

3 Financial Risk Management

The core responsibility of the Risk Management function is to identify, measure, mitigate, price and manage risk to ensure that the Bank generates sustainable returns by maintaining acceptable asset quality and meeting the desired return on capital as mandated by the shareholders.

The Bank has exposure to the following primary risks:

- Credit risk
- Liquidity risk
- Market risk

The Bank's ability to consistently foster a robust risk management culture and framework is an important factor in its financial stability and growth.

Risk Management Framework

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's board of directors provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

The Bank has established the Risk Committee to assist the Board in assessing the different types of risk to which the Bank is exposed, as well as its risk management structure, organization and processes.

The Board's Risk Committee is responsible for monitoring compliance with the Bank's Risk Management Policies and procedures, and for reviewing the adequacy of the Risk Management Framework in relation to the risks faced by the Bank.

The Risk Management Function is independent of the business groups and is led by a qualified Chief Risk Officer, with enterprise-wide responsibility for the function. The Risk Management Function is responsible for formulating policies to manage credit, market and operational risk. Experienced and trained Risk Managers have delegated authority within the Risk Management Framework to approve credit risk transactions and monitor market and operational risks.

The Board Audit Committee is assisted in its oversight role by the Internal Audit Unit. The Internal Audit Unit undertakes both regular and ad hoc reviews over risk management controls and procedures, the results of which are reported to the Audit Committee.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk and operational risk.

Risk Appetite and Stress Testing

The key to the Bank's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and its strategy. Stress testing is a key management tool within the Bank and is used to evaluate the sensitivity of the current and forward risk profile relative to different levels of shocks. Stress testing within the Bank is subject to the tress testing governance framework which sets out the responsibilities for and approaches to stress testing activities. The primary governance committee overseeing risk appetite and stress testing is the Enterprise Risk Committee.

Internal Capital Adequacy Assessment Process (ICAAP)

The purpose of the ICAAP is to inform the Board of the ongoing assessment of the Bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

This entails the computation of the Bank's aggregated Economic Capital and the monitoring of the Bank's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Bank's capital buffer (measured as available capital less required risk capital) and recommending actions, as warranted. The risk assessment is approved by the Board as part of the ICAAP submission.

3.1 Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from corporate and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including non-equity trading portfolio assets, derivatives, settlement balances with market counterparties and repurchase agreements.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralized in a Risk Management Department which reports regularly to the Risk Management Committee.

3.1.1 Risk Limit Control and Mitigation Policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual borrowers, groups, industries, countries and types of facilities.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are set by the Board of Directors, (in compliance with the requirements of BDL basic circulars no. 48, 62 and 81). In addition, the exposure to any one borrower or related borrowers is further restricted by sub-limits covering on and off-balance sheet exposures, in compliance with the requirement of BDL basic circular no. 48.

Lending limits are reviewed in the light of changing market and economic conditions and yearly credit reviews of outstanding facilities to clients.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties (housing loans);
- Mortgages over commercial properties (corporate loans);
- Cash collaterals;
- Bank and public sector guarantees;
- Pledged assets such as premises, inventory, accounts receivable, commercial bills, machinery, vehicles, trade rights; and
- Pledged financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances to customers is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. Reverse repurchase agreements are collateralized by the Central Bank of Lebanon Certificates of Deposit (note 6) for the period of the facility.

(b) Master Netting Arrangements

The Bank further controls its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(c) Financial Covenants (for credit related commitments and loan books)

The primary purpose of these conditions is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate in addition to a cash collateral as set by the credit committee (based on the credit rating of the customer, usually a margin of no less than 15% is requested in compliance with BDL basic circular no. 52) and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.2 Credit Risk Management

(a) Loans and Advances to Customers (including loan commitments, LCs and LGs)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using the concept of Expected Loss which requires the following measures:

- Probability of Default ("PD")
- Loss Given Default ("LGD")
- Exposure at Default ("EAD")

IAS 39 incurred loss model is replaced by IFRS 9 expected credit loss model, which is based on macro adjusted PD, LGD & EAD measures. Additionally, it also captures deterioration and lifetime likelihood of defaults.

Credit Risk Grading

The Bank uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for commercial exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 1 and 2 rating grade is lower than the difference in the PD between a 2 and 3 rating grade.

The internal rating system for performing assets ranges from 1 to 7, each grade being associated with a Probability of Default. Non-performing clients are rated 8, 9, and 10, corresponding to substandard, doubtful, loss classifications and write-off.

These risk ratings have been mapped into 10 Grades which are defined below:

Bank's internal rating	*Regulatory rating and description	Definition	PD range as percentage	Moody's rating	
1	Class 1	Excellent	0.26%	Aaa	Aa1
2		Strong	0.26%	Aa2	Aa3
3	Class 2	Good	0.26%	A1	A3
4		Satisfactory	0.40%	Baa1	Baa3
5		Adequate	1.08%	Ba1	Ba3
6	Class 3	Marginal	5.24%	B1	B3
7		Vulnerable	16.15%	Caa1	Caa3
8	Class 4	Substandard	100.00%	D	D
9	Class 5	Doubtful	100.00%	D	D
10	Class 6	Loss	100.00%	D	D

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves the periodic review of customers' files, status of the industry, press articles, economic condition, changes in external credit ratings, and other internal and external information.

*The Bank also rates its counterparties based on the regulatory rating (established by reference to the Supervisory Rating Model set by the Central Bank of Lebanon):

Performing loans

- Normal - the loan is expected to be repaid on a timely and consistent basis;
- Follow-up - the loan is expected to be repaid but the client's file is not complete;
- Special mention - the loan is expected to be repaid but current conditions lead to believe that the probability of repayment would be lowered;

Non-performing loans

- Sub-standard - client's ability to repay is dependent on the amelioration of financial position or liquidation of collateral(s) on hand;
- Doubtful - probability of loss upon settlement of loan even after taking into consideration liquidation of collateral(s) in place; and
- Bad - the probability of repayment is low and almost nil.

(b) Investment Securities and Placements with Banks

For investment securities and placements with Banks, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realized default rates over the prior 12 months, as published by the rating agency.

3.1.3 Expected Credit Loss Measurment

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition of a facility as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a Significant Increase in Credit Risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The identification of SICR is measured via a change in one year probability of default between the date of inception of facility and the date of IFRS 9 ECL run.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 3.1.3.5).

The following diagram summarizes the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition		
Stage 1	**Stage 2**	**Stage 3**
(Initial Recognition)	**(Significant increase in credit risk since initial recognition)**	**(Credit-impaired assets)**
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

3.1.3.1 Significant Increase in Credit Risk (SICR)

The Bank considers a financial asset to have experienced a significant increase in credit risk when a significant change in one year probability of default occurs between the origination date of a specific facility and the date that the IFRS9 ECL is calculated.

Quantitative Criteria

(a) Commercial Loans:

For commercial loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:
- Change in internal/supervisory rating since inception;
- Operating performance and efficiency;
- Debt service;
- Liquidity assessment;
- Capital structure;
- Loan rescheduling within 1 year; and
- Accounts overdue more than 30 days.

(b) Retail:

For the retail portfolio, if the borrowers meet one or more of the following criteria:
- Adverse findings for an account/borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD); and
- Accounts overdue more than 30 days.

(c) Investments/Treasury:

- Significant increase in probability of default of the underlying treasury instrument;
- A move of two notches since inception date with reference to Moody's grading; and
- Significant change in the investment's expected performance and behavior of borrower (collateral value, payment holiday, payment to income ratio etc.).

Qualitative Criteria

(a) Commercial Loans:

For commercial loans, if the borrower experiences a significant increase in probability of default, which can be triggered by the following Default Risk Indicator's (DRI):
- Net worth erosion;
- Significant change in the value of the collateral;
- Internal credit rating downgrade;
- Restructuring;
- Financial covenants breach;
- Significant operations disruption;
- Court ruling against the company; and
- Auditor information.

(b) Retail Loans:

For retails loans, if the borrower meets one or more of the following criteria:
- Significant change in the value of the collateral;
- Extension to the terms granted;
- Previous arrears within the last 12 month; and
- Restructuring.

(c) Investments/Treasury:

For investments/treasury portfolio if the instruments meet one or more of the following criteria:
- Significant increase in credit spread;
- Adverse changes in financial and or economic conditions;
- Restructuring;
- Early signs of cash flow liquidity problems;
- Evident deterioration in the Sovereign's debt servicing capacity;
- Evident deterioration in the Sovereign's political and security situation;
- Evident deterioration in the currency in comparison to the hard currencies; and
- The sovereign debtor did not meet an obligation on the due date.

Backstop

- If the borrower is more than 30 days past due on its contractual payments a backstop is applied and the financial asset is considered to have experienced a significant increase in credit risk.

The Bank has used the low credit exemption for facilities granted to the Bank's shareholders and employees for the year ended 31 December 2018.

3.1.3.2 Definition of Default and Credit-Impaired Assets

The Bank defines a financial corporate, retail and investment instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative Criteria

- The borrower is more than 90 days past due on its contractual payments;
- Decrease in external sovereign rating by three notches for three rating agencies;
- Internal rating: 8, 9 & 10; and
- Supervisory rating: 4, 5 & 6.

Qualitative Criteria

According to the Basel definition, default is considered to have occurred with regard to particular obligors when either one of the following events have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligation to the Bank in full without recourse by the Bank to actions like realising security (if held);
- The Bank puts the credit obligation on a non-accrued status;

- The Bank makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure;
- The Bank sells the credit obligation at a material credit-related economic loss;
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees;
- The Bank has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Bank; and
- The obligor is past due more than 90 days on any material credit obligation to the Bank.

However, for corporate overdrafts and credit card facilities that include both a loan and an undrawn commitment component, ECL is measured over the contractual period (with a maximum tenure of 1 year) as the Bank has the contractual ability to demand repayment and cancel the undrawn commitment within the contractual period. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level (i.e. on quarterly basis). Other procedures implemented by the Bank to reduce the exposure include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

3.1.3.3 Measuring ECL - Explanation of Inputs, Assumptions and Estimation Techniques

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes.

The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Bank has adopted a forward exposure method for computing the ECL for each facility. The Bank has opted for a monthly granular computation of PD, EAD and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of Default and Credit-Impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

The Bank has implemented a risk rating model since 2012 which has enabled the Bank to collect historical risk ratings since 2012 and build point in time credit transition matrices for the last 6 years.

This has enabled the Bank to derive a credit index using the historical transition matrices. The credit index correlates with specific macroeconomic factors, which have been statistically, established through regression models.

These models were used to forecast future credit transitions using Moody's research macro economic forecast under the IFRS 9 scenarios i.e. upwards and downwards. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month period or lifetime basis.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining committed limit by the time of default.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

3.1.3.4 Forward-Looking Information Incorporated in the ECL Models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Bank's Economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Economic Variable Assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		2019	2020	2021	2022	2023
Gross Domestic Product ("GDP")	Base	2.95%	3.47%	4.04%	4.66%	5.31%
	Upside	2.39%	2.58%	2.76%	2.95%	3.13%
	Downside	1.84%	1.68%	1.48%	1.24%	0.95%

The weightings assigned to each economic scenario at 31 December 2018 were as follows:

	Base	Upside	Downside
Loans to individuals	33.33%	33.33%	33.33%
Loans to corporate entities	33.33%	33.33%	33.33%

There are no significant changes for period end assumptions used for the ECL estimate as at 1 January 2018.

Sensitivity Analysis

The most significant assumption affecting the ECL allowance across all portfolios is the gross domestic product, given the significant impact on companies' performance and collateral valuations.

Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions:

		Change in ECL %
Gross Domestic Product ("GDP")	[+1%]	(9.51)
	No change	-
	[-1%]	5.68

3.1.3.5 Grouping of Instruments for Losses Measured on a Collective Basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The characteristics and any supplementary data used to determine groupings are outlined below:

Retail - Groupings for collective measurement
- Product type (e.g. housing, personal loans, credit card, tuition loans, car loans)
- Repayment type (e.g. repayment/interest only)

The corporate portfolio exposures are assessed individually.

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk Team.

3.1.4 Credit Risk Exposure

3.1.4.1 Maximum Exposure to Credit Risk - Financial Instruments Subject to Impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

Credit risk exposure relating to on-balance sheet assets for 31 December 2018 are as follows:

	Stage 1	Stage 2	Stage 3	
	12-month ECL LBP Million	Lifetime ECL LBP Million	Lifetime ECL LBP Million	Total LBP Million
Balances with Central Banks (excluding cash)	4,251,306	-	429	4,251,735
Loss allowance	(26,064)	-	(429)	(26,493)
Carrying amount	**4,225,242**	**-**	**-**	**4,225,242**
Deposits with banks and financial institutions				
Investment grade	696,332	-	-	696,332
BB+ and below	10,772	-	-	10,772
Unrated (see below)	223,870	-	-	223,870
Gross carrying amount	**930,974**	**-**	**-**	**930,974**
Loss allowance	(3,066)	-	-	(3,066)
Carrying amount	**927,908**	**-**	**-**	**927,908**

Unrated deposits with banks comprise deposits held with reputable Lebanese banks with an internal rating of 1 and 2.

	Stage 1	Stage 2	Stage 3	
	12-month ECL LBP Million	Lifetime ECL LBP Million	Lifetime ECL LBP Million	Total LBP Million
Loans and advances to customers				
Performing	1,875,009	617,994	-	2,493,003
Substandard	-	-	40,404	40,404
Doubtful	-	-	249,503	249,503
Bad	-	-	16,671	16,671
Gross carrying amount	**1,875,009**	**617,994**	**306,578**	**2,799,581**
Loss allowance	(6,300)	(16,998)	(137,056)	(160,354)
Carrying amount	**1,868,709**	**600,996**	**169,522**	**2,639,227**
Debtors by acceptances				
Performing	83,297	17,486	-	100,783
Loss allowance	(237)	(371)	-	(608)
Carrying amount	**83,060**	**17,115**	**-**	**100,175**
Investment securities at amortized cost				
Investment grade	7,538	-	-	7,538
BB+ and below	3,813,294	-	-	3,813,294
Gross carrying amount	**3,820,832**	**-**	**-**	**3,820,832**
Loss allowance	(20,033)	-	-	(20,033)
Carrying amount	**3,800,799**	**-**	**-**	**3,800,799**
Investment securities at fair value through other comprehensive income				
Investment grade	44,645	-	-	44,645
BB+ and below	73,597	-	-	73,597
Gross carrying amount	**118,242**	**-**	**-**	**118,242**
Loss allowance	(409)	-	-	(409)
Carrying amount	**117,833**	**-**	**-**	**117,833**
Undrawn credit lines, guarantee and other financial liabilities				
Performing	1,040,398	240,073	10,799	1,291,270
Loss allowance	(1,812)	(2,741)	(27)	(4,580)
Carrying amount	**1,038,586**	**237,332**	**10,772**	**1,286,690**

The table below shows the maximum exposure to credit risk for financial assets that are not subject to impairment:

	2018 / LBP Million
Investment securities at fair value through profit or loss	**14,022**

Maximum credit risk exposures relating to on-balance sheet assets for 31 December 2017 are as follows:

Assets	2017/LBP Million
Balances with Central Banks	2,377,830
Deposits with banks and financial institutions	1,052,215
Loans and advances to customers	
Loans to individuals	
- Mortgages	478,689
- Personal	83,022
- Car	88,735
- Other Retail	201,998
Loans to corporate entities	
- Large corporate customers	649,599
- Small and medium size enterprises ("SMEs")	1,037,484
- Subsidised loans	83,013
- Kafalat loans	23,129
Debtors by acceptances	63,067
Investment securities at fair value through profit or loss (debt securities)	167,315
Investment securities at amortized cost	3,774,577
Other assets	55,660
At 31 December	**10,136,333**

Credit risk exposures relating to off-balance sheet items are as follows:

	2017/LBP Million
Loan commitment (unused facilities)	611,281
Letters of guarantee	216,954
Letters of credit	174,037
	1,002,272

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 29.7% of the total maximum exposure is derived from investment securities (2017-39%); 21.4% is derived from loans and advances to customers (2017-27%) and 32.1% is derived from balances with Central Banks (2017-23%).

Management is confident in its ability to continue to control and sustain acceptable exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 61.5% of the Bank's debt securities portfolio is allocated to Lebanese treasury bills (2017-64%), of which 62.8% is denominated in Lebanese pounds (2017-63%), and
- 37% of the Bank's debt securities portfolio classified at amortized cost is allocated to certificates of deposits issued by the Central Bank of Lebanon (2017-34%), of which 57% is denominated in Lebanese pounds (2017-57%), and
- 87% of the loans and advances portfolio is categorized in the top two grades of the internal rating system i.e. classified as performing (2017-93%).

3.1.4.2 Collateral and Other Credit Enhancements

Collateral against loans and advances measured at amortized cost is generally held in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing. Collateral generally is not held over amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The Bank closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Bank will take possession of the collateral to mitigate potential credit losses. Financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below:

(i) Loans and Advances to Customers

	Individuals (retail customers)				Corporate entities				
	Mortgages	Personal	Car	Other Retail	Large corporate customers	Small and medium enterprises	Subsidised	Kafalat	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
At 31 December 2018									
Gross amount	**11,097**	**3,037**	**1,842**	**1,388**	120,230	209,093	6,647	4,250	357,584
***Fair value of collateral**	**17,248**	**4**	**4,774**	**210**	134,477	177,312	2,757	1,924	338,707
At 31 December 2017									
Gross amount	4,943	2,358	1,498	893	30,818	140,868	2,834	2,559	186,771
*Fair value of collateral	7,293	11	3,075	213	33,066	122,557	5,572	1,297	173,084

**Collateral analysis*

Collateral for individuals mainly comprises property/mortgages for housing loans and cars for car loans. Collateral for corporate entities mainly comprises property/real-estate for large corporate customers. Small and medium customers and subsidised loans.

The above table shows the split between large corporate and SME loans based on the intermediate BDL circular no. 396 issued on 8 September 2015.

3.1.5 Loss Allowance

The following table explains the changes in the loss allowance from 1 January 2018 to 31 December 2018:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Balances with Central Banks				
Loss allowance as at 1 January 2018	10,120	8,013	5,864	23,997
Transfers				
Transfer from stage 2 to Stage 1	4,219	(4,219)	-	-
New financial assets originated	6,475	-	-	6,475
Changes in PDs/LGDs/EADs	6,663	-	-	6,663
Financial assets derecognized	(1,413)	(3,794)	(5,435)	(10,642)
Loss allowance as at 31 December 2018	**26,064**	**-**	**429**	**26,493**

The credit loss allowance for cash and balances with Central Banks recognized in the period is impacted by a variety of factors; details of ECL measurement are provided in note 3.1.3. The main movements above may be explained as follows:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models; and
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period.

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Deposits with banks and financial institutions				
Loss allowance as at 1 January 2018	7,832	147	-	7,979
Transfers				
Transfer from Stage 2 to Stage 1	134	(134)	-	-
New financial assets originated	2,204	-	-	2,204
Changes in PDs/LGDs/EADs	(30)	-	-	(30)
Financial assets derecognized	(7,074)	(13)	-	(7,087)
Loss allowance as at 31 December 2018	**3,066**	**-**	**-**	**3,066**

The credit loss allowance for deposits with banks and financial institutions recognized in the period is impacted by a variety of factors; details of ECL measurement are provided in note 3.1.3. The main movements above may be explained as follows:

- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period.

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Loans and advances to customers				
1 January 2018	7,541	24,278	126,018	157,837
Transfers:				
Transfer from Stage 1 to Stage 2	(13,443)	13,443	-	-
Transfer from Stage 1 to Stage 3	(34,929)	-	34,929	-
Transfer from Stage 2 to Stage 1	2,289	(2,289)	-	-
Transfer from Stage 2 to Stage 3	-	(2,803)	2,803	-
Transfer from Stage 3 to Stage 1	21,286	-	(21,286)	-
Transfer from Stage 3 to Stage 2	-	89	(89)	-
New financial assets originated	49,404	-	-	49,404
Changes in PDs/LGDs/ EADs	(24,490)	(9,184)	8,838	(24,836)
Financial assets derecognized	(1,358)	(6,536)	(14,157)	(22,051)
Loss allowance as at 31 December 2018	**6,300**	**16,998**	**137,056**	**160,354**
Loans and advances to customers - Corporate				
Lost allowance as at 1 January 2018	3,245	24,028	70,304	97,577
Transfers:				
Transfer from Stage 1 to Stage 2	(13,111)	13,111	-	-
Transfer from Stage 1 to Stage 3	(34,912)	-	34,912	-
Transfer from Stage 2 to Stage 1	2,122	(2,122)	-	-
Transfer from Stage 2 to Stage 3	-	(2,776)	2,776	-

	Stage 1	Stage 2	Stage 3	
	12-month ECL LBP Million	Lifetime ECL LBP Million	Lifetime ECL LBP Million	Total LBP Million
Transfer from Stage 3 to Stage 1	21,286	-	(21,286)	-
Transfer from Stage 3 to Stage 2	-	89	(89)	-
New financial assets originated	47,783	-	-	47,783
Changes in PDs/LGDs/ EADs	(23,966)	(9,151)	5,057	(28,060)
Financial assets derecognized	(483)	(6,470)	(13,000)	(19,953)
Loss allowance as at 31 December 2018	**1,964**	**16,709**	**78,674**	**97,347**
Loans and advances to customers - Retail				
Loss allowance as at 1 January 2018	4,296	250	55,714	60,260
Transfers:				
Transfer from Stage 1 to Stage 2	(332)	332	-	-
Transfer from Stage 1 to Stage 3	(17)	-	17	-
Transfer from Stage 2 to Stage 1	167	(167)	-	-
Transfer from Sstage 2 to Stage 3	-	(27)	27	-
New financial assets originated	1,621	-	-	1,621
Changes in PDs/LGDs/ EADs	(524)	(33)	3,781	3,224
Financial assets derecognized	(875)	(66)	(1,157)	(2,098)
Loss allowance as at 31 December 2018	**4,336**	**289**	**58,382**	**63,007**

The credit loss allowance for loans and advances to customers recognized in the period is impacted by a variety of factors; details of ECL measurement are provided in note 3.1.3. The main movements above may be explained as follows:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Impact on the measurement of ECL due changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Write-offs of allowances related to assets that were written off during the period.

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Acceptances				
Loss allowance as at 1 January 2018	1,001	931	-	1,932
Transfers:				
Transfer from Stage 1 to Stage 2	(384)	384	-	-
Transfer from Stage 2 to Stage 1	2	(2)	-	-
New financial assets originated	209	-	-	209
Changes in PDs/LGDs/ EADs	(565)	(906)	-	(1,471)
Financial assets derecognized	(26)	(36)	-	(62)
Loss allowance as at 31 December 2018	**237**	**371**	**-**	**608**

The credit loss allowance for acceptances recognized in the period is impacted by a variety of factors; details of ECL measurement are provided in note 3.1.3. The main movements above may be explained as follows:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period; and
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period.

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Investment securities at amortized cost				
Loss allowance as at 1 January 2018	23,647	-	-	23,647
New financial assets originated	2,680	-	-	2,680
Changes in PDs/LGDs/ EADs	(1,575)	-	-	(1,575)
Financial assets derecognized	(4,719)	-	-	(4,719)
Loss allowance as at 31 December 2018	**20,033**	**-**	**-**	**20,033**

The credit loss allowance for investment securities at amortized cost recognized in the period is impacted by a variety of factors; details of ECL measurement are provided in note 3.1.3. The main movements above may be explained as follows:

- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period; and
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period.

	Stage 1	Stage 2	Stage 3	
	12-month ECL LBP Million	Lifetime ECL LBP Million	Lifetime ECL LBP Million	Total LBP Million
Investment securities at fair value through other comprehensive income				
Loss allowance as at 1 January 2018	429	-	-	429
Changes in PDs/LGDs/EADs	(20)	-	-	(20)
Loss allowance as at 31 December 2018	**409**	**-**	**-**	**409**

The credit loss allowance for investment securities at fair value through other comprehensive income recognized in the period is impacted by a variety of factors; details of ECL measurement are provided in note 3.1.3. The main movements above may be explained as the impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period.

	Stage 1	Stage 2	Stage 3	
	12-month ECL LBP Million	Lifetime ECL LBP Million	Lifetime ECL LBP Million	Total LBP Million
Undrawn credit lines, guarantee and other financial liabilities				
Loss allowance as at 1 January 2018	1,657	3,370	157	5,184
Transfer from Stage 1 to Stage 2	(1,181)	1,181	-	-
Transfer from Stage 2 to Stage 1	205	(205)	-	-
Transfer from Stage 2 to Stage 3	-	(4)	4	-
New financial assets originated	2,261	-	-	2,261
Changes in PDs/LGDs/EADs	(564)	(806)	22	(1,348)
Financial assets derecognized	(566)	(795)	(156)	(1,517)
Loss allowance as at 31 December 2018	**1,812**	**2,741**	**27**	**4,580**

The credit loss allowance for undrawn credit lines, guarantee and other financial liabilities recognized in the period is impacted by a variety of factors, details of ECL measurement are provided in note 3.1.3.

The main movements above may be explained as follows:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period; and
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period.

The following table further explains the changes in the gross carrying amount from 1 January to 31 December 2018:

	Stage 1	Stage 2	Stage 3	
	12-month ECL LBP Million	Lifetime ECL LBP Million	Lifetime ECL LBP Million	Total LBP Million
Balances with Central Banks				
Gross carrying amount as at 1 January 2018	2,275,472	103,436	5,864	2,384,772
Transfer from stage 2 to stage 1	65,749	(65,749)	-	-
New financial assets originated	2,287,410	-	-	2,287,410
Repayments during the year	(35,528)	-	-	(35,528)
Financial assets derecognized during the year	(341,797)	(37,687)	(5,435)	(384,919)
Gross carrying amount as at 31 December 2018	**4,251,306**	**-**	**429**	**4,251,735**
Deposits with banks and financial institutions				
Gross carrying amount as at 1 January 2018	1,049,468	2,747	-	1,052,215
Transfer from Stage 2 to Stage 1	2,640	(2,640)	-	-
New financial assets originated	559,571	-	-	559,571
Repayments during the year	(68,232)	-	-	(68,232)
Financial assets derecognized during the year	(612,473)	(107)	-	(612,580)
Gross carrying amount as at 31 December 2018	**930,974**	**-**	**-**	**930,974**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Loans and advances to customers				
Gross carrying amount as at 1 January 2018	1,875,267	746,839	237,625	2,859,731
Transfers:				
Transfer from Stage 1 to Stage 2	(526,549)	526,549	-	-
Transfer from Stage 1 to Stage 3	(87,498)	-	87,498	-
Transfer from Stage 2 to Stage 1	226,505	(226,505)	-	-
Transfer from Stage 2 to Stage 3	-	(55,754)	55,754	-
Transfer from Stage 3 to Stage 1	47,024	-	(47,024)	-
Transfer from Stage 3 to Stage 2	-	295	(295)	-
New financial assets originated	1,172,225	-	-	1,172,225
Repayments during the year	(530,833)	(128,373)	2,933	(656,273)
Financial assets derecognized during the year	(301,132)	(245,057)	(29,913)	(576,102)
Gross carrying amount as at 31 December 2018	**1,875,009**	**617,994**	**306,578**	**2,799,581**
Loans and advances to customers -Corporate				
Gross carrying amount as at 1 January 2018	1,133,761	707,309	228,554	2,069,624
Transfers:				
Transfer from Stage 1 to Stage 2	(461,750)	461,750	-	-
Transfer from Stage 1 to Stage 3	(83,790)	-	83,790	-
Transfer from Stage 2 to Stage 1	169,784	(169,784)	-	-
Transfer from Stage 2 to Stage 3	-	(49,911)	49,911	-
Transfer from Stage 3 to Stage 1	47,024	-	(47,024)	-
Transfer from Stage 3 to Stage 2	-	295	(295)	-

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LBP Million	LBP Million	LBP Million	LBP Million
New financial assets originated	976,738	-	-	976,738
Repayments during the year	(449,589)	(117,582)	2,933	(564,238)
Financial assets derecognized during the year	(206,586)	(236,736)	(28,968)	(472,290)
Gross carrying amount as at 31 December 2018	**1,125,592**	**595,341**	**288,901**	**2,009,834**
Loans and advances to customers - Retail				
Gross carrying amount as at1 January 2018	741,506	39,530	9,071	790,107
Transfers:				
Transfer from Stage 1 to Stage 2	(64,799)	64,799	-	-
Transfer from Stage 1 to Stage 3	(3,708)	-	3,708	-
Transfer from Stage 2 to Stage 1	56,721	(56,721)	-	-
Transfer from Stage 2 to Stage 3	-	(5,843)	5,843	-
New financial assets originated	195,487	-	-	195,487
Repayments during the year	(81,244)	(10,791)	-	(92,035)
Financial assets derecognized during the year	(94,546)	(8,321)	(945)	(103,812)
Gross carrying amount as at 31 December 2018	**749,417**	**22,653**	**17,677**	**789,747**
Acceptances				
Gross carrying amount as at 1 January 2018	43,897	19,170	-	63,067
Transfers:				
Transfer from Stage 1 to Stage 2	(1,887)	1,887	-	-
Transfer from Stage 2 to Stage 1	1,389	(1,389)	-	-
New financial assets originated	65,874	-	-	65,874
Repayments during the year	(15,878)	-	-	(15,878)

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Financial assets derecognized during the year	(10,098)	(2,182)	-	(12,280)
Gross carrying amountas at 31 December 2018	**83,297**	**17,486**	**-**	**100,783**
Investment securities at amortized cost				
Gross carrying amount as at 1 January 2018	3,810,569	-	-	3,810,569
New financial assets originated	751,850	-	-	751,850
Repayments during the year	(95,748)	-	-	(95,748)
Financial assets derecognized during the year	(645,839)	-	-	(645,839)
Gross carrying amount as at 31 December 2018	**3,820,832**	**-**	**-**	**3,820,832**
Investment securities at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2018	120,751	-	-	120,751
Other	(2,509)	-	-	(2,509)
Gross carrying amount as at 31 December 2018	**118,242**	**-**	**-**	**118,242**
Undrawn credit lines, guarantee and other financial liabilities				
Gross carrying amount as at 1 January 2018	789,405	201,765	11,102	1,002,272
Transfers:				
Transfer from Stage 1 to Stage 2	(102,875)	102,875	-	-
Transfer from Stage 2 to Stage 1	19,834	(19,834)	-	-
Transfer from Stage 2 to Stage 3	-	(96)	96	-
New financial assets originated	461,530	-	-	461,530
Repayments during the year	(72,819)	(29,292)	(92)	(102,163)
Financial assets derecognized during the year	(54,677)	(15,345)	(347)	(70,369)
Gross carrying amount as at 31 December 2018	**1,040,398**	**240,073**	**10,799**	**1,291,270**

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of assets by risk grade for 31 December 2017:

	Loans and advances to customers	Loans and advances to banks
	LBP Million	LBP Million
Neither past due nor impaired	2,161,780	1,052,215
Past due but not impaired	539,173	-
Individually impaired	158,778	-
Gross	2,859,731	1,052,215
Less: allowance for impairment	(214,062)	-
Net	**2,645,669**	**1,052,215**
Individually impaired	(118,147)	-
Collective allowance	(95,915)	-
Total	**(214,062)**	**-**

Write-Off Policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Bank may write-off financial assets that are still subject to enforcement activity. The Bank may still seek to recover amounts it is legally owed in full, but which have been partially or fully written off due to no reasonable expectation of recovery. This determination is reached after considering factors such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure or legal measures to recover the dues. The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity amounted to LL 1.4 billion.

The table below presents an analysis of debt securities by rating agency designation at 31 December 2017, based on Standard & Poor's ratings:

	From AAA+ to AAA-	From AA+ to AA-	From A+ to A-	From BBB+ to BBB-	From BB+ to BB-	From B+ to B-	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Investment securities at fair value through profit or loss (debt securities)	-	-	-	-	-	167,315	167,315
Investment securities at amortized cost	-	-	19,667	33,283	-	3,721,627	3,774,577
At 31 December 2017	**-**	**-**	**19,667**	**33,283**	**-**	**3,888,942**	**3,941,892**

Modification of Financial Assets

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial, it does not result in derecognition of the original asset. The Bank may determine that credit risk has significantly improved after restructuring, and such assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12 month ECL). This is only done when modified assets have performed in accordance with the new terms for twelve consecutive months or more. Renegotiated loans that would otherwise be past due or impaired amounted to LL 4,629 million at 31 December 2018 (2017 - LL 4,570 million).

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to life time ECL.

Financial assets modified during the period	LBP Million
Amortized cost before modification	4,629
Net modification loss	1,159
Financial assets modified since initial recognition	
Gross carrying amount at 31 December of financial assets for which loss allowance has changed to	
12 - month measurement during the period	4,570

3.1.6 Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements

(a) Concentration of Risks of Financial Assets with Credit Risk Exposure - Geographical Sectors

Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region as at 31 December 2018 and as at 31 December 2017. For this table, the Bank has allocated exposures to regions based on the destination of use of funds.

	Lebanon	Arab Countries	United States	European Countries	Other Countries	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Financial assets						
Balances with Central Banks	4,105,854	118,498	-	890	-	4,225,242
Deposits with banks and financial institutions	151,870	54,430	383,099	324,291	14,218	927,908
Loans & advances to customers	2,272,108	230,667	709	96,876	38,867	2,639,227
Debtors by acceptances	79,117	19,212	-	-	1,846	100,175

	Lebanon	Arab Countries	United States	European Countries	Other Countries	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Investments securities at fair value throug other comprehensive income (debt securities)	73,188	-	16,438	28,207	-	117,833
Investment securities at amortized cost	3,793,254	-	-	7,545	-	3,800,799
Other assets	55,822	-	-	593	-	56,415
At 31 December 2018	**10,531,213**	**422,807**	**400,246**	**458,402**	**54,931**	**11,867,599**
Financial assets						
Balances with Central Banks	2,274,137	102,358	-	1,334	-	2,377,829
Deposits with banks and financial institutions	456,842	9,079	356,000	226,012	4,282	1,052,215
Loans and advances to customers	2,212,556	288,625	1,010	99,588	43,890	2,645,669
Debtors by acceptances	53,337	7,211	-	-	2,519	63,067
Investments securities through profit or loss (debt securities)	167,315	-	-	-	-	167,315
Investment securities at amortized cost	3,721,814	-	16,583	36,180	-	3,774,577
Other assets	48,578	1,141	-	212	-	49,931
At 31 December 2017	**8,934,579**	**408,414**	**373,593**	**363,326**	**50,691**	**10,130,603**

Concentration by geographical location for loans and advances, is based on the customer's country of domicile. Concentration by location of investment securities is based on the country of domicile of the issuer.

3.1.7 Repossessed Collateral

The Bank obtained assets by taking possession of collateral held as security, as follows:

	2018	2017
	LBP Million	LBP Million
Nature of assets		
Residential property carrying amount	**3,007**	4,846

Under the requirements of the Central Bank of Lebanon, repossessed properties (against facilities provided locally) should be sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within assets classified as held for sale (note 16).

3.2 Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The Board of Directors sets limits for the acceptable level of risks that can be assumed on the trading book. ALCO is responsible of managing the Bank's exposure to the various market risk and to ensure that risks are within acceptable limits.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities.
Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's investment securities.

3.2.1 Market Risk Measurement Techniques

The major measurement technique used to measure and control market risk is outlined below.

Sensitivity Analysis

A technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price. Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different compared to the key predictions. The Bank performs this analysis for each type of market risk to which the Bank is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

Interest Rate Risk

If the interest rate increases/decreases by 2%, the net effect [gain/(loss)] is as follows:

	2018		2017	
	USD	LBP	USD	LBP
	LBP Million	LBP Million	LBP Million	LBP Million
Effect on profit	-	-	86	5,731

There is no impact on Lebanese denominated financial instruments as they are held at amortized cost and carry fixed interest rates.

Foreign Exchange Risk

If the foreign currency exchange rate increases by 2%, the net effect [gain/(loss)] is as follows:

	2018		2017	
	USD	EUR	USD	EUR
	LBP Million	LBP Million	LBP Million	LBP Million
Effect on profit and equity	**2,679**	**(150)**	8,570	316
	GBP	GBP		
	LBP Million	LBP Million		
Effect on profit and equity	**(67)**	**(63)**		

3.2.2 Foreign Exchange Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its balance sheet and cash flows. The Board of Directors sets limits on the level of exposure by currency as follows:

- Net exposure by currencies should not exceed 1% of Tier I capital.
- Gross exposure (in absolute terms) by currencies should not exceed 40% of Tier I capital (with reference to BDL circular no. 43).

The above mentioned limits are set with reference to BDL basic circular no. 32. These limits are closely monitored on a daily basis by the Bank's Treasury department.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2018 and 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	LBP	USD	EUR	GBP	Others	Total
At 31 December 2018	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Financial assets						
Cash & balances with Central Banks	1,799,514	2,368,148	123,419	505	77,662	4,369,248
Deposits with banks and financial institutions	8,090	850,696	34,031	12,174	22,917	927,908
Loans & advances to customers	744,924	1,710,887	102,322	59,717	21,377	2,639,227
Debtors by acceptances	-	60,174	12,063	423	27,515	100,175
Investment securities at fair value through other comprehensive income (debt securities)	50,180	67,653	-	-	-	117,833
Investment securities at amortized cost	2,294,274	1,445,991	60,534	-	-	3,800,799
Other assets	19,921	37,553	484	-	235	58,193
Total financial assets	**4,916,903**	**6,541,102**	**332,853**	**72,819**	**149,706**	**12,013,383**
Financial liabilities						
Due to the Central Bank of Lebanon	1,222,095	1,903	-	-	-	1,223,998
Deposits from banks and financial institutions	86,083	144,031	32,753	1	324	263,192
Deposits from customers	3,105,639	5,960,125	294,175	75,721	84,823	9,520,483
Engagements by acceptances	-	60,782	12,063	423	27,515	100,783
Other liabilities	25,862	42,417	1,354	-	1,313	70,946
Total financial liabilities	**4,439,679**	**6,209,258**	**340,345**	**76,145**	**113,975**	**11,179,402**
Net on-balance sheet financial position	**477,224**	**331,843**	**(7,492)**	**(3,326)**	**35,731**	**833,981**
Financial assets						
Cash and balances with Central Banks	894,885	1,412,940	132,027	518	70,919	2,511,289
Deposits with banks & financial institutions	65,559	936,801	20,233	12,433	17,189	1,052,215

	LBP	USD	EUR	GBP	Others	Total
At 31 December 2018	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Loans and advances to customers	679,810	1,797,255	102,798	55,988	9,818	2,645,669
Debtors by acceptances	-	56,214	3,738	912	2,203	63,067
Investment securities at fair value through profit or loss	150,125	47,441	9,028	-	-	206,594
Investment securities at amortized cost	2,116,757	1,577,886	79,934	-	-	3,774,577
Other assets	26,609	28,744	375	-	26	55,754
Total financial assets	**3,933,745**	**5,857,281**	**348,133**	**69,851**	**100,155**	**10,309,165**
Financial liabilities						
Due to the Central Bank of Lebanon	179,280	-	-	-	-	179,280
Deposits from banks and financial institutions	7,765	127,743	33,649	1	146	169,304
Deposits from customers	3,361,585	5,233,786	293,324	71,975	60,639	9,021,309
Engagements by acceptances	-	56,214	3,738	912	2,203	63,067
Other liabilities	26,501	11,051	1,615	-	741	39,908
Total financial liabilities	**3,575,131**	**5,428,794**	**332,326**	**72,888**	**63,729**	**9,472,868**
Net on-balance sheet financial position	**358,614**	**428,487**	**15,807**	**(3,037)**	**36,426**	**836,297**

3.2.3 Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Treasury Department.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing (for example for floating rate notes) or maturity dates.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest bearing	Total
At 31 December 2018	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Financial assets							
Cash and balances with Central Banks	255,683	22,875	68,626	1,048,095	2,587,629	386,340	4,369,248
Deposits with banks and financial institutions	793,638	26,245	30,187	-	-	77,838	927,908
Loans and advances to customers	847,033	268,769	858,908	581,414	40,431	42,672	2,639,227
Debtors by acceptances	83,135	13,055	3,985	-	-	-	100,175
Investment securities at fair value through other comprehensive income (debt securities)	-	30,335	-	87,498	-	-	117,833
Investment securities at amortized cost	22,597	55,334	396,108	1,916,272	1,410,488	-	3,800,799
Other assets	1,563	-	-	-	-	56,630	58,193
Total financial assets	**2,003,649**	**416,613**	**1,357,814**	**3,633,279**	**4,038,548**	**563,480**	**12,013,383**
Financial liabilities							
Due to the Central Bank of Lebanon	24,767	-	-	56,828	1,142,403	-	1,223,998
Deposits from banks and financial institutions	88,482	8,547	143,753	-	-	22,410	263,192
Deposits from customers	5,324,062	998,143	1,607,455	593,088	7,626	990,109	9,520,483
Engagements by acceptances	83,743	13,055	3,985	-	-	-	100,783
Other liabilities	646	-	-	-	-	70,300	70,946
Total financial liabilities	**5,521,700**	**1,019,745**	**1,755,193**	**649,916**	**1,150,029**	**1,082,819**	**11,179,402**
Total interest repricing gap	**(3,518,051)**	**(603,133)**	**(397,379)**	**2,983,363**	**2,888,519**		
Financial assets							
Cash and balances with Central Banks	72,298	98,802	61,759	900,263	993,801	384,366	2,511,289
Deposits with banks and financial institutions	656,279	141,645	75,996	802	-	177,493	1,052,215
Loans and advances to customers	726,612	390,376	838,284	590,706	70,306	29,385	2,645,669

	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non interest bearing	Total
At 31 December 2017	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Debtors by acceptances	1,204	3,210	5,112	-	-	53,541	63,067
Investment securities at fair value through profit or loss (debt securities)	-	-	25,316	68,784	73,215	-	167,315
Investment securities at amortized cost	36,108	36,751	338,851	1,816,664	1,546,203	-	3,774,577
Other assets	1,297	-	-	-	-	54,457	55,754
Total financial assets	**1,493,798**	**670,784**	**1,345,318**	**3,377,219**	**2,683,525**	**699,242**	**10,269,886**
Financial liabilities							
Due to the Central Bank of Lebanon	11,959	-	37,976	-	129,345	-	179,280
Deposits from banks and financial institutions	13,345	6,367	119,136	23,703	-	6,753	169,304
Deposits from customers	5,906,809	776,927	1,223,354	401,391	5,315	707,513	9,021,309
Engagements by acceptances	-	-	-	-	-	63,067	63,067
Other liabilities	556	-	-	-	-	59,104	59,660
Total financial liabilities	**5,932,669**	**783,294**	**1,380,466**	**425,094**	**134,660**	**836,347**	**9,492,620**
Total interest repricing gap	**(4,438,871)**	**(112,510)**	**(35,148)**	**2,952,125**	**2,548,865**		

3.3 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfill lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

3.3.1 Liquidity Risk Management Process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury Department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements (BDL basic circulars no. 72, 73, 84, 86 and 87); and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (note 3.3.3).

3.3.2 Non-Derivative Financial Liabilities and Assets Held for Managing Liquidity Risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the balance sheet. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the liquidity risk based on a different basis (see note 3.3.1), not resulting in a significantly different analysis.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
At 31 December 2018						
Assets						
Cash and balances with the Central Banks	642,861	22,742	69,422	1,203,220	13,733,715	15,671,961
Deposits with banks and financial institutions	870,100	26,286	30,409	-	-	926,796
Loans to customers	726,928	876,923	68,209	268,680	880,067	2,820,807
Debtors by acceptances	83,743	13,055	3,985	-	-	100,783
Investment securities at fair value through other comprehensive income (debt securities)	73	31,048	4,928	93,987	-	130,036
Investment securities at amortized cost	42,749	97,274	589,902	2,600,644	1,876,402	5,206,970
Other assets	58,193	-	-	-	-	58,193
Total financial assets	**2,424,647**	**1,067,328**	**766,855**	**4,166,531**	**16,490,184**	**24,915,546**
Liabilities						
Due to the Central Bank of Lebanon	24,637	-	-	61,753	1,380,275	1,466,665
Deposits from banks and financial institutions	117,433	8,494	144,934	-	-	270,862
Deposits from customers	6,286,994	1,002,030	1,667,606	726,739	13,902	9,697,272
Engagement by acceptances	100,783	-	-	-	-	100,783
Other liabilities	70,946	-	-	-	-	70,946
Total liabilities	**6,600,793**	**1,010,524**	**1,812,540**	**788,492**	**1,394,177**	**11,606,528**
Net financial (liabilities)/assets	**(4,176,146)**	**56,804**	**(1,045,685)**	**3,378,039**	**15,096,007**	**13,309,017**
At 31 December 2017						
Assets						
Cash and balances with the Central Banks	456,100	98,214	63,062	1,039,666	8,676,739	10,333,781

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Deposits with banks & financial institutions	832,067	141,802	76,556	853	-	1,051,278
Loans to customers	761,302	395,108	869,235	729,157	120,889	2,875,690
Debtors by acceptances	54,745	3,211	5,112	-	-	63,067
Investment securities at fair value through profit or loss (debt securities)	466	380	19,619	116,765	88,629	225,859
Investment securities at amortized cost	56,219	81,901	403,668	2,458,723	1,616,033	4,616,544
Other assets	55,754	-	-	-	-	55,754
Total financial assets	**2,216,653**	**720,616**	**1,437,252**	**4,345,164**	**10,502,290**	**19,221,973**
Liabilities						
Due to the Central Bank of Lebanon	11,875	-	38,272	-	154,383	204,530
Deposits from banks & financial institutions	19,984	6,324	119,802	24,481	-	170,591
Deposits from customers	6,595,610	780,208	1,266,233	442,521	10,152	9,094,724
Engagement by acceptances	63,067	-	-	-	-	63,067
Other liabilities	59,660	-	-	-	-	59,660
Total liabilities	**6,750,196**	**786,532**	**1,424,307**	**467,002**	**164,535**	**9,592,572**
Net financial (liabilities)/assets	**(4,533,543)**	**(65,916)**	**12,945**	**3,878,162**	**10,337,755**	**9,629,401**

Other financial facilities and guarantees (note 35) are also included in the table below based on the earliest contractual maturity date.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
At 31 December 2018						
Loan commitment (unused facilities)	121,609	147,241	4,946	260,492	383,222	917,690
Letters of guarantee	7,366	27,433	38	38,684	157,454	230,975
Letters of credit	-	-	-	67,177	75,428	142,605
Total liabilities	**128,975**	**174,674**	**4,984**	**366,353**	**616,104**	**1,291,270**
At 31 December 2017						
Loan commitment (unused facilities)	201,742	100,283	158,050	150,147	1,059	611,281
Letters of guarantee	107,870	14,631	67,570	19,099	7,784	216,954
Letters of credit	130,043	22,164	21,830	-	-	174,037
Total liabilities	**439,655**	**137,078**	**247,450**	**169,246**	**8,843**	**1,002,272**

3.3.3 Assets Held for Managing Liquidity Risk

The Bank holds a diversified portfolio of cash and high-quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprises:

- Cash and balances with Central Banks;
- Lebanese treasury bills denominated in foreign currency that are easily liquidated in the secondary markets; and
- Secondary sources of liquidity in the form of current accounts and short-term placements (with maturities less than 3 months) with foreign banks.
- Lebanese Treasury bills denominated in local currency that are easily absorbed by the Central Bank of Lebanon in case of exceptional deposits withdrawals.

3.4 Fair Value of Financial Assets and Liabilities

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations.

(a) Valuation Models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

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.
This category includes liquid government and corporate bonds actively traded through an exchange or clearing house, and actively traded listed equities.

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 valuation techniques and models incorporate assumptions about factors observable in an active market, which other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, prepayment and defaults rates.
This category includes liquid treasury and corporate bonds, certificates of deposits and balances with banks and the Central Banks.

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. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the assets or paid to transfer the liability in an order by transaction between market participants at the measurement date.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

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.

(b) Financial Instruments Not Measured at Fair Value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized at 31 December 2018.

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
At 31 December 2018					
Assets					
Balances with Central Banks (i)	-	4,486,416	-	4,486,416	4,225,242
Deposits with banks and financial institutions (i)	-	926,660	-	926,660	927,908
Loans and advances to customers (ii)	-	-	2,673,083	2,673,083	2,639,227
Debtors by acceptances	-	100,175	-	100,175	100,175
Investment securities at amortized cost (iii)	1,306,857	2,206,250	-	3,513,107	3,800,799
Other assets	-	58,193	-	58,193	58,193
Total financial assets	**1,306,857**	**7,777,694**	**2,673,083**	**11,757,634**	**11,751,544**
Liabilities					
Due to the Central Bank of Lebanon (iv)	-	1,223,998		1,223,998	1,223,998
Deposits from banks and financial institutions (iv)	-	270,890		270,890	263,192
Deposits from customers (iv)	-	9,599,629		9,599,629	9,520,483
Engagement by acceptances	-	100,783		100,783	100,783
Other liabilities	-	70,946		70,946	70,946
Total financial liabilities	**-**	**11,266,246**		**11,266,246**	**11,179,402**

There are no transfers between levels of fair value measurement hierarchy during the years 2018 and 2017.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized at 31 December 2017.

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
At 31 December 2017					
Assets					
Balances with Central Banks (i)	-	2,664,385	-	2,664,385	2,377,829
Deposits with banks and financial institutions (i)	-	1,052,215	-	1,052,215	1,052,215
Loans and advances to customers (ii)	-	-	2,673,461	2,673,461	2,645,669
Debtors by acceptances	-	63,067	-	63,067	63,067
Investment securities at amortized cost (iii)	1,616,299	2,172,353	-	3,788,652	3,774,577
Other assets	-	55,754	-	55,754	55,754
Total financial assets	**1,616,299**	**6,007,774**	**2,673,461**	**10,297,534**	**9,969,111**
Liabilities					
Due to the Central Bank of Lebanon (iv)	-	179,280	-	179,280	179,280
Deposits from banks and financial institutions (iv)	-	169,304		169,304	169,304
Deposits from customers (iv)	-	9,037,699	-	9,037,699	9,021,309
Engagement by acceptances	-	63,067	-	63,067	63,067
Other liabilities	-	59,660	-	59,660	59,660
Total financial liabilities	**-**	**9,509,010**	**-**	**9,509,010**	**9,492,620**

The fair value of financial assets and liabilities reflects the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs.

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and/or significant unobservable inputs (Level 3)

(i) Balances with Central Banks and Deposits with Banks and Financial Institutions

The carrying amount of floating rate placements, overnight deposits, items in the course of collection, and current accounts (i.e. maturity less than 1 year) is a reasonable approximation of fair value.

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and Advances to Customers (Level 3)

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. Loans and advances are net of charges for impairment. The estimated fair value of loans and advances excluding overdrafts and impaired loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The carrying amount of overdrafts is a reasonable approximation of fair value. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral.

(iii) Investment Securities at Amortized Cost

The fair value is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity, and yield characteristics. For more information, refer to step (ii) above.

(iv) Due to the Central Bank of Lebanon, Deposits from Banks and Financial Institutions and Deposits from Customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Equity Securities at Fair Value Through Profit or Loss and Fair Value Through OCI

For investments traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market prices at the close of business on the reporting date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

(c) Financial Instruments Measured at Fair Value

	Level 1	Level 2	Total
	LBP Million	LBP Million	LBP Million
At 31 December 2018			
Investment securities at fair value through profit or loss			
Equity securities	1,967	12,055	14,022
Investment securities at fair value through other comprehensive income:			
Debt securities	67,753	50,180	117,933
Equity securities	-	26,663	26,663
Total assets measured at fair value	**69,720**	**88,898**	**158,618**
At 31 December 2017			
Investment securities at fair value through profit or loss:			
Debt securities	18,013	149,302	167,315
Equity securities	2,127	37,152	39,279
Total assets measured at fair value	**20,140**	**186,454**	**206,594**

3.5 Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the Balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly managed by the Bank's management, employing techniques, as requested by the Central Bank of Lebanon, (based on the guidelines developed by the Basel Committee). The required information is filed with the regulator on a semi-annual basis.

As per the Central Bank of Lebanon directives, all banks are required to hold a minimum level of regulatory capital of LL 10 billion for the head office and LL 500 million per local branch and LL 1.5 billion per foreign branch. In addition all the Bank's branches located outside Lebanon are subject to capital requirements of their respective jurisdiction (i.e. Cyprus and Iraq).

The regulatory capital requirements are strictly observed when managing economic capital. The Bank complied with all capital ratios requirements throughout the period.

The table below summarizes the composition of regulatory capital ratios for the years ended 31 December 2018 and 2017. The computation of the capital adequacy ratio was performed in accordance with the directives issued by the Banking Control Commission of Lebanon (BCCL memo no. 5/2016).

	2018	2017
	LBP Million	LBP Million
Common Equity Tier 1 ("CET 1")		
Share capital and contributions to capital	**149,403**	149,414
Reserves (excluding profit for the year)	**414,215**	190,376
Retained earnings	**125,343**	316,421
Less: regulatory adjustments		
Intangible assets	**(1,974)**	(2,431)
Total CET 1	**686,987**	653,780
Additional Tier 1 Capital ("AT 1")		
Non-cumulative preferred shares and similar financial instruments	**196,001**	196,001
Total qualifying Tier 1 Capital	**882,988**	849,781
Deferred government grant	**-**	14,105
Real estate revaluation reserve	**10,000**	10,000
ECL allowance on stage 1	**57,923**	-
Unrealized gain on financial assets at fair value through other comprehensive income	**1,744**	-
Additional provisions	**6,030**	-
Tier 2 Capital	**75,697**	24,105
Total regulatory capital (Tier1 + Tier2)	**958,685**	873,886
Risk-weighted assets		
Credit risk	**5,522,361**	5,466,501
Market risk	**14,378**	81,031
Operational risk	**420,152**	376,759
Total risk-weighted assets	**5,956,891**	5,924,291

The Bank's capital adequacy ratios as compared to supervisory requirements are shown below:

	BBAC		Supervisory		Basel III
	2018	2017	2018	2017	2018
Common equity tier 1 ratio	**11.53%**	11.03%	**10%**	9%	**4.5%**
Tier 1 capital ratio	**14.82%**	14.34%	**13%**	12%	**6.0%**
Total capital ratio	**16.09%**	14.75%	**15%**	14.5%	**10.5%**

4 *Critical Accounting Estimates and Judgments*

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 *Critical Accounting Estimates and Assumptions*

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Measurement of the Expected Credit Loss Alowance (applicable to 2018)

The measurement of the expected credit loss allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss (ECL) is detailed in note 3.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at December 31, 2018 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

	ECL	Impact on ECL
	LBP Million	LBP Million
Sensitivity of impairment estimates		
ECL on non-impaired loans under IFRS9	78,031	
Simulations		
Upside case - 100% weighted	77,840	(191)
Base case - 100% weighted	78,060	30
Downside scenario - 100% weighted	78,218	187

For computation of ECL, the Bank considers three scenario i.e, base case, upside case and downside case with weightage of 40%, 30% & 30% respectively.

(b) Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated 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 are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Management believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(c) Income Taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

(d) Subsequent Downgrade of Sovereign Credit Rating

Subsequent to the balance sheet date, one of the principal credit rating agencies downgraded the Lebanon government credit rating from B- to Caa1, whilst the other two agencies maintained the same rating of B- (S&P) and B- (Fitch).

The Board gave due consideration to the above development with a view to determining whether this would have an impact on ECL at 31 December 2018; i.e. whether under IAS 10 this would be considered as an adjusting or non-adjusting event.

It has concluded that, all things considered, the 2019 downgrade is a non-adjusting event as at 31 December 2018 because; (i) it does not reflect on the financial position as at the balance sheet date, some of the grounds and concerns on which it was based having arisen in 2019 (subsequent to the balance sheet date) and having to some extent been addressed or reversed subsequently; and (ii) improvements were noted subsequent to the downgrade which go towards mitigating its effect and which relate to the serious activity being undertaken by the government since the downgrade.

4.2 Critical judgments in Applying the Bank's Accounting Policies

Business Model

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. 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. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

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 in 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.

5 Cash and Balances with Central Banks

	2018	2017
	LBP Million	LBP Million
Cash in hand	**139,250**	128,943
Other money market placements	**226,159**	121,188
Balances with Central Banks other than mandatory reserve deposits	**278,593**	309,929
Included in cash and cash equivalents (note 34)	**644,002**	560,060
Mandatory reserve deposits with Central Banks	**1,070,273**	976,199
Mandatory reserve - cash in hand (Central Bank of Iraq)	**4,756**	4,517
Placements with BDL other than mandatory reserves (maturity more than 3 months)	**2,620,573**	959,914
Accrued interest receivable - BDL	**56,137**	17,542
	4,395,741	2,518,232
Allowance for impairment	**(26,493)**	(6,943)
	4,369,248	2,511,289
Current	**775,307**	742,148
Non-current	**3,593,941**	1,769,141
	4,369,248	2,511,289

Movement of the allowance for impairment losses during the year is as follows:

	2018	2017
	LBP Million	LBP Million
Balance at beginning of year	**6,943**	6,943
Initial application of IFRS 9	**17,054**	-
Net increase in impairment allowance during the year (note 24)	**2,496**	-
Balance at end of year	**26,493**	6,943

As at 31 December 2017, the allowance for impairment carried against the outstanding balance (sight deposits) with the Central Bank of Iraq (Kurdistan Branch) in accordance with the Banking Control Commission (BCC) directive of LL 6.9 billion now represents the opening balance at 1 January 2018 for allowance for expected credit losses.

The Lebanon operations (i.e. the Head office and the branches operating in Lebanon) along with the foreign branches (i.e. Iraq and Cyprus) are subject to mandatory reserve requirements as applicable in each individual jurisdiction. Mandatory reserves are not available for use in the Bank's day to day operations.

Cash in hand is interest free, other money market placements are floating rate assets, and placements with BDL (other than mandatory reserves) are at fixed rates.

6 Deposits with Banks and Financial Institutions

	2018	2017
	LBP Million	LBP Million
Current accounts	439,121	407,451
Placements with other banks (with original maturities of less than 3 months)	454,222	362,103
Items in course of collection from other banks	26,201	34,529
Included in cash and cash equivalents (note 34)	919,544	804,083
Deposits with banks and financial institutions	10,288	3,212
Reverse repurchase agreements with a financial institution	-	242,268
Interest receivable	1,142	2,652
	930,974	1,052,215
Less: allowance for impairment	(3,066)	-
	927,908	1,052,215
Current	927,908	1,052,215
Non-current	-	-
	927,908	1,052,215

Movement of allowance for impairment losses during the year is as follows:

	2018	2017
	LBP Million	LBP Million
Balance at beginning of year	-	-
Initial application of IFRS 9	7,979	-
Net release of impairment allowance during the year (note 24)	(4,913)	-
Balance at end of year	3,066	-

7 Loans and Advances to Customers

	2018	2017
	LBP Million	LBP Million
Medium and long term loans	2,297,807	2,371,441
Overdrafts	412,884	394,651
Discounted bills	15,741	25,128
Short term loans	21,008	23,322
Scheduled loans	950	15,276
Loans and advances to related parties (note 36)	12,058	9,960
Creditors accidentally debtors	2,258	2,237
Unpaid bills	7,385	3,562
Net debit against credit accounts - speculation accounts	58	37
Interest receivable	29,432	14,117
Gross loans and advances to customers	2,799,581	2,859,731
Less: allowance for impairment (see below)	(160,354)	(214,062)
Net loans and advances to customers	2,639,227	2,645,669
Current	1,003,061	964,499
Non-current	1,636,166	1,681,170
	2,639,227	2,645,669

Movement of allowance for impairment losses during the year is as follows:

	2018	2017
	LBP Million	LBP Million
Balance at beginning of year	214,062	264,954
Initial application of IFRS 9	(56,225)	-
Charge for the year (note 24)	8,876	17,987
Reversal of impairment	(4,958)	(7,894)
Write-off of non-performing loans	(1,401)	(62,972)
Other	-	1,987
Balance at end of year	160,354	214,062

The loss allowances for ECL on undrawn credit lines, guarantees and other financial liabilities of LL 4.58 billion are included within other liabilities (refer to note 19).

As at 31 December 2017, the allowance for impairment consisted of a specific allowance for impairment of LL 118.15 billion and a collective allowance for impairment of LL 95.91 billion. The total allowance for impairment of LL 214.06 billion as at 31 December 2017 now represents the opening balance at 1 January 2018 for allowance for expected credit losses.

8 Debtors and Engagements by Acceptances

	2018	2017
	LBP Million	LBP Million
Customers' acceptances	**100,783**	63,067
Less: allowance for impairment	**(608)**	-
	100,175	63,067

Customers' acceptances represent term documentary credits which the Bank has committed to settle on behalf of its customers against commitments provided by them, which are stated as a liability in the balance sheet under caption entitled "Engagements by Acceptances". Debtors and engagements by acceptances are considered as current assets and liabilities.

Movement of allowance for impairment losses during the year is as follows:

	2018	2017
	LBP Million	LBP Million
Balance at beginning of year	-	-
Initial application of IFRS 9	**1,932**	-
Net release of impairment allowance during the year (note 24)	**(1,324)**	-
Balance at end of year	**608**	-

9a Financial Assets at Fair Value Through Profit or Loss

Debt securities previously classified as fair value through profit and loss have been redesignated at 1st January 2018 as fair value through OCI. These debt securities are neither "held to collect" nor "held for trading"; hence the revised designation. Accordingly, profits on these securities previously recognized in the separate statement of comprehensive income and now part of retained earnings have been reclassified to a fair value through OCI reserve that is part of other reserves in equity (refer to notes 9b below and 22i).

	2018	2017
	LBP Million	LBP Million
Listed debt securities		
Lebanese treasury bills (Eurobonds)	-	18,013
Unlisted debt securities		
Lebanese treasury bills	-	116,953
Certificates of deposit - BDL	-	32,349
	-	149,302
Total debt securities at fair value through profit or loss	-	167,315
Equity securities		
Listed	**1,967**	2,127
Unlisted	**12,055**	37,152
Total equity securities at fair value through profit or loss	**14,022**	39,279
Total investment securities at fair value through profit or loss	**14,022**	206,594

All debt securities have fixed coupons.

The carrying amount of financial assets at fair value through profit or loss above, represents the Bank's maximum exposure to credit risk on these assets at 31 December 2018.

9b Financial Assets at Fair Value Through Other Comprehensive Income

	2018	2017
	LBP Million	LBP Million
Unlisted debt securities		
Lebanese treasury bills	50,438	-
Certificates of deposit - BDL	22,962	-
Other debt securities	44,842	-
Total debt securities at fair value through other comprehensive income	118,242	-
Equity securities		
Unlisted	25,661	-
Other	1,002	-
Total equity securities at fair value through other comprehensive income	26,663	-
Allowance for impairment losses	(409)	-
Total investment securities at fair value through other comprehensive income	144,496	-

Also, refer to notes 9 (a) above and note 22.

Movement of the allowance for impairment losses during the year is as follows:

	2018	2017
	LBP Million	LBP Million
Balance at beginning of year	-	-
Initial application of IFRS 9	429	-
Other	(20)	-
Balance at end of year	409	-

The Bank classified the above instruments in private sector securities at fair value through other comprehensive income as it holds them for strategic reasons. The unlisted equity securities comprise 169,000 shares with a fair value of LL 25.6 billion at 31 December 2018. The shares are held with five reputable local banks.

There was no dividend recognized during the period nor transfers of cumulative gain within equity.

During 2018, there was no derecognition of equity instruments at fair value through OCI.

10 Financial Assets at Amortized Cost

	2018	2017
	LBP Million	LBP Million
Listed debt securities		
Lebanese treasury bills (denominated in USD)	874,863	1,022,336
Other debt securities	7,545	52,933
	882,408	1,075,269
Unlisted debt securities		
Lebanese treasury bills	1,478,543	1,374,307
Certificates of deposit - BDL (denominated in LL)	817,692	736,834
Certificates of deposit - BDL (denominated in USD)	608,516	554,684
Securitisation funds	13,258	14,396
Other debt securities	20,415	19,087
	2,938,424	2,699,308
	3,820,832	3,774,577
Less: allowance for impairment	(20,033)	-
Total financial assets at amortized cost	3,800,799	3,774,577
Current	475,994	411,710
Non-current	3,324,805	3,362,867
	3,800,799	3,774,577

All debt securities have fixed coupons.

The movement in financial assets at amortized cost is summarized as follows:

	2018	2017
	LBP Million	LBP Million
At 1 January	3,774,577	3,761,722
Reclassification on transition to IFRS 9	35,992	-
Additions	526,661	1,030,955
Sales	(71,241)	(445,095)
Redemptions	(440,613)	(582,176)
Exchange differences on financial assets	(4,544)	9,171
At 31 December	3,820,832	3,774,577

During April 2018, the Bank sold Lebanese treasury bills with a carrying amount of LL 71.2 billion to finance the acquisition of new treasury bills and placements with the Central Bank of Lebanon.

Movement of the allowance for impairment losses during the year is as follows:

	2018 LBP Million	2017 LBP Million
Balance at beginning of year	-	-
Initial application of IFRS 9	**23,647**	-
Net release of impairment allowance during the year (note 24)	**(3,614)**	-
Balance at end of year	**20,033**	-

11 Investment in Subsidiaries

	% Ownership	2018 LBP Million	2017 LBP Million
The Capital for Insurance and Reinsurance Company S.A.L. (i)	80%	**3,524**	3,524
Informatics Co. S.A.R.L. (ii)	84%	-	-
Société Libanaise de Service S.A.R.L. (iii)	91%	-	-
		3,524	3,524

(i) The Capital for Insurance and Reinsurance Company S.A.L. provides life and general insurance services for the local Lebanese market. The Company's equity amounted to LL 21.07 billion (2017-LL 24.5 billion).

(ii) Informatics Co. S.A.R.L. was established to provide information technology services to the Bank. However, the Company ceased its operations in 1999 and is now only managing its cash balances. The Company's equity amounted to LL 2.3 billion (2017-LL 2.3 billion).

(iii) Société Libanaise de Service S.A.R.L. manages the properties of the Bank and third parties and provides security and maintenance services. The Company's equity amounted to LL 5.8 billion (2017-LL 5.8 billion).

12 Investment properties

	2018 LBP Million	2017 LBP Million
Land	**5,747**	5,747
Building	**1,591**	1,591
	7,338	7,338

For disclosure purposes, the fair value of the property was assessed in 2018 at an amount of LL 25.02 billion as determined by market prices for similar plots. This is considered as a level 2 fair valuation, as the most significant input into the valuation model is the price per square metre of comparable plots in close proximity.

The following amounts have been recognized in the statement of comprehensive income:

	2018	2017
	LBP Million	LBP Million
Rental income (note 28)	90	78
Maintenance expense (note 31)	(132)	(137)
	(42)	(59)

13 Property and Equipment

	Lands and buldings	Construction in progress	Computer equipment	Furniture, fixtures & equipment	Vehicles	Leasehold Improvement	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
At 1 January 2017							
Cost	80,505	2,237	15,946	12,234	702	32,442	144,066
Accumulated depreciation	(23,284)	-	(12,614)	(8,084)	(359)	(18,071)	(62,412)
Net book amount	**57,221**	**2,237**	**3,332**	**4,150**	**343**	**14,371**	**81,654**
Year ended 31 December 2017							
Opening net book amount	57,221	2,237	3,332	4,150	343	14,371	81,654
Additions	7,743	396	2,492	559	145	2,140	13,475
Disposals	(131)	(216)	(1,862)	(49)	-	-	(2,258)
Transfers	-	-	-	-	-	215	215
Depreciation charge (note 30)	(2,431)	-	(1,386)	(921)	(101)	(1,824)	(6,663)
Closing net book amount	**62,402**	**2,417**	**2,576**	**3,739**	**387**	**14,902**	**86,423**
At 31 December 2017							
Cost	88,013	2,417	15,915	12,682	843	34,797	154,667
Accumulated depreciation	(25,611)	-	(13,339)	(8,943)	(456)	(19,895)	(68,244)
Net book amount	**62,402**	**2,417**	**2,576**	**3,739**	**387**	**14,902**	**86,423**
Year ended 31 December 2018							
Opening net book amount	62,402	2,417	2,576	3,739	387	14,902	86,423
Additions	1,555	777	2,572	628	118	1,862	7,512
Disposals	(432)	(1,827)	(1,034)	(89)	-	-	(3,381)
Depreciation charge (note 30)	(1,916)	-	(1,212)	(944)	(107)	(1,952)	(6,131)
Closing net book amount	**61,609**	**1,367**	**2,902**	**3,334**	**398**	**14,812**	**84,423**

	Lands and buldings	Construction in progress	Computer equipment	Furniture, fixtures & equipment	Vehicles	Leasehold	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
At 31 December 2018							
Cost	89,130	1,367	16,936	13,001	961	36,659	158,055
Accumulated depreciation	(27,521)	-	(14,034)	(9,667)	(563)	(21,847)	(73,632)
Net book amount	**61,609**	**1,367**	**2,902**	**3,334**	**398**	**14,812**	**84,423**

The different levels for valuation of land and buildings have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is derived from prices) (Level 2).
- Inputs for the assets or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

For disclosure purposes, during 2018, the fair value of land and building (mainly the greater Beirut area) was assessed by independent licensed valuers (appointed by the Bank) and shows a revaluation surplus of approximately LL 63 billion (gross of applicable capital gains tax). This revaluation surplus is not reflected in the financial statements since the Bank's accounting policy for property and equipment is historical cost.

14 Intangible Assets

	Computer software licenses
	LBP Million
At 1 January 2017	
Cost	11,813
Accumulated amortization	(9,451)
Net book amount	**2,362**
Year ended 31 December 2017	
Opening net book amount	2,362
Additions	591
Amortization charge (note 30)	(1,040)
Closing net book amount	**1,913**
At 31 December 2017	
Cost	12,404
Accumulated amortization	(10,491)
Net book amount	**1,913**
Year ended 31 December 2018	
Opening net book amount	1,913
Additions	737
Amortization charge (note 30)	(838)
Closing net book amount	**1,812**
At 31 December 2018	
Cost	13,149
Accumulated amortization	(11,337)
Net book amount	**1,812**

15 Other Assets

	2018	2017
	LBP Million	LBP Million
Advances on purchases of property and equipment (i)	**17,597**	16,106
Electronic card facilities - not yet allocated to client accounts (ii)	**11,602**	12,468
Prepaid expenses	**1,778**	2,578
Receivable from National Social Security Fund (iii)	**3,847**	3,397
Other receivables	**15,344**	13,423
Doubtful receivables (iv)	**15,808**	15,567
Less: allowance for impairment (iv)	**(7,783)**	(7,785)
	58,193	55,754
Current	**30,977**	26,245
Non-current	**27,216**	29,509
	58,193	55,754

i) Advances on purchases of property and equipment include an amount of LL 5.4 billion (2017 - LL 5.4 billion) paid to a contractor in respect of the construction of a branch in Beirut Central District. The project was substantially completed at the end of 2015. The property has not yet been delivered to the Bank pending finalization of negotiations around the contractual price.

(ii) This account represents transactions executed by the clients on their electronic cards but not yet allocated to their accounts.

(iii) This account represents medical expenses advanced by the Bank to the employees prior to collection from the National Social Security Fund.

(iv) This account is broken down as follows:

(a) receivable balances due from a money dealer of LL 2.9 billion (2017-LL 2.9 billion). A provision of LL 1.8 billion (2017-LL 1.8 billion) is carried to cover the expected loss.

(b) An amount of LL 3.2 billion (2017-LL 3.2 billion) that is fully provided for to cover losses incurred in connection with contentious depositors' claims in one of the Bank's branches.

(c) Amounts receivable from two previous employees of LL 9.5 billion (2017-LL 9.5 billion), who were involved in fraudulent activities. A provision of LL 2.8 billion (2017-LL 2.8 billion) is carried in respect of the exposure (net of collateral).

16 Non-Current Assets Held for Sale

The movement of non-current assets classified as held for sale is as follows:

	2018	2017
	LBP Million	LBP Million
At 1 January	**36,445**	32,896
Acquisitions during the year	**3,007**	4,845
Disposals during the year	**(1,172)**	(1,296)
At 31 December	38,280	36,445

These assets represent properties acquired against settlement of defaulting clients' facilities. As stipulated by the code of money and credit, banks have two years (from date of acquisition) to liquidate those assets, otherwise they are required to constitute reserves (through appropriation from retained earnings) against these assets, prior to distribution of dividends (note 22).

In 2015, the Bank appointed licensed independent valuers to revalue the above mentioned assets. The fair value has been measured using observable inputs, being the prices for recent sales of similar properties, and is therefore within level 2 of the fair value hierarchy. The fair value of the above mentioned properties was estimated at LL 38 billion. Management believe the prices are still valid and current and the fair value is not significantly less than the carrying amount.

17a Deposits from Banks and Financial Institutions

	2018	2017
	LBP Million	LBP Million
Deposits from banks	**251,885**	161,167
Deposits from financial institutions	**8,695**	6,642
Interest payable	**2,612**	1,495
	263,192	169,304
Current	**211,880**	145,819
Non-current	**51,312**	23,485
	263,192	169,304

Deposits from banks and financial institutions are classified as liabilities at amortized cost and are set at fixed rates.

17b Due to the Central Bank of Lebanon

	2018	2017
	LBP Million	LBP Million
Term loans from the Central Bank of Lebanon (i)	**816,700**	128,437
Term loans from the Central Bank of Lebanon (ii)	**376,274**	-
Loan from the Central Bank of Lebanon (iii)	**24,637**	49,585
Interest payable	**6,387**	1,258
	1,223,998	179,280

Central Bank of Lebanon arrangements and facilities made available to the banking sector during 2018 comprise the following:

(i) During the years 2017 and 2018, the Central Bank of Lebanon granted loans to the Bank against term placements denominated in US$. The loans are denominated in LL and are subject to an annual interest rate of 2% payable on a semi-annual basis. The Central Bank loans are equal to 125% of the US$ term placements, and must be reinvested in Lebanese treasury bills with maturities from 5 to 10 years. Proceeds from these loans are deposited in short term placements with the Central Bank of Lebanon that earn interest at 5.36%. At 31 December 2018, the total loans granted to the Bank and reinvested in Lebanese treasury bills amounted to LL 416.97 billion
(31 December 2017-LL 128.43 billion).

During 2018, the Central Bank of Lebanon granted loans to the Bank against treasury bills denominated in US$. The loans are denominated in LL and are subject to annual interest rate of 2% payable on a semi-annual basis. These loans obtained are equal to 125% of the Eurobonds, and are to be reinvested in long term placements in LL with maturities from 5 to 10 years. At 31 December 2018, total loans granted to the Bank amounted to LL 76.98 billion (31 December 2017-nil).

During 2018, the Central Bank of Lebanon granted loans to the Bank against term placements denominated in US$. The loans are denominated in LL and are subject to an annual interest rate of 2% payable on a semi-annual basis. The Central Bank loans are equal to 125% of the US$ term placements, and must be reinvested in long term placements with the Central Bank of Lebanon in LL with maturities of 10 years subject to an interest rate of 10.5%. At 31 December 2018, the total loans granted to the Bank amounted to LL 297.10 billion (31 December 2017-nil).

During 2018, the Central Bank of Lebanon in LL granted loans to the Bank against foreign exchange transactions. The loans are denominated in LL and are subject to an annual interest rate of 2% payable on a semi-annual basis. The Central Bank loans are equal to 125% of these transactions, and must be reinvested in long term placements with the Central Bank of Lebanon in LL with maturities of 10 years subject to an interest rate of 8.8%. At 31 December 2018, the total loans granted to the Bank and reinvested in Lebanese treasury bills amounted to LL 25.64 billion (31 December 2017-nil).

(ii) During 2018, the Central Bank of Lebanon granted loans to the Bank against term placements denominated in LL. The loans are denominated in LL and are subject to annual interest rate of 2% payable on a semi-annual basis. These loans obtained are equal to 100% of the LL term placements, and are to be reinvested in long term placements with the Central Bank of Lebanon in LL maturities of 10 years. At 31 December 2018, total loans granted to the Bank amounted to LL 376.27 billion (31 December 2017-nil).

(iii) The Central Bank of Lebanon has granted the Bank a facility in accordance with BDL intermediary circular number 318. The total loan amounts to LL 24.64 billion (2017-LL 49.6 billion) and can only be used by the Bank for providing housing and environmental loans to clients with average interest rates of 4.19% (2017-4.24%). This loan is subject to an annual interest rate of 1% and is payable through monthly instalments starting 2 January 2015 with maturities ranging between 6 and 41 years.

18 Deposits From Customers

	2018	2017
	LBP Million	LBP Million
Term deposits	**7,289,276**	6,801,204
Current/settlement accounts (a)	**1,517,244**	1,423,087
Deposits held as collateral (b)	**503,534**	573,283
Deposits from related parties (note 36)	**163,264**	183,074
Accrued interest payable	**47,165**	40,661
Total deposits from customers	**9,520,483**	9,021,309
Current	**8,321,251**	8,614,603
Non-current	**1,199,232**	406,706
	9,520,483	9,021,309
(a) Current/settlement accounts:		
Checking and current accounts	**1,199,557**	985,902
Saving accounts - demand	**266,569**	372,391
Payment orders	**28,648**	29,540
Debtors accidentally creditors	**19,549**	34,116
Public sector deposits	**2,921**	1,138
	1,517,244	1,423,087
(b) Deposits held as collateral:		
Blocked accounts against credit facilities	**395,338**	485,807
Margins against issuance of documentary credits	**57,975**	39,471
Margins against issuance of letters of guarantee	**49,584**	47,638
Margins on speculation accounts	**637**	367
	503,534	573,283

Deposits from customers are financial instruments classified as liabilities at amortized cost. All deposits are at fixed interest rates

19 Other Liabilities

	2018	2017
	LBP Million	LBP Million
Due to credit card institution (i)	**12,245**	6,712
Withholding taxes and other charges	**8,740**	7,854
Accrued expenses	**8,712**	4,027
Cheques in the course of settlement	**6,477**	6,500
Due to employees	**5,168**	3,359
ECL allowance against financial guarantees and commitments (iii)	**4,580**	-
Provision for foreign currency fluctuations	**1,477**	1,182
Provision for credit card loyalty programmes	**986**	506
Due to National Social Security Fund	**590**	635
Dividends payable and interest payable on cash contribution to capital	**309**	289
Provisions for miscellaneous contingencies	**15,769**	9,575
Gain on "special swaps" with BDL - deferred portion (ii)	**-**	14,106
Other liabilities	**5,893**	4,915
	70,946	59,660

(i) The amount due to credit card institution of LL 12.24 billion (2017-LL 6.71 billion) represents transactions entered into by the clients through their credit cards and not yet settled by the Bank.

(ii) The deferred portion of the gain on special swaps undertaken with BDL in 2016 of LL 14.1 billion has been released to the separate statement of comprehensive income in the current period, as all the conditions stipulated in BDL circular no. 446 dated 30 December 2016 are considered by management to have been fulfilled.

(iii) The movement of allowance for impairment losses on undrawn credit lines, guarantee and other financial liabilities during the year is as follows:

	2018	2017
	LBP Million	LBP Million
Balance at beginning of year	**-**	-
Initial application of IFRS 9	**5,184**	-
Net release of impairment allowance during the year	**(604)**	-
Balance at end of year	**4,580**	-

Other liabilities are expected to be settled within no more than 12 months of the date of the balance sheet.

20 Retirement Benefit Obligations

The movement in provision for retirement benefit obligations can be summarized as follows:

	2018	2017
	LBP Million	LBP Million
At 1 January	**34,881**	32,442
Charge for the year (note 29)	**6,191**	4,251
Payments during the year	**(1,784)**	(1,812)
At 31 December	**39,288**	34,881

The principal assumptions used in determining the end of service benefit obligations of these plans are shown below:

	2018	2017
	LBP Million	LBP Million
Economic assumptions		
Discount rate	**8.0%**	8.0%
Average future increase on basic salary	**5.50%**	5.50%
Future expected return on contributions	**5%**	5%
Bonus	**5.50%**	5.50%
Demographic assumptions		
Retirement age	**64**	64
Mortality rate	**None**	None
Turnover rate	**2%**	2%

A quantitative sensitivity analysis as a result of an increase/decrease of 50 basis points in the significant assumptions as at 31 December 2018 and 2017 is shown as below:

	Discount rate		*Future salary increase*	
	Increase LBP Million	Decrease LBP Million	Increase LBP Million	Decrease LBP Million
Impact on net defined benefit obligations	**760**	**(703)**	755	(722)

21 Share Capital, Share Premium and Cash Contributions to Capital

	2018	2017
	LBP Million	LBP Million
Common shares (i)	**148,752**	148,752
Preferred shares:		
B shares (par value) (ii)	**8,264**	8,264
C shares (par value) (iii)	**5,165**	5,165
	13,429	13,429
Share premuim:		
B shares (v)	**112,336**	112,336
C shares (v)	**70,211**	70,211
	182,547	182,547
Cash contributions to capital		
Interest bearing (5.5% per annum)	**36**	36

(i) The Bank's common shares consist of 144,000,000 issued and fully paid shares with a nominal value of LL 1,033 each.

(ii) The Bank's preferred ("B") shares consist of 8,000,000 shares with a nominal value of LL 1,033 each and an issue price of LL 15,075 (US$ 10 per share) issued and fully paid.

(iii) The Bank's preferred C shares consist of 5,000,000 shares with a nominal of LL 1,033 each and an issue price of LL 15,075 (US$ 10 per share) issued and fully paid.

(iv) Preferred shares (B) and (C) are (a) redeemable at the sole discretion of the issuer (after 5 years from issuance date) (b) are non-cumulative (c) distribution of returns to the holders is contingent on the distribution of dividends to the common stocks and adequacy of regulatory reserves and retained earnings. Under these conditions, the preferred shares are deemed to be equity instruments. BDL circular no. 44 treats such preferred shares as "Additional Tier One Capital" for the purposes of computing the regulatory capital adequacy ratio.

(v) The share premium reserve of LL 112.34 billion and LL 70.21 billion represent the premium on issuance of preferred shares (B) and (C) respectively.

22 Other Reserves and Retained Earnings

	2018	2017
	LBP Million	LBP Million
Other reserves		
Real estate revaluation reserve (a)	**21,061**	21,061
Legal reserve (b)	**100,222**	92,371
Reserve for unspecified banking risks (c)	**-**	118,486
Reserve for future increases in capital (d)	**38,086**	37,288
Reserve for liquidation of assets classified as held for sale (e)	**10,698**	9,687
General reserve for retail loans (f)	**-**	5,609
General non-distributable reserve (h)	**124,676**	-
Fair value through OCI reserve (i)	**14,718**	-
Other reserves	**2,469**	1,914
	311,930	286,416

	2018	2017
	LBP Million	LBP Million
Retained earnings (g)		
Retained earnings - portion that is available for distribution	**306,718**	263,312
Retained earnings - portion not available for distribution		
(BCC circular no. 270) (j)	**-**	15,719
	306,718	279,031

(a) Real Estate Revaluation Reserve

The revaluation reserve of LL 21.06 billion (2017-21.06 billion) arose from the revaluation of investment properties and property and equipment. The revaluation was performed by an independent valuer under the provisions of fiscal law 282/93 based on the market values of 31 December 1993. The revaluation reserve was treated as part of the ("deemed cost") of the related assets upon first time adoption of IFRS. Capital gains tax having been paid on this surplus, no further taxes are payable on this gain upon ultimate distribution.

(b) Legal Reserve

Article 132 of the Code of Money and Credit and the Code of Commerce requires 10% of the Bank's net profits to be transferred from retained earnings to legal reserve. This reserve is not available for distribution. The current year appropriation from retained earnings amounted to LL 7.85 billion (2017-LL 7.51 billion). At 31 December 2018 the reserve amounted to LL 100.22 billion (2017-LL 92.37 billion).

(c) Reserve for Unspecified Banking Risks

As per Central Bank basic circular no. 143, the balance of the reserve for unspecified banking risks of LL 118.49 billion was transferred to a newly created general non-distributable reserve (paragraph (h)).

(d) Reserve for Future Increases in Capital

The reserve for future increases in capital of LL 38.08 billion consists of:

- LL 32.91 billion relating to the exceptional gains on special swaps with the Central Bank;
- LL 5.17 billion relating to gains made on disposal of properties acquired in settlement of debt as per BCC circular no. 173.

(e) Reserve for Liquidation of Assets Classified as Held for Sale

Under BDL intermediary circular no. 51, BCC Memo 4/2008, and basic circular no. 78, Banks are required to establish a reserve from annual appropriations from retained earnings in respect of properties acquired in settlement of debt. This reserve is mandatory where the Bank fails to dispose of the property within a period of 2 years from the date of acquisition. The annual appropriation is equal to 5% or 20% respectively of the carrying amount of the property depending on whether the original debt is pre or post 30 June 2003. This reserve is transferred upon disposal of the property to a restricted reserve that can only be used for future potential increases in share capital. At 31 December 2018 the reserve amounted to LL 10.69 billion (2017-LL 9.69 billion). The current year appropriation amounted to LL 1.01 billion (2017-LL 998 million).

(f) General Reserve for Retail Loans

As per Central Bank circular no. 143, the balance of general reserve for retail loans of LL 5.61 billion was transferred to a general non distributable reserve (paragraph (h)).

(g) Retained Earnings

	2018	2017
	LBP Million	LBP Million
At 1 January	**279,031**	302,526
Profit for the year	**78,002**	74,075
Dividends declared (note 33)	**(23,799)**	(19,546)
Interest on cash contributions to capital (note 33)	**(1)**	(2)
Transfers to:		
Reserve for future increases in capital (paragraph (d))	**-**	(33,881)
General non-distributable reserve (paragraph (h)	**(581)**	-
Transfer to fair value through OCI reserve (paragraph (i))	**(15,719)**	-
Legal reserve (paragraph (b))	**(7,851)**	(7,512)
Reserve for unspecified banking risks (paragraph (c))	**-**	(33,517)
Reserve for liquidation of assets classified as held for sale (paragraph (e))	**(1,012)**	(998)
General reserve for retail loans (paragraph (f))	**-**	(1,666)
Other reserve	**(1,352)**	(448)
	(26,515)	(78,022)
At 31 December	**306,718**	279,031

The general assembly meeting held on 24 May 2018 approved the distribution of dividends amounting to LL 23.80 billion (LL 70 per common share, LL 1,055 per preferred share B and LL 1,055 per preferred share C) (refer to note 33).

The appropriation of reserves at 31 December 2018 is to be proposed by the Board and is subject to the final approval of the general assembly that is to be held in 2019 to approve the 2018 financial statements.

(h) General Non-Distributable Reserve

As explained in note (c) above, this reserve was established mainly by transfer from other reserves as indicated below;

The movement of general non - distributable reserve is summarized as follows:

	2018	2017
	LBP Million	LBP Million
At 1 January	-	-
Transfer from general reserve for retail loans (note f)	5,609	-
Transfer from reserve for unspecified banking risks (note c)	118,486	-
Transfer from retained earnings	581	-
At 31 December	124,676	-

(i) Fair Value Through OCI Reserve

Movements during the year are as follows:

	2018
	LBP Million
At 1 January	-
Transfer from retained earnings (unrealized gain on investment securities at fair value through profit or loss) (paragraph (i))	15,719
Fair value movements during the year	(1,001)
At 31 December	14,718

As explained in notes (9a) and (22g), the fair value through OCI reserve arises from the redesignation of debt securities previously classified as fair value through profit and loss to fair value through OCI effective 1st January 2018.

(j) Retained Earnings - Portion that is Not Available for Distribution Under BCC 270

Cumulative unrealized gains (gross of losses) on revaluation of financial assets at fair value through profit or loss are not available for distribution until their disposal.

As noted in paragraph (i) above, this part of retained earnings has been transferred to fair value through OCI reserve.

	2018	2017
	LBP Million	LBP Million
At 1 January	15,719	16,204
Unrealized gain on investment securities		
at fair value through profit or loss (note 27a)	-	2,524
Revaluation gains related to investment		
securities subsequently sold (transferred to realized)	-	(3,009)
Transfer to fair value through OCI reserve (note 22i)	(15,719)	
At 31 December	-	15,719

23 Net Interest and Similar Income

	2018	2017
	LBP Million	LBP Million
Interest and similar income		
Central Bank of Lebanon	**208,176**	77,160
Customers	**185,033**	184,597
Banks and financial institutions	**18,649**	15,490
Reverse repos	**-**	7,389
Loans and advances to related parties (note 36)	**491**	425
	412,349	285,061
Investment securities at fair value through profit or loss	**439**	12,924
Investment securities at fair value through other comprehensive income	**5,117**	-
Investment securities at amortized cost	**256,933**	254,628
	262,489	552,613
	674,838	552,613
Interest and similar expenses		
Deposits from customers	**455,436**	371,791
Deposits from banks and financial institutions	**22,989**	8,053
Deposits from related parties (note 36)	**9,002**	8,603
	487,427	388,447
Net interest and similar income	**187,411**	164,166

24 Net Impairment Releases (charges)

	2018	2017
	LBP Million	LBP Million
Loans and advances to customers (notes 3.1.5 and 7)	**(3,918)**	(10,093)
Cash and balances with Central Banks (note 3.1.5 and 6)	**(2,496)**	-
Financial assets at fair value through other comprehensive income (notes 3.1.5)	**20**	-
Deposits with banks and financial institutions (notes 3.1.5 and 6)	**4,913**	-
Financial assets at amortized cost (notes 3.1.5 and 10)	**3,614**	-
Acceptances (notes 3.1.5 and 8)	**1,324**	-
Undrawn credit lines, guarantee and other financial liabilities (note 3.1.5)	**604**	-
	4,061	(10,093)

25 Net Fee and Commission Income

	2018	2017
	LBP Million	LBP Million
Fee and commission income		
Credit-related fees and commissions	**17,048**	12,099
Commissions on banking operations	**15,593**	15,488
Commissions on letters of credit and guarantees	**7,854**	7,771
Commissions on transfers	**7,099**	8,561
Brokerage fees	**3,661**	3,410
Other	**289**	216
	51,544	47,545
Fee and commission expense		
Commissions on banking operations	**4,191**	3,357
Brokerage fees paid	**1,912**	2,488
Other	**349**	384
	6,452	6,229
Net fee and commission income	**45,092**	41,316

26 Net Trading Income

	2018	2017
	LBP Million	LBP Million
Net realized gains on foreign exchange transactions	**1,595**	10,866
Net unrealized gains on foreign exchange translations	**5,335**	5,400
	6,930	16,266

27a Net Gain (Loss) on Investment Securities at Fair Value Through Profit or Loss

	2018	2017
	LBP Million	LBP Million
Unrealized loss on revaluation	**(339)**	(4,228)
Unrealized gain on revaluation (note 22)	**581**	2,524
Net unrealized gain (loss)	**242**	(1,704)
Realized gain on sale of investment securities	**74**	1,219
Net gain (loss) on investments at fair value through profit or loss	**316**	(485)

27b Net (Loss) Gain on Investment Securities at Amortized Cost

	2018	2017
	LBP Million	LBP Million
(Loss) gain on sale of investment securities at amortized cost	**(8)**	2,171

28 Other Income

	2018	2017
	LBP Million	LBP Million
Release from provision for liabilities and charges	945	827
Gain on disposal of assets classified as held for sale (note 22)	799	968
Rental income (note 12)	90	78
Loss on disposal of property and equipment	(112)	(33)
Other	684	802
	2,406	2,642

29 Personnel Expenses

	2018	2017
	LBP Million	LBP Million
Wages and salaries	53,309	48,007
Social security costs	6,318	6,260
Pension costs - defined benefit plan (note 20)	6,191	4,251
Scholarship	2,946	3,042
Medical expenses	2,354	2,197
Transportation	2,221	1,964
Training expenses	208	291
Other employee benefits	2,748	2,809
	76,295	68,821

30 Depreciation and Amortization Charges

	2018	2017
	LBP Million	LBP Million
Depreciation charge (note 13)	6,131	6,663
Amortization charge (note 14)	838	1,040
	6,969	7,703

31 Other Operating Expenses

	2018	2017
	LBP Million	LBP Million
Advertising	14,842	5,441
Municipality and other taxes	7,021	4,033
Provision for risk and charges	5,903	3,263
Professional fees (note 36)	5,781	5,847
Office supplies and utilities	5,036	5,243
Deposit guarantee premiums	4,619	4,088
Software costs	3,090	2,993
Travel expense and entertainment	2,587	2,526
Security	2,276	2,075
Repairs and maintenance	2,138	2,499
Operating leases	2,191	2,147
Directors' remuneration (note 36)	1,680	1,677

	2018	2017
Transportation	**1,370**	1,700
Insurance (note 36)	**1,150**	1,238
Subscriptions	**1,083**	1,274
Directors' attendance fees (note 36)	**818**	818
Donations	**753**	976
Maintenance on investment properties (note 12)	**132**	137
Other	**3,414**	2,800
	65,884	50,775

32 Income Tax Expense

Income tax expense comprises the following:

	2018	2017
Corporate income tax (i)	**9,552**	18,083
Tax withheld on interest (ii)	**29,282**	-
	38,834	18,083

(i) Corporate Income Tax

With effect from 27 October 2017, corporate income tax is charged at 17% (previously 15%) to which is added tax withheld on interest income (see paragraph (ii) below).

Corporate income tax consists of the following:

	2018	2017
	LBP Million	LBP Million
Lebanon ("Head Office and branches")	**7,500**	14,770
Foreign branches (Cyprus and Iraq)	**2,052**	3,313
Tax charge for the year	**9,552**	18,083
Proof of tax is determined as follows:		
Profit before income tax	**116,836**	92,158
Less: foreign entities	**(13,419)**	(21,113)
Less: tax whithheld on interest (see below)	**(29,282)**	-
Profit before income tax - local entity	**74,135**	71,045
Income tax at an effective rate of 17% (2017-15.36%)	**12,603**	10,913
Effect of expenses not deductible for tax purposes:		
Differences between accounting and fiscal depreciation	**60**	141
Net unrealized (loss) gain on investment securities and financial liabilities	**(41)**	262
Impairment allowance - specific	**-**	2,390
Impairment allowance - collective	**-**	359
Release of impairment allowance - specific	**(12,726)**	(2,105)
Pension costs - defined benefit plan	**510**	653

	2018	2017
	LBP Million	LBP Million
Other provisions	**-**	501
Donations and other provisions	**128**	150
Other	**478**	1,506
Income tax - Lebanon	**1,012**	14,770
Income tax - foreign branches	**2,052**	3,313
Additional provisions - (see below)	**6,488**	-
Total corporate income tax	**9,552**	18,083

The movement in the current income tax liability is as follows:

	2018	2017
	LBP Million	LBP Million
At 1 January	**7,096**	35,556
Charge for the year	**9,552**	18,083
Payments during the year	**(9,305)**	(46,543)
At 31 December	**7,343**	7,096

The breakdown in the current income tax liability is as follows:

	2018	2017
	LBP Million	LBP Million
Lebanon entity	**4,985**	2,750
Foreign entities (Cyprus and Iraq)	**2,358**	4,346
At 31 December	**7,343**	7,096

Additional provisions of LL 6.49 billion that are part of the total corporate income tax charge include payments of LL 3.20 billion on account of revaluation tax on properties which management have opted to expense as part of the income tax charge for the year, rather than treating it as a deferred tax asset on grounds of immateriality.

The fiscal years from 2015 till 2018 for the local entity remain subject to examination by the income tax authorities.

(ii) Tax Withheld on Interest Income

With effect of 27 October 2017, tax withheld of 7% (previously 5%) on interest income is no longer a tax credit towards the corporate income tax charge but an additional burden to the corporate income tax. However, it is a deductible expense in the computation of the corporate income tax charge.

The tax withheld on interest income arises on the following:

	2018	2017
	LBP Million	LBP Million
Cash and balances with Central Banks	**14,295**	-
Investment securities	**13,344**	-
Deposits with banks and financial institutions	**1,643**	-
	29,282	-

33 Dividends Per Share and Interest on Cash Contributions

Dividends declared by the Bank have been accounted for in the financial years as follows:

The general assembly meeting held on 24 May 2018 approved the distribution of dividends of LL 19,546 million (LL 70 per common share, LL 1,055 per preferred share B and LL 1,055 per preferred share C) and interest on cash contributions to capital of LL 1.4 million in respect of the financial year ended 31 December 2017.

	2018	2017
	LBP Million	LBP Million
LL 70 (2017-LL 70) per common share	**10,080**	10,080
LL 1,055 (2017-LL 1,055) per preferred share (designated ''B'')	**8,442**	8,442
LL 1,055 (2017-LL 204.8) per preferred share (designated ''C'')	**5,277**	1,024
	23,799	19,546

In addition the Bank paid interest on cash contribution of LL 1.4 million (2017-LL 1.4 million).

34 Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks.

	2018	2017
	LBP Million	LBP Million
Cash and balances with Central Banks (note 5)	**644,002**	560,060
Deposits with banks and financial institutions (note 6)	**919,544**	804,083
	1,563,546	1,364,143

35 Contingent Liabilities and Commitments

(a) Legal Proceedings

There were a number of lawsuits involving claims by and against the Bank at 31 December 2018, which arose in the ordinary course of business. The Bank does not expect these claims to give rise to any significant liability on the Bank.

(b) Loan Commitments, Guarantees and Other Financial Facilities

At 31 December 2018 the following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2018	2017
	LBP Million	LBP Million
Loan commitment (unused facilities)	**917,690**	611,281
Letters of guarantee (see below)	**230,975**	216,954
Letters of credit	**142,605**	174,037
	1,291,270	1,002,272

The nature and the amounts of the letters of guarantee are as follows:

	2018	2017
	LBP Million	LBP Million
Guarantees given to customers	**145,200**	126,145
Guarantees against bank facilities	**85,775**	90,809
	230,975	216,954

(c) Operating Lease Commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
	LBP Million	LBP Million
Not later than 1 year	**991**	944
Later than 1 year and not later than 5 years	**4,227**	4,026
Later than 5 years	**3,130**	2,981
Total operating lease commitments	**8,348**	7,951

(d) Capital Commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognized as liabilities is as follows:

	2018	2017
	LBP Million	LBP Million
Property and equipment	**10,500**	7,500

36 Related-Party Transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon) which owns 46.14% of the ordinary shares, and Fransabank S.A.L. (incorporated in Lebanon) which owns 37.07% of the ordinary shares. The remaining 16.79% of the shares are widely held.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other financial facilities (i.e. loan commitments, guarantees, etc.).

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

(a) Loans and Advances to Related Part

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2018 LBP Million	2017 LBP Million	2018 LBP Million	2017 LBP Million
Loans and advances (note 7)	**12,058**	**9,960**	-	-
Interest income (note 23)	**491**	425	-	-

No provisions have been recognized in respect of loans given to related parties (2017-nil).

Loans and advances to related parties comprise loans with fixed rates. The majority of these loans are secured by real estate mortgages.

As stipulated by Code of Money and Credit article 152, loans and advances to related parties are subject to general assembly approval on yearly basis.

The average interest rate on these loans and advances to related parties was 7.01% for the year 2018 (2017-7.54%).

(b) Deposits from Related Parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2018 LBP Million	2017 LBP Million	2018 LBP Million	2017 LBP Million
Deposits (note 18)	**32,912**	49,398	**130,352**	133,676
Interest expense (note 23)	**2,973**	2,161	**6,029**	6,442

Deposits from related parties are unsecured and comprise deposits with variable rates (repayable on demand), and fixed rates (repayable at maturity) of LL 23 billion (2017-LL 25 billion) and LL 140 billion (2017-LL 158 billion) respectively.

The average interest rate on these deposits from related parties was 5.09% for the year 2018 (2017-4.52%).

(c) Letters of Guarantee

	2018	2017
	LBP Million	**LBP Million**
The Capital Insurance and Reinsurance Company S.A.L.	**307**	312

(d) Other Transactions with Related Parties

	2018	2017
	LBP Million	LBP Million
The Capital Insurance and Reinsurance Company S.A.L.		
Commission income	**2,211**	2,688
Dividend income	**4,000**	1,600
Insurance expense - Bank (note 31)	**(1,150)**	(1,238)
Insurance expense - staff	**(328)**	(332)
Other		
Cost of other services received and commission paid	**(712)**	(691)

(e) Key Management Compensation

	2018	2017
	LBP Million	LBP Million
Directors' remuneration (note 31)	**1,680**	1,677
Directors' attendance fees (note 31)	**818**	818
Other key management compensation	**5,967**	5,538

(f) Professional Fees

Professional fees include remunerations to the audit and risk board members amounting to LL 509 million (2017-LL 541 million).

04

NETWORK

Correspondent Banks

Abu Dhabi
First Abu Dhabi Bank P.J.S.C

Amman
Jordan Ahli Bank Plc

Copenhagen
Danske Bank A/S

Doha
Qatar National Bank SAQ

Dubai
MashreqBank PSC

Frankfurt
Deutsche Bank AG
Commerzbank AG
The Bank of New York Mellon

Hong Kong
Standard Chartered Bank

Kuwait
National Bank of Kuwait SAK

London
Barclays Bank Plc
Standard Chartered Bank
The Bank of New York Mellon

Madrid
BBVA SA

Milano
Intesa Sanpaolo SpA

New York
The Bank of New York Mellon
Citibank N.A.
JPMorgan Chase Bank N.A.
Standard Chartered Bank

Oslo
DNB Nor Bank ASA

Paris
Société Générale

Riyadh
Banque Saudi Fransi

Stockholm
Skandinaviska Enskilda Banken AB

Toronto
Bank of Montreal

Vienna
Unicredit Bank Austria AG

Subsidiaries

- **Informatics Co. s.a.r.l.**

It is a software company that offers commercial and technical services. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 84% of the company's shares.

- **Société Libanaise de Service s.a.r.l.**

The company is active in real estate management. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 91% of the company's shares.

- **The Capital Insurance and Reinsurance Co. s.a.l.**

The company provides a full-range of insurance and reinsurance services. It is chaired by Mr. Assad G. Merza. BBAC owns 80% of the company's shares.

Branch Network

HEAD OFFICE

250 Clemenceau Street
BBAC Building
P.O.Box: 11-1536 Riad El Solh
Beirut 1107 2080 Lebanon
Tel: (01) 360460 - 366630/1
Fax: (01) 365200
24/7 Customer Care: 1296 from Lebanon
or (+961) 1 366921 from abroad
E-mail: contactus@bbac.com.lb
www.bbacbank.com

BEIRUT

Clemenceau Central Branch
(Head Office)
Tel: (01) 360460 - 366630/1
Fax: (01) 365200

UNESCO (Corniche El Mazraa)
Tel: (01) 867144/5/6 - 810390
(03) 233733 Fax: (01) 790394

Hamra (Abd El Aziz Street)
Tel: (01) 341280/2 - 351261
(03) 414514 Fax: (01) 353745

Mazraa (Corniche El Mazraa,
Cola Intersection)
Telefax: (01) 818429/31 - 302540
Tel: (03) 265266

Achrafieh - Mar Nicolas
(Charles Malek Avenue)
Tel: (01) 201780/1 - 331599
(03) 541542 Fax: (01) 331690

Achrafieh - Istiklal (Al Istiklal Street
near Rizk Hospital)
Tel: (01) 203991/2 - 204016
Fax: (01) 203987

Manara (Main Street, Rasamni Younis Building)
Tel: (01) 361088/98

Badaro - Sami El Solh (Sami El Solh Street,
Ivoire Building)
Tel: (01) 386285 - (71) 432666
Fax: (01) 386284

Bechara El Khoury
(Boulevard Bechara El Khoury, Hana Tower)
Tel: (01) 669578/9
Fax: (01) 669576

MOUNT LEBANON

Metn

Zalka (Amaret Chalhoub, Haroun Hospital
Street, Strassco Tower)
Tel: (01) 893910 - 886764
(03) 534111 Fax: (01) 893486

Dekwaneh (Boulevard Camille Chamoun)
Tel: (01) 682391/2 - (03) 542543
Fax: (01) 682389

Elyssar - Mazraat Yachouh (Main Road)
Telefax: (04) 913211/21
Tel: (03) 714150

Sin El Fil (Al Hayek Crossroad, Lubnania
Building)
Telefax: (01) 488871/2

Dora (Dora Highway, St. Jacques Center)
Telefax: (01) 255381/2

Baabda

Furn El Chebbak (Damascus Road)
Tel: (01) 291528/9 - (03) 388611
Fax: (01) 280906

Bir El Abed (Haret Hreik)
Tel: (01) 548900 - 545435
(03) 539540 Fax: (01) 548901

Chiyah (Al Arees Highway, Fawaz Building
near the Ministry of Labor)
Telefax: (01) 554172/3

Hazmieh (Damascus International Road,
Kassis Center)
Tel: (05) 951762/3/4

Aley

Aley - Saha (Aley Main Square)
Tel: (05) 555433/4 - 557433
(03) 548549 Fax: (05) 557434

Choueifat (Old Saida Road)
Tel: (05) 433302 - 433600/1
(03) 271194 Fax: (05) 433303

Metn - Hamana (Btekhnay Crossroad)
Tel: (05) 530050 - 530822
(03) 265504 Fax: (05) 530482

Aley - Baqaa (Bkheshtay Road)
Tel: (05) 554701 - 557701/2
(03) 563564 Fax: (05) 554432

Shahhar - Kabr Chmoun
Tel: (05) 410281/2 - (03) 265509
Fax: (05) 411190

Chouf

Baakline (Main Road)
Tel: (05) 300776 - 304060
(03) 265503 Fax: (05) 300348

Bekaata (Main Road)
Telefax: (05) 507587 - 500587 - 501587/706
Tel: (03) 265506

Manassef - Kfarheem (Main Road)
Telefax: (05) 720598/9
Tel: (03) 220729

Keserwan/Jbeil

Kaslik (Tripoli - Beirut Highway)
Telefax: (09) 221437/8/9
Tel: (03) 494495

Jbeil (Main Road)
Telefax: (09) 546700/567/407
Tel: (03) 180250

BEKAA

Chtaura (Damascus Road)
Tel: (08) 542451/3 - (03) 840844
Fax: (08) 542452

Bar Elias (Damascus Road)
Tel: (08) 510014 - (03) 840842
Fax: (08) 511085

Rachaya El Wadi (Main Road)
Telefax: (08) 561244 - 591243 - 590240
Tel: (03) 840845

Jib Jannine (Main Road)
Tel: (08) 660370/240 - (03) 840843
Fax: (08) 662740

Ferzol (Main Road)
Tel: (08) 950850/1/2 - (03) 840841
Fax: (08) 950853

Baalbek (Main Road)
Tel: (08) 374014/5 - (03) 614899
Fax: (08) 374016

SOUTH

Saida (Nejmeh Square)
Telefax: (07) 723857 - 724369 - 734116
Tel: (03) 535536

Tyr - Buss (Jal El Bahr, Main Road, same
building as the Sunni Sharia Court)
Tel: (07) 343651/2 - (03) 265505
Fax: (07) 343650

Bint Jbeil (Main Road, Saff El Hawa,
Bazzi Center)
Telefax: (07) 450121/2
Tel: (03) 499300

Hasbaya (Chehabi's Sarail Road)
Telefax: (07) 550272/3
Tel: (03) 311788

NORTH

Tripoli - Tall (Tall Square)
Telefax: (06) 430460/1
Tel: (03) 388622

Tripoli - Mina (Al Mina Street, Dannaoui
Building)
Tel: (06) 200103/4/5/6 - (03) 566635
Fax: (06) 611555

Kousba (Koura, Al Arz Street, St. Mary Center)
Telefax: (06) 510750/1/2

OVERSEAS

Limassol - Cyprus
144 Archbishop Makarios III Avenue,
BBAC Building, 3021 Limassol
P.O.Box: 56201 3305 Limassol
Tel: (+357) 25 - 381286/290
(+357) 25 - 738807
Telefax: (+357) 25 - 381584
(+357) 25 - 384411

Erbil - Iraq
60 Meter Street, End of Iskan Tunnel
Tel: (+964) 66 - 257 4300/400/500
(+964) 750 - 765 8888

Baghdad - Iraq
Al Karrada Area, Al Arasat Street,
BBAC Building
Tel: (+964) 770 - 462 6367
(+964) 780 - 320 0060

Sulaymaniyah - Iraq
King Mahmood Street, 60 Meter Road
near Talary Hunar, Shazad Building
Tel: (+964) 53 - 319 6468
(+964) 771 - 642 8888

**Abu Dhabi - United Arab Emirates
(Representative Office)**
Office No. 707, Sky Tower, Al Reem Island
P.O.Box: 41840 Abu Dhabi
Tel: (+971) 2 - 446 1516/7
Fax: (+971) 2 - 446 1518

**Lagos - Nigeria
(Representative Office)**
10/14 Abebe Court, Flat A5
Bourdillon Road, Ikoyi
Tel: (+234) 818 829 7124

BBAC Building, 250 Clemenceau Street • P.O. Box: 11-1536 Beirut, Lebanon
Tel: +961 1 360 460 - 366 630/1 • Fax: +961 1 365 200
Email: contactus@bbac.com.lb • bbacbank.com