ANNUAL REPORT 2019

BBAC

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Chairman's Letter

The year 2019 saw profound changes to the operating environment of the banking industry. Haunted by the long shadow of the regional financial conditions, the Lebanese economy has drastically changed following the 17th of October revolution, amid high inflation rates, COVID-19 pandemic, and the unhelpful circumstances and instability at all levels.

Following the massive protest of October 2019, the banking sector witnessed huge deposit conversions into USD and deposit withdrawals. The deposit dollarization rate reached 72.3% at the end of October 2019 and increased to 74.5% at the end of December 2019. Private sector deposits decreased by 8.6% at the end of 2019 compared to an increase of 4.2% in 2018. The Central Bank has set strict limits on USD withdrawals and issued circulars restricting outward transfers in USD to very specific cases.

BBAC exhibited a decrease in total deposits from LBP 9,520 billion in 2018 to LBP 8,887 billion in 2019 with a decrease of -7.12% compared to an increase of 5.53% in 2018.

Loans and advances to customers did not show a decrease in 2018, as a partial consequence of the decrease in deposits. In 2019, loans to customers stood at LBP 2,255 billion compared to LBP 2,639 billion in 2018.

In 2019, the Bank held lower liquidity levels than in 2018. Net liquid assets decreased by 4.5% in 2019 compared to an increase of 8% in 2018. As a result of the decrease in customer deposits, the net liquidity ratio increased from 81.61% in 2018 to 83.50% in 2019. Consolidated assets reached LBP 12,331 billion in 2019 growing by 1.2% from the consolidated 2018 figure of LBP 12,189 billion. Concerning capital adequacy, BBAC scored a ratio of 9.36% against 16.09% in 2018 lagging behind Basel III and supervisory requirements.

In terms of profitability, BBAC has suffered from losses of LBP 48.6 billion in 2019 compared to profits of LBP 78 billion in 2018, marking approximately a 162% decrease in profitability following a positive growth of 5.30% in 2018.

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). The Bank 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.

Remaining competitive and profitable in the current unstable economic and political situation 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

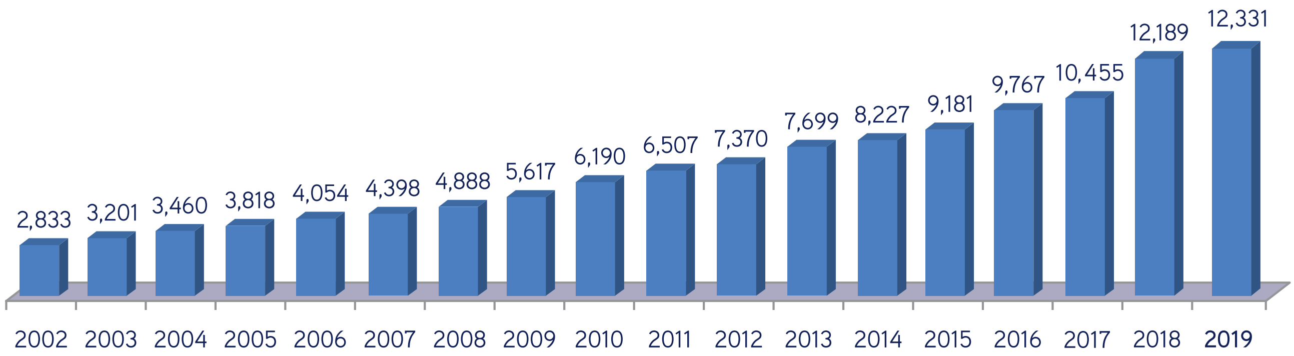
01

MANAGEMENT

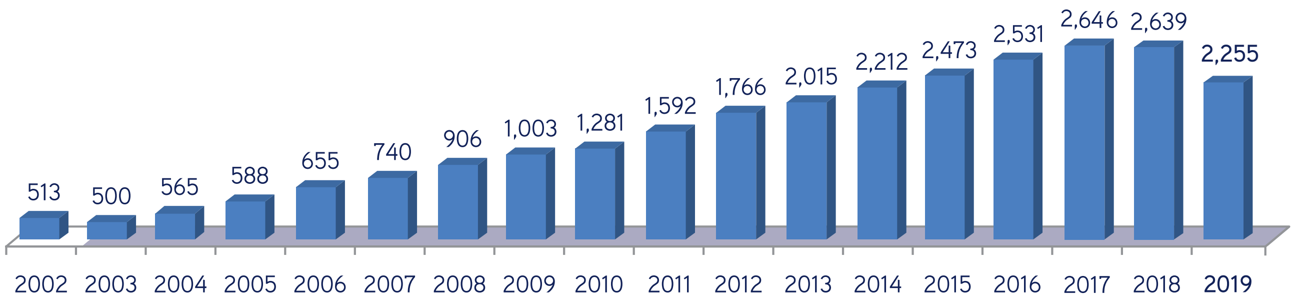
Financial Highlights

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
	2019	2018	2019/2018
Total Assets	12,331,359	12,189,445	1.16%
Total Loans	2,255,467	2,639,227	-14.54%
Total Deposits[1]	8,886,964	9,520,483	-6.65%
Net Liquid Assets[2]	7,421,014	7,769,283	-4.48%
Shareholders' Equity	895,640	963,412	-7.03%
Net Profit	(48,565)	78,002	-162.26%

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	Amount (LBP million)		Growth
	2019	2018	2019/2018
Net Regular Loans (1)	**2,135,765**	**2,478,153**	**-13.82%**
Add Collective Impairment on Loans and Advances	32,560	14,850	119.26%
Gross Regular Loans (2)	**2,168,325**	**2,493,003**	**-13.02%**
Net Substandard Loans (3)	24,537	40,404	-39.27%
Add Unrealized Interest	2,320	1,182	96.23%
Gross Substandard Loans (4)	**26,857**	**41,586**	**-35.42%**
Net Doubtful and Bad Loans (5)	95,165	120,672	-21.14%
Add Unrealized Interest	69,510	49,823	39.51%
Add Provisions	230,200	145,501	58.21%
Gross Doubtful and Bad Loans (6)	**394,875**	**315,997**	**24.96%**
Net Non-Performing Loans (3+5)	119,701	161,076	-25.69%
Net Loans	2,255,467	2,639,230	-14.54%
Gross Loans (2+4+6)	**2,590,057**	**2,850,586**	**-9.14%**
Net Non-Performing to Gross Loans (3+5)/(2+4+6)	4.62%	5.65%	-1.03%

	Amount (LBP million)		Change
	January 1, 2019	December 2019	
Credit-Impaired Loans *(Net of Unrealized Interest)*			
Of which Corporate	288,901	280,677	(8,224)
Of which Retail	17,677	141,055	123,378
Total Credit-Impaired Loans	**306,578**	**421,731**	**115,153**
Allowance For Expected Credits Loss (ECL) Stage 3	137,056	230,199	93,143
Net Credit-Impaired Loans	**169,522**	**191,532**	**22,010**
Gross Loans			
Of which Corporate	2,009,834	1,682,926	(326,908)
Of which Retail	789,747	835,302	45,555
Total Gross Loans	**2,799,581**	**2,518,228**	**(281,353)**
Allowance For Expected Credit Loss (ECL) Stages 1 & 2	23,298	32,559	9,261
Net Loans	**2,639,227**	**2,255,470**	**(383,757)**
Credit-Impaired Loans/Gross Loans	10.95%	16.75%	5.80%
Net Credit-Impaired Loans/Gross Loans	6.06%	7.61%	1.55%
Credit-Impaired Loans Coverage (ECL Stage 3)	44.71%	54.58%	9.88%
Net Credit-Impaired Loans/Total Assets	1.39%	1.55%	0.16%
Allowance for ECL Stages 1 & 2/Net Loans	0.88%	1.44%	0.56%

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 in IFRS9 is a forward looking metric that is calculated based on 12-month period for stages 1 and 2 and lifetime ECL for stage 3.

Credit-impaired loans increased by 37.6%, which is LBP 115,153 million in December 2019, from LBP 306,578 million in 2018 to LBP 421,731 million in 2019. The increase in credit-impaired loans to gross loans ratio from 10.95% to 16.75% is partially attributed to the 10% decline in gross loans from January 2019 to December 2019.

Net credit-impaired loans increased by 13%, which is LBP 22,010 million in 2019. As a result, net credit-impaired loans/gross loans ratio increased from 6.06% to 7.61% in 2019.

Credit-impaired loans coverage ratio increased to 54.58% due to 37.6% growth in credit-impaired loans.

Key Ratios

Liquidity Ratio (%)	2018	2019
Net LBP Liquidity	91.60%	94.92%
Net FC (Foreign Currency) Liquidity	76.77%	79.98%
Net Liquidity (Total)	81.61%	83.50%
Loans/Deposits (LBP)	23.99%	27.64%
Loans/Deposits (FC)	29.53%	24.68%
Loans/Deposits (Total)	27.72%	25.38%
Liquid Assets/Total Assets	75.94%	79.18%

Capital Adequacy Ratio (%)	2018	2019
Capital adequacy ratio according to Basel III	16.09%	9.36%

Profitability	2018	2019
Average assets (LBP million)	11,317,127	12,260,402
Average equity (LBP million)	936,812	929,526
Return on average assets ROAA after tax (%)	0.69%	-
Return on average equity ROAE after tax (%)	8.33%	-
Number of common shares outstanding (LBP million)	144	144
Number of preferred shares "B" outstanding (LBP million)	8	8
Number of preferred shares "C" outstanding (LBP million)	5	5
Earnings per common share (EPS) in LBP	542	-
Earnings per common share (EPS) in LBP	446	-
Dividends per common share (DPS) in LBP	45	-
Dividends per preferred share "B" in LBP	1,055	-
Dividends per preferred share "C" in LBP	1,055	-
Dividends payout ratio	25.9%	-
Retention ratio	74.1%	-
Book value per common share in LBP	5,329	4,859

Management Efficiency Ratio (%)	2018	2019
Interest paid/Interest received	72.23%	76.77%
Net commissions/Income	17.22%	15.49%
Cost/Income	56.94%	52.75%
Cost per average branch (LBP million)	3,352	2,835

Sources of Funds

Following the massive protests that erupted in Lebanon on October 17, 2019, Lebanese banks witnessed heavy deposit withdrawals and requests for local and international transfers. This was driven by customer fear, sudden lack of trust in the banking system, and political and economic uncertainty.

BBAC witnessed a drop in deposits as well as settlement of loans. Deposits dropped by 6.7% from LBP 9,520 billion in 2018 to LBP 8,887 billion in 2019 compared to a growth of 5.53% in 2018.

Term deposit accounts, which constitute 74.76% of total deposits, decreased by 8.85% in 2019 versus an increase of 7.18% in 2018. Current /settlement accounts increased by 5.44% in 2019, and they constitute 18% of total deposits.

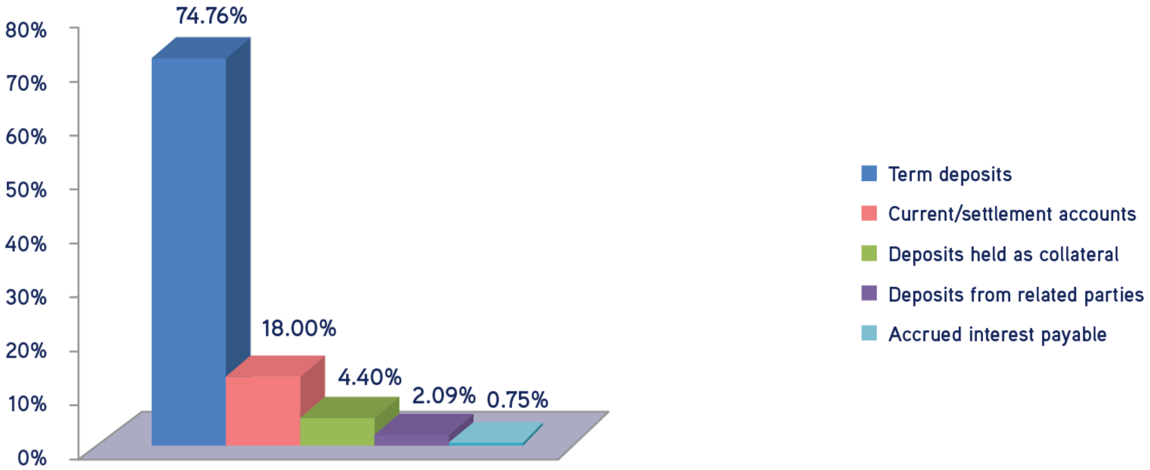
Approximately 96% of customer deposits are denominated in LBP and USD, constituting 24% and 72% of total deposits respectively. In terms of growth, USD deposits grew by 7.8%, while LBP deposits decreased by 32% in 2019. As to maturity, 80.7% of deposits are current and mature within 12 months, of which 47% mature within a one-month period and 13% mature within a period of 1 and 3 months.

Due to the Central Bank account increased by LBP 940 billion in 2019, reaching LBP 2,164 billion with a growth of 76.9%. 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 100% of the LBP term placements and should be re-invested in long-term placements at the Central Bank with 10-year maturities, which amounted to LBP 376.27 billion as of December 2019.

BBAC's shareholders' equity decreased by 7% from LBP 963 billion in 2018 to LBP 896 billion in 2019. This drop is tied to the decrease of 23.30% in retained earnings netted with the slight increase of 1.18% in other reserves.

Breakdown of Customer Deposits by Type and Currency Mix

Customer Deposits by Type and Currency Mix	(LBP million)		Structure		% Change
	2019	2018	2019	2018	2019/2018
Term Deposits	6,644,101	7,289,276	74.76%	76.56%	-8.85%
Current/Settlement Accounts	1,599,730	1,517,244	18.00%	15.94%	5.44%
Deposits Held as Collateral	390,878	503,534	4.40%	5.29%	-22.37%
Deposits from Related Parties	185,593	163,264	2.09%	1.71%	13.68%
Accrued Interest Payable	66,662	47,165	0.75%	0.50%	41.34%
Total	**8,886,964**	**9,520,483**	**100%**	**100%**	**-6.65%**
Of which Current	8,156,043	8,321,251	-	-	-
Of which Non-Current	730,921	1,199,232	-	-	-
Denominated as Follows					
LBP	23.61%	32.62%	-	-	-
Foreign Currencies	76.39%	67.38%	-	-	-



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 2019, the Bank was able to maintain adequate liquidity levels in both LBP and foreign currencies.

Following the events of October 17, 2019, BBAC, in line with the whole banking sector, has adopted restrictions on the cash withdrawals and international transfers trying to withhold its ability to fulfill its clients' needs during the market's imposed liquidity crisis. At the end of 2019, the Bank was holding around 7.46% (USD 336 million) of its total deposits in foreign currencies in cash and liquidity with other banks, excluding its holdings with the Central Bank of Lebanon. The same liquidity as of October 2019 was 11.33% (USD 489 million). This decrease was caused by the drain of liquidity at that time.

As for the local currency net liquidity, it decreased from LBP 2,845 billion in 2018 to LBP 1,991 billion in 2019, noting that the deposits in LBP sharply decreased year-over-year by LBP 1,008 billion due to the conversion to foreign currencies.

On the other hand, the loans to deposits ratio decreased from 27.7% in 2018 to 25.4% in 2019 as a result of a 15% decline in loans in 2019.

Profitability Ratios

In December 2019, total operating income decreased by 7.7%, from LBP 261,923 million in December 2018 to LBP 241,833 million, which was largely driven by a decline of 17% in net fee and commission income despite the increase in net interest income.

Excluding the gain on special swaps in 2018, total operating income would have been LBP 247,817 million with a decline of 2.4% in 2019. Net operating income decreased by 50% in 2019, from LBP 265,984 million in 2018 to LBP 133,631 million as of December 2019, due to the large amounts of provision taken against BBAC's exposure in sovereign investments. Moreover, total operating expenses decreased by 14.5%. While income tax expense and tax on interest increased by 41%, net profit decreased from LBP 78 billion in 2018 to LBP 48.5 billion net losses in 2019.

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. Marc Maamari	Independent Member
Mr. Farouk Mahfouz	Independent Member
Me. Amin Rizk	Secretary of the Board

Major Shareholders and General Management

Major Shareholders

Assaf Family	55.154%	Other Shareholders	7.634%
Fransabank s.a.l.	37.212%		

Legal Affairs Office

Judge Abbas El Halabi

Solicitors

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

Auditors

PricewaterhouseCoopers – KPMG

Executive Advisors to the Chairman

Mr. Anwar Abou Ghaida	Financial Management
Dr. Ali Darwish	Branches' Development (North Region)

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
Mrs. Wafaa Abed	Group Internal Audit
Mr. Camille Moujaes	Branch Network
Mr. Francois Balaa	Digital Banking
Miss. Najwa Kaid Bey – Mrs. Sara Iskandarani	Human Resources
Miss. Maya Itani	Risk Management
Mr. Wissam Maroun	Compliance
Mr. Salim Fakhreddine	Information Technology
Mr. Samer Abi Rafeh	Administration
Mr. Tarek Bilal	Marketing
Miss. Nahed Zeid	Cards and Electronic Banking Operations
Mrs. Hilda Ashkar	Operations
Mrs. Jinane Hanbali Edelbi	Small and Medium Enterprises
Mr. Marwan Abou Ibrahim	Corporate Credit
Mr. Salah Saab	Market Intelligence
Mrs. Joyce Abdelnour	Consumer Credit
Mr. Fadi Barakeh	Organization & Methods
Mr. Ali Al Danaf	Recovery & Restructuring
Mr. Salim Karam	Insurance
Mrs. Samar Merhi El Housseini	Accounting
Mrs. Maya Reaidy Rashed	Financial Control
Mrs. Catherine Matar Koudsi	Financial Institutions
Mr. Ibrahim Itani	Private Banking
Mr. Wissam Al Aridi	Project Management
Mr. Adonis Shehayeb	Management Information System
Mr. Labib Abou Dehn	Customer Rights Protection
Mr. Ramzi El Halabi	Real Estate Liquidation

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 December 18, 2020

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, 2019.

Resolution No. 2

The Ordinary General Assembly of BBAC Shareholders resolved the appropriation of the profits for the year 2019 as follows:

(LBP thousand)	2019
Losses for the Year 2019	-48,564,680
Add: Retained Earnings	286,449,639
Total	**237,884,959**
Less: Appropriation of "Legal Reserves for Iraqi Branches"	-832,803
Less: Appropriation of Reserves for "Properties in Settlement of Debts"	-1,801,510
Retained Earnings Carried Forward	**235,250,646**

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, 2019.

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

This analysis highlights the performance of BBAC in 2019.

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, 55.154% of the Bank's shares are owned by the Assaf family, 37.212% are owned by Fransabank s.a.l., and the remaining 7.634% 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.

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.

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.

The Bank 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, particularly digital touch points.

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

In order to match the customers' needs and preferences, the Bank 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.

Private Banking

The Private Banking Unit offers personal financial and investment services to the BBAC'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

In line with BBAC's digital strategy and transformation, basic and essential targets have been met that constitute a solid infrastructure for developing any needed service in an agile way with respect to time-to-market challenge.

The Bank has launched an Open Digital Banking Platform for its clients in Cyprus that is based on Open Application Programming Interfaces (APIs), which enables clients who are using the Bank's mobile application to view and maintain, through one single access, all their accounts opened in any country the Bank has a presence.

Compliant with the European Revised Payment Service Directive (PSD2), this new platform helps Cypriot clients to benefit from PSD2 features and to access their accounts from any third-party providers application. To enrich the Self Card Control capabilities through mobile application and move towards mobile payment and card tokenization, the Bank successfully shifted to a new credit card processor, ensuring as a first step full flexibility in card products creation and maintenance with respect to contactless technology and online payments based on Dynamic 3D Secure.

The Bank is also putting in place an advanced proposal for Big Data and Artificial Intelligence (AI) Platform to ensure predictive marketing approach with respect to the General Data Protection Regulation (GDPR) rules, as well as to have an environment that automatically triggers offerings and cross selling activities based on customer segmentation and behavior.

BBAC is adopting a mobile application shielding solution to ensure an advanced and high level of security due to the fact that the Bank mostly depends on carrying out its Online Banking activities and transactions through its mobile app, which is making mobile security threats increase in number and evolve in scope.

Treasury and Capital Markets

The main function of the Treasury Department is to manage BBAC'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 and improving BBAC's infrastructure (systems, networks, security, etc.) to be able to adhere to the foundation of the business applications. This ensures proper alignment with the Bank's strategy of having a platform that can undertake the digital transformation program and respond 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's latest innovation is widening the dependency on its middleware technology, which is used to transfer information from one program to one or more other programs in a distributed environment and making it independent from the communication protocols, OS, and hardware used.

The Bank invested in Enterprise Content Management solution, designed to manage, store and organize business documents in real time, allowing the Bank to streamline business processes, make day-to-day operations more efficient, and protect information from unauthorized access or modification.

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.

Moreover, the Bank is working on setting up a full disaster recovery (DR) site in Erbil - Iraq to serve its clients overseas in case any interruption has been faced in Lebanon either through communication failure or infrastructure damages.

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.

The Bank's BOD had set comprehensive Compliance Policies that include but not limited to 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 BOD 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 amendments covering newly issued regulatory requirements or new emerging risk identified in the period Financial Crime Risk Assessment (FRCA).

It is the core responsibility of all the Bank employees across all its branches in Lebanon and abroad, to abide by the Bank's Compliance Program that includes 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.

The Bank 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

The Bank has set an effective Risk Based Approach (RBA) methodology based on the result of the Financial Crimes Risk Assessment (FCRA) 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 assist 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

The Bank 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 No. 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 Bank is a participating FFI (Foreign Financial Institution) under Global Internal Identification Number (GIIN) 3NB1BF.99999.SL.422

Based on Law No. 55, BBAC is committed to report to the local tax authorities on an annual basis financial information on customers holding foreign tax residency in jurisdiction with which Lebanon has signed a multilateral competent authority agreement on automatic exchange on financial account information (CMAA).

In this respect, the FATCA and 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.

Processing of Personal Information and Retention

The Bank processes personal information on all its customers, employees, and/or third party service providers in compliance with the terms and conditions stated under the Lebanese Law No. 83 of the Data Protection Regulations, in addition to the European General Data Protection Regulations (GDPR).

The Bank 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 employees, 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, in addition to any related amendments and the latest financial crimes emerging risks.

Independent Audit

The Bank'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

The Bank's 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 recognizes that risks are inherent to any business activity. Risk Management is, therefore, an integral part of the decision-making process. In light of this, Risk Management at the Bank is aligned with its strategic objectives. It is designed and implemented in line with regulatory requirements.

The Bank has solid corporate governance. The BOD provides guidance in overseeing the implementation of effective risk management. Senior Management ensures the implementation of the three lines of defense principle, continuously refining the assignment of roles and responsibilities. The first line is where the risk is generated. It generally refers to business owners. The second line provides support to the latter. It mainly includes Risk Management, Compliance, Legal, Human Resources Management, Financial Control, Operations, and Information Technology. As for the third line, it consists of the Group Internal Audit, who provides its independent review and assurance. It is worth noting the explicit cooperation between the first and second lines of defense in general, and the risk function and business in particular.

The Risk Function is headed by the Chief Risk Officer, who reports directly to the Chairman-General Manager and to the Board Risk Committee.

This structure articulates well the reporting of risk information and of the Bank's risk profile, in terms of financial and non-financial risks, for effective decision-making.

Risk Management Framework

The Bank's Risk Management framework is subject to continuous enhancement. It ensures that the Bank's strategy is directly linked to its risk appetite. The latter defines the risks the Bank is willing to take to achieve its objectives, and constitutes the foundation for the Risk Management policies and procedures, which support the implementation of the framework.

The risk management process allows comprehensive and timely identification, assessment, mitigation, and monitoring of risks.

Breaches to the risk appetite are reported to Senior Management and BOD for immediate action. Also, risks are escalated according to the Risk Acceptance Matrix, which sets the level of approval of risks, based on the risk level and on the criticality of the underlying activity.

The Bank's Risk Management framework has matured in all areas, which can be observed twofold. On the one hand, it is gauged with respect to the extent of risk awareness, which has evolved continuously and is now incorporated in the day-to-day activities. On the other hand, such a strong risk culture enables the early detection of risks, prior to their materialization into potential scenarios.

Credit Risk

A prudent Credit Risk Policy is set in place and updated regularly. The policy aims to maintain a well-diversified and high quality credit portfolio through the implementation of a well-controlled yet quick and efficient credit granting and underwriting process with different levels of approval limits.

Credit Risk Appetite and Limits are updated regularly. Credit exposures are continuously 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.

The Bank uses Moody's platform as an internal rating tool to assess its Corporate and Commercial portfolios. 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 implementation of IFRS 9 requirements.

For Retail portfolio, the Bank has implemented an in-house developed application scorecard to assess the creditworthiness of its borrowers. While the scorecard is being back-tested and updated on 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 applies staging classification on all financial assets according to well-defined credit-related criteria 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 the Bank is updated regularly. The policy 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 2019, the Bank has adopted the Asset Liability Management solution from the static perspective. The solution will support in 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

The Bank'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, the Bank 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. As for the ratios and limits adopted internally avoiding any reliance on the government support in case of liquidity need, they have been extremely helpful in the crisis witnessed by the Lebanese banking sector following October 17, 2019.

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book is monitored against limits set for the impact on the Net Interest Income and the Economic Value of the Equities. The Bank 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

The Bank's robust Operational Risk framework reflects the best practices adopted including culture and awareness. Operational Risk Policies and Procedures are revised on regular basis and as needed. They bring forward the roles and responsibilities within a process-based approach to risk identification and assessment. The latter's key tools include incidents reporting and risk assessments. Incidents are captured and maintained in a comprehensive database and are subject to thorough analysis. Assessments are conducted on all new and updated processes, products, activities and services before being launched. For an effective control environment, action plans are issued to address and mitigate the identified risks. As for monitoring, key risk indicators are developed in an aim to alert all stakeholders in case of exposure, at an early stage. The Bank uses a software integrating all Operational Risk functionalities to meet regulatory requirements.

Information Security and Business Continuity

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. Penetration testing is performed on regular basis as required by international and local regulations to detect potential security threats and secure the Bank's environment. 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 the 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 customers and ensure the continuity of its business operations with minimal disruption, 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 updated annually or upon major changes in relation to the updates on Business Impact Analysis and Risk Assessments conducted across the Bank. In addition, to ensure the safety of its employees, the Bank has put in place a detailed evacuation procedure that is tested regularly and continuously enhanced through repeated fire drills.

Other Risks

The Bank continuously monitors its exposure to other types of risks and takes the necessary measures to mitigate them. All material risks are routinely identified, assessed, measured and controls are established to ensure these risks remain at their optimum residual levels.

Internal Capital Adequacy Assessment Process

In compliance with local regulatory requirements, the Bank 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.

In alignment with Basel guidelines and BDL requirements, the Bank assesses its capital needs by calculating Pillar 1 Credit and Market risks capital charge using the Standardized Measurement Approach and Pillar 1 Operational Risk capital charge using basic Indicator Approach. Pillar 2 risks are addressed through the ICAAP.

Capital Adequacy

The following table summarizes the composition of the Bank's capital as of December 31, 2019 and December 31, 2018:

	Capital Funds as per Basel III (LBP million)	
As of December 31	2019	2018
Total CET1	607,053	733,625
Total Tier 1	803,053	929,626
Total Capital (Tier 1+Tier 2)	935,110	1,005,322

The Bank capital position remains acceptable and in line with the new capital adequacy regulatory requirements issued by BDL.

The events in Lebanon and the regulatory requirements have negatively impacted capital adequacy ratios for end of 2019. Total Capital Adequacy Ratio decreased to 9.36%, which, compared to the 2020 regulatory required capital, is still higher. The 2019 capital ratios should be compared to 2020 requirements, which are set to reasonably follow the last financial crisis urged in 2019 in Lebanon. All ratios are above the regulatory requirements set by BDL in 2020 (Circular No. 44) as shown below:

Capital Adequacy Ratio*	BBAC		Minimum Requirement BDL Circular No. 44		
As of December 31	2019	2018	2020	2019	2018
Common Equity Tier 1 Ratio	6.08%	12.32%	4.50%	7.0%	10%
Tier 1 Capital Ratio	8.04%	15.61%	6.00%	8.5%	13%
Total Capital Ratio	9.36%	16.88%	8.00%	10.5%	15%

The major exposure of the Bank is the Credit Risk with 95.58% 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 70% of Credit Risk RWA, which risk weight was regulatory increased to 150% for the foreign currencies; this explains the drastic increase in the Risk Weighted Assets. The Corporate portfolio reached up to 8.8%, while the portfolio of SME, Retail, Housing and Claims Secured by Commercial Real Estate represents 10.25% of Credit Risk RWA. The increase in Market Risk RWA in 2019 compared to 2018 is the result of the 150% applied as risk weight for the Lebanese foreign currencies portfolio (Eurobonds and BDL over one year).

			Risk Weighted Assets (LBP million)	
As of December 31	2019	% of total RWA	2018	% of total RWA
Credit Risk	9,547,413	95.58%	5,529,271	92.82%
Market Risk	27,436	0.27%	14,378	0.24%
Operational Risk	413,406	4.14%	413,147	6.94%
Total Risk Weighted Assets (RWA)	9,988,225	100%	5,956,796	100%

**The ratios are based on the audited financial statements as of December 31, 2018 and December 31, 2019.*

Human Resources Management

By the end of 2019, BBAC had a total workforce of 889 employees; 49% of which falling under the age of 40 years and 82% of which are university degree holders.

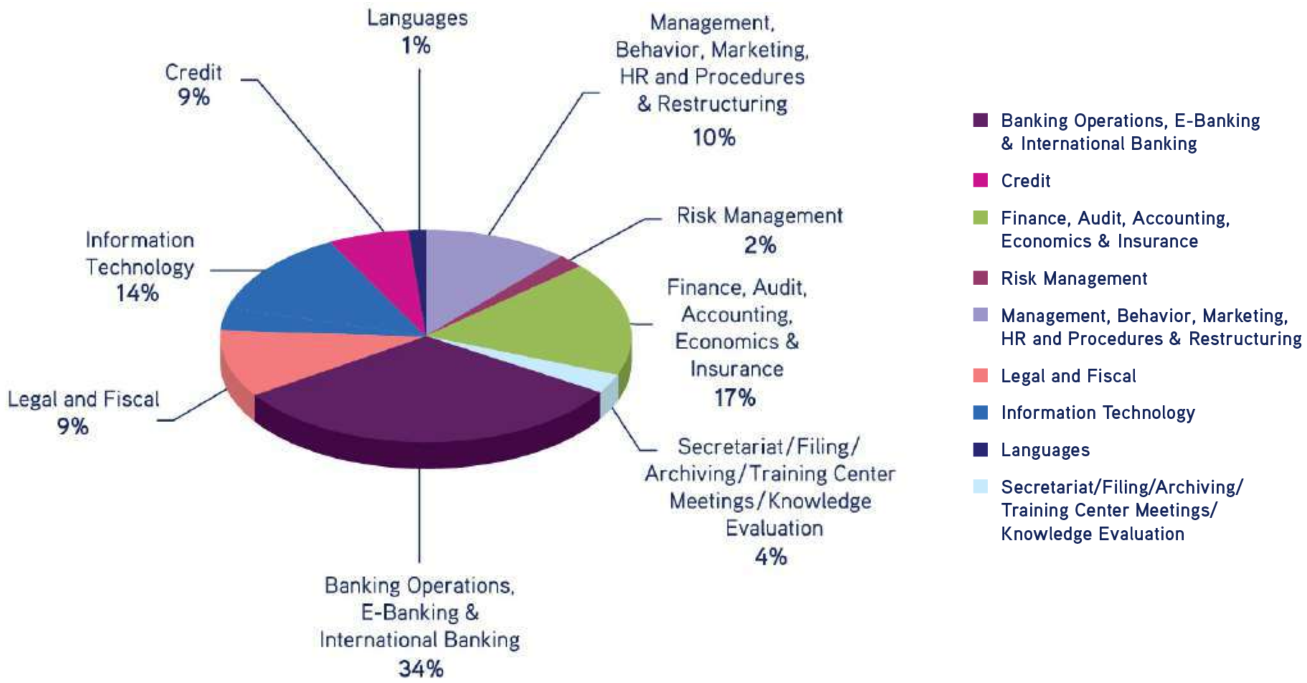
The gender distribution was similar to 2018 with Males constituting 55% of the staff and Females 45% of the total staff population.

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

Throughout 2019, the Bank 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 2019



Corporate Social Responsibility - CSR

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, the Bank'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, the Bank 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, the Bank 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, the Bank 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.

The Bank also supports the local economy by 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.

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Financial Activities and Performance Highlights

Overview of the Lebanese Economy and Banking Sector

Lebanon was in a state of economic recession in 2019. GDP dipped into a negative territory in the consecutive first and second quarters of 2019. After years of neglect, corruption, and financial mismanagement, coupled with the global spread of COVID-19, the Lebanese economy spilled over into a full-blown fiscal, economic and monetary crisis in October 2019, unprecedented in scope and scale affecting BDL and the banking sector.

Banks have been intermittently closed since mid-October and depositors across the country are finding it impossible to gain access to dollar balances. BDL and ABL (The Association of Banks in Lebanon) issued a number of exceptional regulatory decisions and measures to allow banks to sustain their financial standing and withstand the material challenges and uncertainties they are facing.

According to Lebanon's consolidated commercial banks' balance sheet, total assets declined by 13.11% year-over-year to stand at USD 216.76 billion in December 2019. This was mainly the result of the banks offsetting their loans taken from BDL with their corresponding placements at BDL in LBP carrying the same maturity. Customers' deposits, which constituted 57.67% of total liabilities, declined by 7.07% to reach USD 125 billion in December 2019. Deposits in LBP dropped by 25.82% to reach USD 34.48 billion in December 2019, while deposits in foreign currencies slightly increased by 1.77% to reach USD 90.55 billion. This uptick in foreign currencies deposits was the result of the conversion of LBP deposits to foreign currency deposits and the huge withdrawal of the remaining LBP deposits. Consequently, the dollarization ratio for private sector deposits increased from 70.62% in December 2018 to 76.02 % in December 2019.

On the other side, reserves, which grasp 54.53% of total assets, recorded 9.60% drop to stand at USD 118.21 billion as of December 2019, while claims on resident customers grew by 15.22% to reach USD 30 billion due to the decline in Treasury Bills denominated in LBP and Eurobonds by 15.75% and 13.86% to reach USD 14.64 billion and USD 13.81 billion respectively.

Knowing that banks were in deep need of liquidity in this time, especially in the fourth quarter of 2019, claims on non-resident financial sector recorded a decline of 43.56% to reach USD 6.77 billion.

As a result, trust in the banking sector has been severely hit with many fearing that their deposits are only accounting entries. Therefore, depositors have been channeling money into real estate or other consumer goods.

At the end, restoring trust and confidence in the banking sector would not be that difficult, especially if it will help to attract foreign depositors and investors to Lebanon, knowing that the banking sector in Lebanon has always been the backbone of the economy. It is only a matter of time for banks to regain their solid existence and their power by finding new lending opportunities and investment projects. Such advancements at all levels will definitely create positive alignment of growth with their long-term potential.

Breakdown of Assets and Liabilities

The growth of 33.28% in balances with central banks in 2019 was burdened by a decrease of 15% in loans and advances to customers, 55% in loans to banks, and 11% in trading and investment securities. As a result, in 2019, the Bank's interest-earning assets, which constituted 93.43% of total assets, compared to 93.93% in 2018, witnessed a minimal growth of 0.66%, compared to a growth of 19.64 % in the previous year.

Interest-earning balances with central banks comprised 44.22% of total assets and 47.31% of total interest-earning assets followed by interest-earning trading and investment securities comprising 28.3% of total assets and 30.3% 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 were made with BDL generating the highest component of interest income.

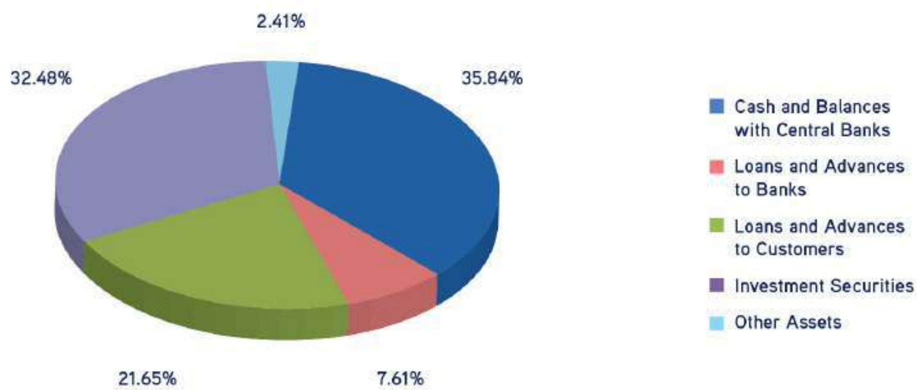
Interest-earning loans and advances to customers and trading and investment securities comprised 46.25% of total assets and 49.50% of total interest-earning assets in 2019, compared to 53.45% and 56.90% respectively in 2018.

In 2019, 26.4% of total interest income was generated from loans to customers and 73.6% from investment portfolio, compared to 27.49% and 72.51% respectively in 2018.

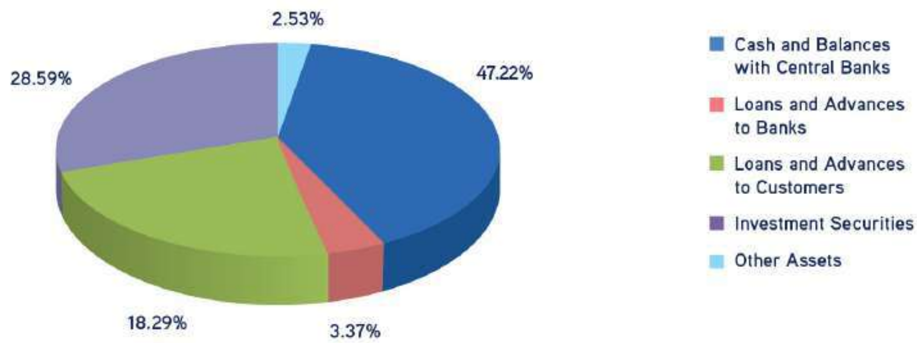
Asset and Liability Management

1. Use of Funds

2018



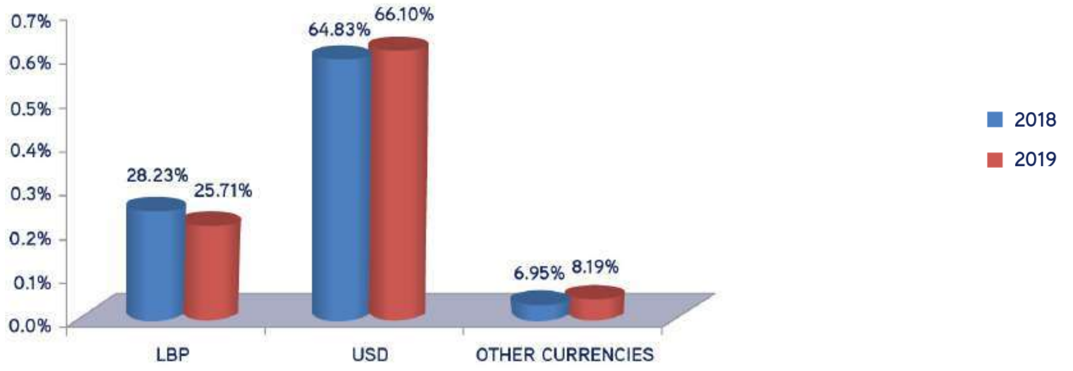
2019



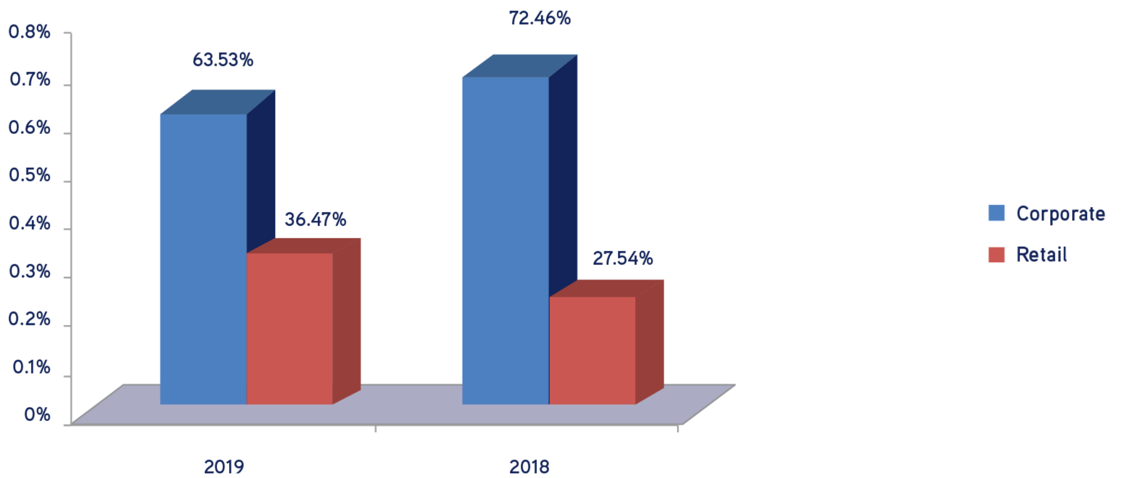
BBAC's total assets marked a growth of 1.16%, from LBP 12.19 billion in 2018 to LBP 12.33 billion in 2019. The highest growth rate was for cash and balances with central banks being 33.28%. This is mainly due to the engagement of the Bank in the BDL scheme of long-term deposits denominated in LBP and subject to an annual interest rate of 2% payable on a semi-annual basis. These loans are equal to 100% of the LBP term placements and are to be reinvested with the BDL in long-term placements in LBP with maturities of 10 years. Financial assets comprised 28.59% of total assets in 2019, compared to 32.48% in 2018, while loans and advances to customers comprised 18.29% of total assets in 2019, versus 21.65% in 2018.

2. Loans and Advances by Currency/Type

By Currency



By Type



The Bank's loans and advances to customers for 2019 were LBP 2,255 billion, compared to LBP 2,639 billion for 2018 with a decline of 14.54%. In 2019, the highest proportion of loans, forming 66.10%, was denominated in USD followed by 25.71% denominated in LBP and 8.19% denominated in GBP, EUR and other foreign currencies. This loan currency composition changed from 2018 in which USD loans increased by 1.27% of total loan portfolio at the expense of LBP loans, which declined by 2.52%. In 2019, LBP loans dropped by 22.16% and USD loans by 12.85 % from 2018 values. In 2018, 12.54% of BBAC's gross loans were non-performing and the remaining 87.46% were performing, while in 2019, 16.28% of gross loans were non-performing and the remaining 83.72% were performing.

Loans are divided into two major groups, retail and corporate loans. In 2019, corporate loans comprised 63.53% of total net loans, while retail loans comprised the remaining 36.47%, compared to 72.46% and 27.54 % respectively in 2018. Corporate loans decreased by LBP 479,577 million in 2019 to reach LBP 1,432,910 million, shrinking by 25%. On the other hand, retail loans increased by LBP 95,818 million, from LBP 726,740 million in 2018 to LBP 822,558 million in 2019, with a growth of 13.2%.

The Bank holds collateral against credit impaired loans to mitigate the potential credit losses. In 2019, gross credit impaired loans reached LBP 421,731 million, compared to LBP 306,578 million in 2018. Credit impaired loans are categorized into corporate and retail loans. In 2019, corporate loans amounted to LBP 280,677 million, forming 66.6% of credit impaired loans, while retail loans amounted to LBP 141,055 million, forming 33.4% of credit impaired loans.

3. Loans by Geography

In 2019, 83.33% (LBP 1,879,492 million) of total loans were granted in Lebanon, compared to 86.09% (LBP 2,272,108 million) in the previous year. The share of total loans to Arab countries increased from 8.74% in 2018 to 11.89% in 2019 followed by loans granted to European countries, which increased slightly from 3.67% in 2018 to 3.74% in 2019.

Profitability and Efficiency

During 2019, and after the protests that began on October 17, Lebanon witnessed political and economic instability in which market sentiments following the US interest rates increased and the global strengthening of the US dollar triggered an outflow of customer deposits outside Lebanon, as well as a significant conversions of customer deposits from Lebanese pounds to US dollars. All this led to a significant increase in the average cost of deposits, which also increased the interest expenses by LBP 149 billion, from LBP 487 billion in 2018 to LBP 636 billion in 2019.

Moreover, in October 2018, the Lebanese parliament ratified new legislation Law No. 64, which increased the tax on interest from investments on sovereign securities and increased income tax from 15% to 17%. This led to an increase in tax on interest by 51.90% (LBP 15.2 billion), from LBP 29.3 billion in 2018 to LBP 44.5 billion in 2019, resulting in a lower net interest income by LBP 10 billion, from LBP 158 billion in 2018 to LBP 148 billion in 2019.

In parallel, after the implementation of IFRS 9, which requires to book new Expected Credit Losses (ECL) provisions against exposure with BDL and Lebanese sovereign bonds, a significant amount was allocated and booked into BBAC's Profit and Loss affecting its profitability in 2019.

Consequently, the Bank recorded net losses of LBP 48.6 billion in 2019, compared to net profits of LBP 78 billion in 2018.

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

Interest and Non-Interest Earning Assets	Amount (in million LBP)		Structure		% Change
	2019	2018	2019	2018	2019/2018
Balances with Central Banks	5,452,642	3,982,908	44.22%	32.68%	36.90%
Due from Banks and Financial Institutions	363,615	850,070	2.95%	6.97%	-57.23%
Trading and Investment Securities	3,486,284	3,918,632	28.27%	32.15%	-11.03%
Loans and Advances to Customers and Related Parties	2,216,469	2,596,555	17.97%	21.30%	-14.64%
Others Assets	6,176	101,738	0.05%	0.83%	-93.93%
Total Interest-Earning Assets	**11,525,186**	**11,449,903**	**93.46%**	**93.93%**	**0.66%**
Total Non-Interest Earning Assets	**810,374**	**739,542**	**6.57%**	**6.07%**	**9.58%**
Total Assets	**12,331,359**	**12,189,445**	**100.0%**	**100.0%**	**1.16%**

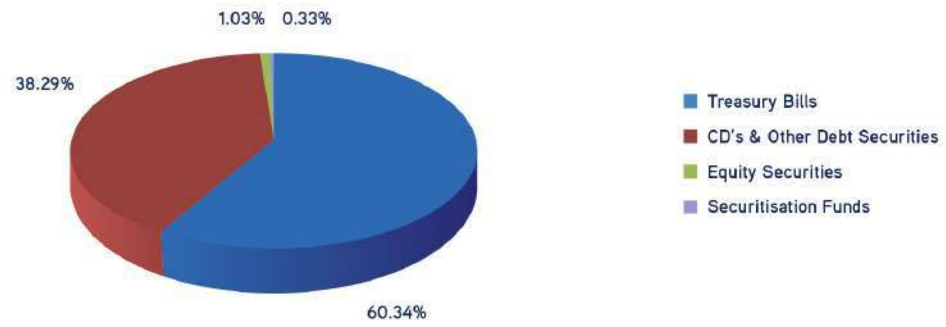
Interest Margin Analysis

	Total Amount (LBP million)	
	2019	2018
Average Interest Earning Assets	11,485,444	10,510,274
Interest Paid	636,326	487,427
Interest Received	828,853	674,838
Net Interest Received	192,527	187,411
Cost of Average Interest-Earning Assets (in %)	5.54%	4.64%
Return on Average Interest-Earning Assets (in %)	7.22%	6.42%
Gross Interest Margin (in %)	**1.68%**	**1.78%**
Net Releases (Provisions) on Loans and Advances	(108,202)	4,061
Net Interest Margin (in %)	**0.73%**	**1.82%**
Average Interest-Earning Assets to Average Assets (in %)	93.68%	92.87%
Gross Spread (in %)	1.57%	1.66%
Net Spread (in %)	0.69%	1.69%

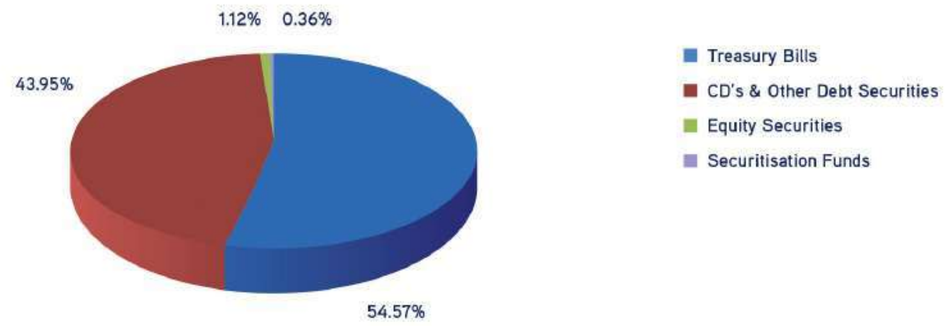
Interests paid grew in 2019 by 30.5%, versus 25.5 % in 2018, while interest received grew by 22.82% in 2019, compared to 22.12% in 2018. As a result, net interest income increased by only 2.7%, compared to 14.16% in 2018. The large increase in interest expenses is attributed to the big competition in the market for acquiring new deposits. On the other hand, gross interest margin dropped from 1.78% in 2018 to 1.68% in 2019. This is tied to the increase in cost of average interest earning assets in 2019 by 1% approximately due to the increase of interest received by 22.8% and a greater increase of interest paid by 30.55%. Net interest margin decreased from 1.82% in 2018 to 0.73% in 2019. This is tied to the buildup of a huge amount of expected credit loss to cover possible losses on sovereign and private sector exposures for the year 2019, while in 2018, another treatment was done after the implementation of IFRS 9. This is also reflected by the drop in the net spread 0.69% in 2019, compared to 1.69% in 2018.

Breakdown of Investment Securities by Type

2018



2019



Profit Before Income Tax

In 2019, total operating income, excluding the release of deferred gain on "special swaps" with BDL, decreased by 2.41%, compared to a growth of 7.96 % in 2018. This was mainly due to the decline of net fee and commission income by 16.93%, from LBP 45 billion in 2018 to LBP 37 billion in 2019.

The huge decline in net loan impairment charge from positive LBP 4,061 million in 2018 to a buildup of LBP 108,202 million in 2019 was mainly caused by the buildup of provision covering possible losses on sovereign and private sector exposures, especially after the expected default of Lebanon on its Eurobond debt in March 2020. This huge decline contributed to maximizing the difference in net operating income. Net operating income, including the release of deferred gain on "special swaps" with BDL, was LBP 133,631 million in 2019, compared to LBP 265,984 million in 2018; thus, decreasing the growth from 21.20% in 2018 to negative 50% in 2019.

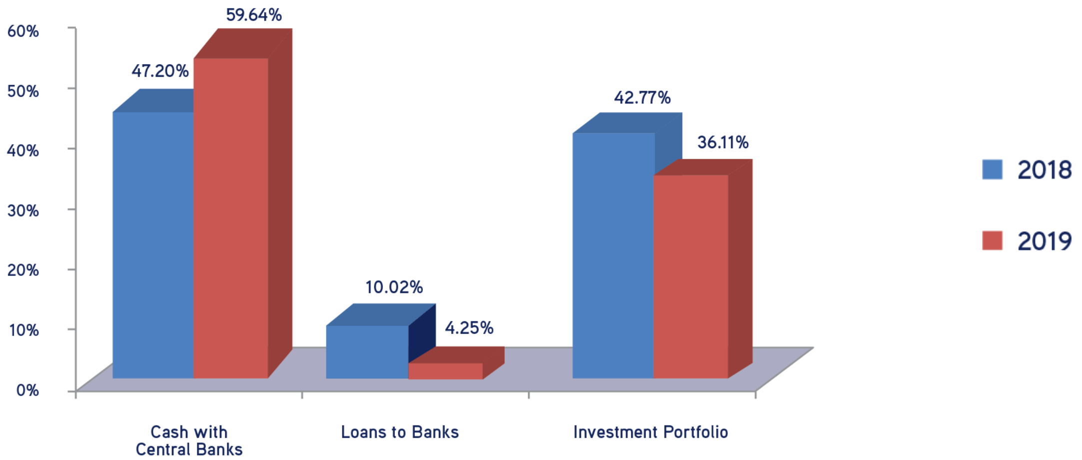
Total operating expenses in 2019 decreased by 14.5% from 2018 figures, mainly due to 29.6% decrease in other operating expenses and a 2.2% decrease in personnel expenses from 2018. Consequently, BBAC recorded a loss of LBP 48,565 million, compared to a net profit after tax of LBP 78,002 million in 2018.

Management Efficiency Ratios

Interest paid to interest received ratio increased from 72.23% in 2018 to 76.77% in 2019 due to the 30.5% growth in interest paid at a higher pace than the growth of 22.8 % in interest received.

Net commission to average assets ratio decreased from 0.4% in 2018 to 0.31% in 2019 as a result of a decrease in net commission income by 16.9% in 2019 from 2018. Although cost on average earning assets increased from 4.64 % in 2018 to 5.54% in 2019, cost to income ratio decreased from 56.94% in 2018 to 52.75% in 2019. This is due to a decrease of 7.67% in income and 14.5% in cost.

Distribution of Liquid Assets



Net Interest and Similar Income

In 2019, net of tax interest and similar income decreased by 6.37% from LBP 158,130 million to LBP 148,050 million. The decrease in the net of tax interest income stems predominantly from the additional LBP 15 billion of taxes on financial investments following the increase of taxes by the Ministry of Finance from 7% to 10 % effective starting August 2019.

Notwithstanding the above, interest income growth was impeded by the rolling cost of deposits that increased in Lebanon to reach 6.3% in 2019. Interest income from loans and advances comprised 26.37% of total interest and similar income, compared to 27.49% in 2018. Interest from banks and financial institutions comprised 42.97% from total interest income in 2019, versus 33.61% in 2018.

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 formed 30.65% of total interest income in 2019, compared to 38.90% in 2018.

03

AUDITORS' REPORT

CONTENTS

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

Report on the audit of the separate financial statements

Disclaimer of Opinion

We were engaged to audit the separate financial statements of BBAC S.A.L. ("the Bank") (hereafter referred as "financial statements"), which comprise:

- The balance sheet as at 31 December 2019;
- The statement of comprehensive income for the year then ended;
- The statement of changes in equity for the year then ended;
- The statement of cash flows for the year then ended; and
- The notes to the separate financial statements, which include significant accounting policies and other explanatory information.

We do not express an opinion on the separate financial statements of BBAC S.A.L. (the ''Bank''). Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these separate financial statements.

Basis for Disclaimer of Opinion

Going concern assessment

The deteriorating economic environment in Lebanon (as described in note 1) has had a severe negative impact on the financial position, performance and the measurement of a significant proportion of financial assets held by the Bank, which in turn, has implications on the Bank's going concern assessment. These events and conditions have had a consequential impact on the Bank's solvency, liquidity, profitability and equity; and indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern.

The Bank has not provided us with a detailed assessment supporting the use of going concern as a basis of preparation of the financial statements that takes into account the severity of the current uncertainties facing the Lebanese economy and the banking sector. Besides, the detailed assessment for the going concern, the Bank has not provided sufficient disclosures pertaining to going concern, liquidity risk, credit risk, solvency and capital management risk in the financial statements.

We were, therefore, unable to perform sufficient audit procedures in order to assess the appropriateness of the going concern basis used by management for the preparation of these financial statements. In the absence of information to determine the appropriate basis of accounting, we were unable to determine whether any adjustments were necessary to the carrying amounts of the assets and liabilities included in these financial statements.

Notwithstanding the above basis for a disclaimer of opinion, we identified the following departures from the requirements of International Financial Reporting Standards (IFRS) that have a material and pervasive impact on the financial statements and would have otherwise resulted in an adverse auditor's opinion.

Measurement and disclosures of financial assets at amortised cost

As at 31 December 2019, there are financial assets measured at amortised cost amounting to LL 8.79 trillion (net of an ECL of LL 35.72 billion), including US$ denominated Eurobonds, Treasury Bills, Certificate of Deposits and balances with the Central Bank of Lebanon and local banks. These balances are required to be further credit impaired by the Bank due to the severity of the country's economic crisis (as fully described in note 1.2) leading to a significant increase in the Expected Credit Loss (ECL) which we are unable to quantify.

Financial assets measured at amortised cost also include loans and advances to customers of LL 2.24 trillion, which are stated net of an ECL of LL 253.84 billion. The Bank's ECL assessment is not sufficiently detailed and does not appropriately include, amongst others, classification of exposures into various stages, multiple scenarios and weighting, consideration of forward-looking information and loss given default. Therefore, the ECL does not fully reflect the impact of the economic crisis in Lebanon, thus resulting in the requirement for additional impairment which we are unable to fully quantify.

The Bank has, therefore, not effectively implemented the requirements of IFRS 9, "Financial Instruments", in its ECL assessment and consequently has not recognised the appropriate level of impairment on these financial assets aggregating LL 11.03 trillion. This constitutes a significant material departure from IFRS 9.

In addition, the financial statements do not include the following disclosures:

- Certain disclosures required by IFRS 7, "Financial Instruments – Disclosures", in particular on inputs, assumptions, judgements, sensitivity and the overall qualitative disclosures for managing credit risk; and;
- A reliable estimate of the fair value of these assets (disclosed in note 3.4) as required by IFRS 13, "Fair Value Measurement".

Financial assets at fair value through other comprehensive income

The Bank's balance sheet as at 31 December 2019 includes unlisted investments in debt and equity securities in Lebanon accounted for at fair value through other comprehensive income, amounting to LL 50.75 billion and LL 25.65 billion, respectively. Management has not performed a detailed assessment to demonstrate that the fair value of the investments is in accordance with IFRS 13, "Fair Value Measurement", to determine whether any adjustments were required. As such, we have not been provided with sufficient evidence supporting the value recorded in the Bank's balance sheet i.e. the price that would be received to sell an asset in an orderly transaction between market participants as at 31 December 2019.

We are, therefore, not able to determine the adjustments that would require to be made to the carrying amount of these securities at 31 December 2019 and, consequently, to the statement of comprehensive income for the year then ended.

Furthermore, the impairment assessment of the debt securities does not reflect the full severity of the economic crisis in Lebanon. This would have required the ECL on debt securities to be recognised by the Bank in the statement of income which we are unable to quantify.

In addition, reliable disclosures required by IFRS 13 for the fair value determination of these securities have not been included in the separate financial statements.

Financial assets at fair value through profit or loss

As disclosed in note 9a, investment securities at fair value through profit or loss include unlisted equity securities amounting to LL 10.92 billion. Management has not performed a detailed assessment to demonstrate that the fair value of the investments was assessed in accordance with IFRS 13, "Fair Value Measurement", and to determine whether any adjustments were required. As such, we have not been provided with sufficient evidence supporting the value recorded in the Bank's balance sheet i.e. the price that would be received to sell an asset in an orderly transaction between market participants as at 31 December 2019. We are, therefore, not able to determine the adjustments that would require to be made to the carrying amount of these securities at 31 December 2019 and, consequently, to the profit or loss for the year then ended.

In addition, reliable disclosures required by IFRS 13 for the fair value determination of these securities have not been included in the separate financial statements.

Other Matter

Management has also prepared the consolidated financial statements of the Bank and its subsidiary (the "Group") for the year ended 31 December 2019 in accordance with IFRS on which we have issued a disclaimer of opinion dated 17 December 2020.

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.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Lebanon. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Report on Other Legal and Regulatory Requirements

We draw attention to the fact that the matters raised in the *Basis for Disclaimer of Opinion* section above may have implications on the Bank's compliance with the requirements of the Lebanese Code of Commerce and the applicable banking regulations.

PricewaterhouseCoopers

KPMG

Beirut, Lebanon
17 December 2020

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Balance sheet
At 31 December 2019

	Note	2019 LL Million	2018 LL Million
Assets			
Cash and balances with Central Banks	5	**5,823,170**	4,369,248
Deposits with banks and financial institutions	6	**414,961**	927,908
Loans and advances to customers	7	**2,255,467**	2,639,227
Debtors by acceptances	8	**50,498**	100,175
Financial assets:			
- Fair value through profit or loss	9a	**12,886**	14,022
- Fair value through other comprehensive income	9b	**115,084**	144,496
- Amortised cost	10	**3,397,853**	3,800,799
Investment in subsidiaries	11	**3,524**	3,524
Investment properties	12	**7,338**	7,338
Property and equipment	13	**86,311**	84,423
Intangible assets	14	**1,287**	1,812
Other assets	15	**105,361**	58,193
		12,273,740	12,151,165
Non-current assets held for sale	16	**57,619**	38,280
Total assets		**12,331,359**	12,189,445
Liabilities and equity			
Liabilities			
Due to the Central Bank of Lebanon	17b	**2,164,718**	1,223,998
Deposits from banks and financial institutions	17a	**178,222**	263,192
Deposits from customers	18	**8,886,964**	9,520,483
Engagements by acceptances	8	**50,881**	100,783
Current income tax liabilities	30	**13,075**	7,343
Retirement benefit obligations	20	**45,138**	39,288
Other liabilities	19	**96,721**	70,946
Total liabilities		**11,435,719**	11,226,033
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	**315,625**	311,930
Retained earnings	22	**235,251**	306,718
Total equity		**895,640**	963,412
Total liabilities and equity		**12,331,359**	12,189,445

The separate financial statements on pages 49 to 149 were authorised for issue by the directors on 16 December 2020 and were signed on their behalf by:

Ghassan Assaf
Chairman and General Manager

The notes on pages 54 to 149 are an integral part of these separate financial statements.

Statement of comprehensive income
For the year ended 31 December 2019

	Note	2019 LL Million	2018 LL Million
Interest and similar income	23	**828,853**	674,838
Interest and similar expense	23	**(636,326)**	(487,427)
Net interest and similar income		**192,527**	187,411
Net impairment (charges) releases	24	**(108,202)**	4,061
Net interest and similar income after credit impairment (charges) releases		**84,325**	191,472
Net fee and commission income	25	**37,456**	45,092
Dividend income		**4,168**	5,670
Net trading income	26	**8,114**	6,930
Net (loss) gain on investment securities at fair value through profit or loss		**(1,167)**	316
Net loss on investment securities at amortised cost		**-**	(8)
Release of deferred gain on “special swaps” with BDL		**-**	14,106
Other income		**735**	2,406
Personnel expenses	27	**(74,617)**	(76,295)
Depreciation and amortisation charges	28	**(6,577)**	(6,969)
Other operating expenses	29	**(46,373)**	(65,884)
Profit before income tax		**6,064**	116,836
Income tax expense	30	**(54,629)**	(38,834)
(Loss) profit for the year		**(48,565)**	78,002
Other comprehensive income *Items that will not be classified to profit or loss* Net unrealised gain (loss) on financial assets at fair value through other comprehensive income		**1,060**	(2,801)
Total comprehensive (loss) income for the year		**(47,505)**	75,201

The notes on pages 54 to 149 are an integral part of these separate financial statements.

Statement of changes in equity
For the year ended 31 December 2019

	Share capital						
	Common shares LL Million	Preferred shares LL Million	Share premium reserve LL Million	Cash contributions to capital LL Million	Other reserves LL Million	Retained earnings LL Million	Total equity LL Million
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 unrealised 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 retained earnings (note 22)	-	-	-	-	26,515	(26,515)	-
Dividends declared relating to 2017 (note 31)	-	-	-	-	-	(23,799)	(23,799)
Interest paid on cash contributions to capital (note 31)	-	-	-	-	-	(1)	(1)
Total transactions with owners recognised 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**
At 1 January 2019	**148,752**	**13,429**	**182,547**	**36**	**311,930**	**306,718**	**963,412**
Loss for the year	-	-	-	-	-	(48,565)	(48,565)
Net unrealised gain on financial assets at fair value through OCI	-	-	-	-	1,060	-	1,060
Total comprehensive loss for the year	-	-	-	-	1,060	(48,565)	(47,505)
Transactions with owners of the Bank:							
Appropriations of retained earnings (note 22)	-	-	-	-	2,635	(2,635)	-
Dividends declared relating to 2018 (note 31)	-	-	-	-	-	(20,266)	(20,266)
Interest paid on cash contributions to capital (note 31)	-	-	-	-	-	(1)	(1)
Total transactions with owners recognised directly in equity	-	-	-	-	2,635	(22,902)	(20,267)
At 31 December 2019	**148,752**	**13,429**	**182,547**	**36**	**315,625**	**235,251**	**895,640**

The notes on pages 54 to 149 are an integral part of these separate financial statements.

Statement of cash flows
For the year ended 31 December 2019

	Note	2019 LL Million	2018 LL Million
Cash flows from operating activities			
Profit before income tax		**6,064**	116,836
Adjustments for non-cash-items:			
Net loan impairment charges (releases)	24	**108,202**	(4,061)
Depreciation charge	13	**5,849**	6,131
Amortization charge	14	**728**	838
(Gain) loss on disposal of property and equipment		**(8)**	112
Gain on disposal of assets classified as held for sale	-	**-**	**(799)**
Net loss (gain) on investment securities at fair value through profit or loss		**747**	(242)
Net (gain) loss on investment securities at amortised cost		**(1,411)**	8
Dividend income		**(4,168)**	(5,670)
Provision for retirement benefit obligations	20	**7,194**	6,191
		123,197	119,344
Change in operating assets and liabilities:			
Cash and balances with Central Banks	5	**(1,052,067)**	(1,776,513)
Deposits with banks and financial institutions	6	**(178,477)**	244,681
Loans and advances to customers	7	**257,590**	2,073
Financial assets at fair value through profit or loss	9a	**389**	(107,623)
Financial assets at fair value through other comprehensive income	9b	**30,398**	-
Financial assets at amortised cost	10	**404,950**	132,324
Other assets	15	**(45,679)**	(2,439)
Due to the Central Bank of Lebanon	17b	**556,920**	1,044,718
Deposits from banks and financial institutions	17a	**(84,970)**	93,888
Deposits from customers	18	**(633,519)**	499,174
Other liabilities	19	**21,443**	11,286
Dividends received		**4,168**	5,670
Employee benefits paid	20	**(1,344)**	(1,784)
Income taxes paid	30	**(48,897)**	(38,587)
Net cash (used in) generated from operating activities		**(645,898)**	226,212
Cash flows from investing activities			
Purchase of intangible assets	14	**(203)**	(737)
Purchase of property and equipment	13	**(14,521)**	(7,512)
Proceeds from disposal of property and equipment		**6,792**	3,269
Proceeds from disposal of assets classified as held for sale		**-**	1,971
Net cash used in investing activities		**(7,932)**	(3,009)
Cash flows from financing activities			
Interest paid on cash contributions to capital		**(1)**	(1)

	Note	2019 LL Million	2018 LL Million
Dividends paid	31	**(20,266)**	(23,799)
Net cash used in financing activities		**(20,267)**	(23,800)
Cash and cash equivalents at beginning of year	32	**1,563,546**	1,364,143
Net cash (used in) generated from operating activities		**(645,898)**	226,212
Net cash used in investing activities		**(7,932)**	(3,009)
Net cash used in financing activities		**(20,267)**	(23,800)
Cash and cash equivalents at end of year	32	**889,449**	1,563,546

The notes on pages 54 to 149 are an integral part of these separate financial statements.

1 General Information

1.1 Bank 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 Sulaymaniyah).

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.

1.2 General Economic and Financial Situation

Lebanon is experiencing a severe financial crisis that is impacting the banking sector and the economic and business environment more generally. The impact includes a significant public debt burden (above 150% of GDP), high interest rates, a level of country risk that is far above normal and increasing unemployment. This has created liquidity pressures in most businesses. The crisis also led to the resignation of the Council of Ministers of Lebanon on 29 October 2019. A new Government was formed on 21 January 2020 which has begun to focus on urgent measures including the settlement of Eurobonds and has requested the technical assistance of the International Monetary Fund (IMF).

Lebanon's sovereign debt amounted approximately to US$ 92 billion at 31 December 2019 and consisted of Lebanese Pounds debt of approximately 63% and foreign currencies of 37% of the total debt. Approximately 87% of Lebanese Pounds debt is held by Lebanese banks and the Central Bank and only approximately a third of US Dollar debt is held by foreign funds and financial institutions, the remaining foreign currency debt is held by either local lenders (mainly banks) or the Central Bank.

Lebanon's sovereign credit rating was already downgraded by international credit rating agencies to imminent default and the rating of commercial banks to selective default. Banks were further downgraded as a result of actions undertaken by the Central Bank of Lebanon. On 7 March 2020, the government announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US Dollar denominated Eurobonds.

The ability of the Lebanese government and the banking sector in Lebanon to borrow funds from international markets was significantly reduced. Banks in Lebanon have restricted access to US Dollars and have frozen company credit facilities, which has in turn created significant liquidity pressure. Banks have implemented their own foreign exchange controls that prohibit US Dollar transfers outside Lebanon and limit the amount of US Dollars that may be withdrawn from accounts, all of which added to the disruption of the country's economic activity, as the economic model of Lebanon relies mainly on imports and consumption.

On 30 April 2020, the Council of Ministers approved the Lebanese government's Financial Recovery Plan (the "Plan"). According to the Plan, the preliminary estimation of losses will result from the impact of the economic crisis, the restructuring of the government's debt and assets held at the Central Bank of Lebanon and impairment of these securities as well as the impairment of banks' credit portfolios. The Lebanese Prime Minister and the Lebanese Finance Minister signed a request for aid from the International Monetary Fund (IMF) and commenced discussions on 1 May 2020. There has been no further indications on the outcome of discussions.

Subsequent to a devastating explosion at the Beirut Port, the Lebanese government resigned on 10 August 2020. To date there has been no replacement announced.

All the above have resulted in:

- A general slowdown in economic activity leading to lower revenue and cash flows and an increased risk of asset impairment;
- Increased actual and expected credit losses for all companies;
- Some companies not being able to settle their bank facilities when due;
- Increased unemployment, inflation and poverty to unprecedented levels;
- Emergence of an unofficial exchange rate in the foreign exchange market (note 4);
- Increased cost of obtaining hard currency; and
- Uncertainty about whether some entities can continue as going concerns.

1.3 Impact on the Bank

The Bank-specific areas for consideration, arising from the economic situation described in note 1.2 are set out below:

		Gross balance as of 31 December 2019	ECL as of 31 December 2019
	Currency	LL Million	LL Million
Financial assets			
Balances with Central Banks (i)	LL	2,309,847	2,696
Balances with Central Banks (i)	Foreign currency	3,118,179	12,694
Investment securities at amortised cost (i)	LL	1,705,013	6,484
Investment securities at amortised cost (i)	Foreign currency	1,659,054	11,659
Balances with local banks (iii)	All currencies	2,321	2,182
Loans and advances to customers (ii)	All currencies	2,239,643	253,841
		11,034,057	**289,556**

(i) Balances with the Central Bank of Lebanon and investments in Lebanese Treasury Bills, US$ Eurobonds and Certificates of Deposits

Based on BDL intermediary circular no. 542 issued on 3 February 2020, expected credit losses for the year 2019 on the sovereign exposure should be nil for the local currency exposure and should not exceed 9.45% for the foreign currency exposure with the Lebanese government and 1.89% for the foreign currency exposure with the Central Bank of Lebanon.

The ECL for the above financial assets were made in accordance with the above regulatory ratios.

The calculation of the ECL allowance is inconsistent with the requirements of IFRS 9. Consequently, a further impairment adjustment would be required in order to reduce the carrying amount of the above financial assets to their recoverable amount as per IFRS 9. The impact is expected to be pervasive but cannot be ascertained until, amongst other things, a debt restructuring programme has been put in place that is mutually agreed between the government and the holders of the government bonds.

(ii) Loans and advances to customers

At 31 December 2019, the Bank held loans and advances to customers of LL 2.24 trillion net of an ECL of LL 253.84 billion credit exposure by stage as disclosed in note 3.1.5 is summarised below:

	Stage 1	Stage 2	Stage 3	
	12-month ECL LL Million	Lifetime ECL LL Million	Lifetime ECL LL Million	Total LL Million
Loans and advances to customers				
Gross balance	1,227,027	663,848	348,768	2,239,643
ECL	(9,838)	(14,655)	(229,348)	(253,841)
Carrying amount	**1,217,189**	**649,193**	**119,420**	**1,985,802**

As a result of the adverse economic conditions and the deepening of the recession, the credit quality of the loans portfolio has significantly deteriorated since the last quarter of 2019.

Management is reviewing its portfolio and following up closely on loans and advances to customers, including where appropriate, negotiating and rescheduling loans. During the first seven months of the year 2020, gross loans and advance to customers decreased from LL 2.52 trillion as of 31 December 2019 to LL 2.08 trillion as of 31 July 2020.

Loss allowances on these loans and advances have been estimated and recorded based on the best available information at the reporting date. The exercise performed by management is expected to reveal additional losses in the loan portfolio once final agreements are reached. The impact will be reflected in the financial statements once the results become measurable and determinable.

(iii) Balances with local banks

The Bank held bank deposits of LL 2.32 billion with local banks and an ECL of LL 2.18 billion was recognised against these balances. Management believe that the ECL on inter-bank accounts and term placements is not material as the amounts can be used within the country without any limitation.

(iv) Exchange rate

Monetary assets and liabilities denominated in US Dollar were converted at the official rate at 31 December 2019 (refer note 4 - Critical estimates and judgements).

(v) Unofficial capital (foreign exchange) controls

The unofficial capital (foreign exchange) controls implemented by banks in Lebanon might expose the Bank to litigation that will be dealt with on a case by case basis once they occur.

Management is currently assessing the impact of the matters described above which have a significant impact on the equity and liquidity of the Bank. This will require management to prepare a comprehensive plan that addresses these needs, including a recapitalisation of the Bank, once this assessment becomes final and definite.

However, in the interim management have implemented the following measures to mitigate the effects of the prevailing economic situation:

- Continuing to take the appropriate commercial decisions to optimise the operations and ensure that the business is able to continue and at the right size;
- Reducing the cost of funds in accordance with BDL intermediary circular no. 544 dated 13 February 2020;
- Secure its liquidity needs mainly through borrowing from the Central Bank of Lebanon at the available rates.

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 32 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 Going Concern

As mentioned in note 1.2, the current financial crisis in Lebanon and the outbreak of Covid-19 (see note 35) may cast significant doubt on the Bank's ability to continue as a going concern.

However, management believe it is appropriate for the financial statements to be prepared on a going concern basis on the strength of a number of measures the Bank is taking to ensure it has sufficient liquidity to enable it to meet its obligations as they fall due.

2.1.2 Changes in Accounting Policy and Disclosures

(a) New standards, amendments and interpretations adopted by the Bank

The Bank has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2019.

- Amendments to IAS 19, 'Plan Amendment, Curtailment or Settlement'
These amendments require an entity to:

- Use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
- Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

There is no material impact on the financial statements of the Bank from the adoption of this new standard on 1 January 2019.

- 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; and
- The effect of changes in facts and circumstances.

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

- Annual improvements 2015–2017
These amendments include minor changes to the following standards:

- IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

- 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 recognise 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 stays 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.

There is no material impact on the financial statements of the Bank from the adoption of this new standard on 1 January 2019.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 January 2019 and not early adopted by the Bank

The following new standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Bank

- **Amendments to IAS 1 and IAS 8 on the definition of material**
  These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

  - Use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
  - Clarify the explanation of the definition of material; and
  - Incorporate some of the guidance in IAS 1 about immaterial information.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Bank's financial statements as and when they are applicable.

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 2019 that would be expected to have a material impact on the financial statements of the Bank.

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 recognised 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 recognised in the profit or loss as 'impairment loss on investment in subsidiary' within 'other operating income/loss'.

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

Dividend income is recognised 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 recognised 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

2.4.1 Measurement Methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principle repayments, plus or minus the cumulative amortisation using the effective interest 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 amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired (see definition on note 3.1.3.2) at initial recognition - the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- Financial assets that are not 'POCI' but have subsequently become credit-impaired (or stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI) which results in an accounting loss being recognised 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 recognises the difference as follows:

- 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 recognised as a gain or loss.
- 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 amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

2.4.2 Financial Assets

(a) Classification and subsequent measurement

The Bank classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); and
- Amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

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

Amortised 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 FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 3.1.3. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

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 fair value through other comprehensive income (FVOCI).

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains on investment securities'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortised 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 recognised in profit or loss and presented in the profit or loss statement within 'Net gains on investment securities at fair value through profit or loss' 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 are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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 the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the 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 a profit margin that is consistent with a 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.

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 none occurred during the period.

Fair value option for financial assets

The Bank may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

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.

The Bank subsequently measures all equity investments at fair value through profit or loss (FVPL), except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income (FVOCI). 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 recognised 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 recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net gains on investment securities at fair value through profit or loss' line in the statement of profit or loss.

(b) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When 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 derecognises the original financial asset and recognises 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 recognised 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 recognised 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 derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises 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.

(c) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised 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 ownership, 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 derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

2.4.3 Financial Liabilities

(a) Classification and subsequent measurement

The Bank holds financial liabilities at amortised cost. Financial liabilities measured at amortised cost are due to Central bank, deposits from banks, and deposits from parent and fellow banks or customers.

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 recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

(b) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms 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.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised 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 amortised over the remaining term of the modified liability.

2.4.4 Financial Guarantee Contracts and Loan Commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

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

- The amount of the loss allowance (calculated as described in note 3.1.5); and
- The premium received on initial recognition less income recognised 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 3.1.5). The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision.

2.4.5 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 recognised 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.

2.4.6 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 re-pledge 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 recognised amounts and there is an intention to settle on a net basis, or realise 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 amortised cost (i.e. net of the expected credit loss provision) and are recognised within 'interest income' and 'interest expense' in the statement of profit or loss. The effective interest method is a method of calculating the amortised 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 recognised 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 recognised on an accrual basis when the service has been provided.

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

2.9 Dividend Income

Dividends are recognised 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 Financial Assets

The Bank assesses on a forward looking-basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts.

The Bank recognises 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.

2.11 Impairment of Non-Financial Assets

Intangible assets that have an indefinite useful life are not subject to amortisation 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 recognised 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 good will that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2019 and 2018.

2.12 Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.13 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'.

2.14 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 recognised as an expense in the period in which termination takes place.

2.15 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.

2.16 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 recognised 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 derecognised. 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 2.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

2.17 Intangible Assets

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

2.18 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.

2.19 Income Tax

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

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

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.

2.20 Employee Benefits

The Bank is subscribed to the compulsory defined benefit plan of the National Social Security Fund (NSSF).

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 recognised 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 NSSF 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).

2.21 Provisions

Provisions for restructuring costs and legal claims are recognised 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 recognises 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 recognised 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 recognised as interest expense.

2.22 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 recognised 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.

2.23 Acceptances

Acceptances are recognised 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.

2.24 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
- Market risk
- Liquidity 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 minimise 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, organisation 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 stress 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 centralised 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 minimise 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 collateralised by the Central Bank of Lebanon Certificates of Deposit (note 5) 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 authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised 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 authorisations 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")

Refer to note 3.1.3 for more details.

Credit Risk Grading

The Bank uses internal credit risk grading that reflects 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 PD. 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 realised default rates over the prior 12 months, as published by the rating agency.

3.1.3 Expected Credit Loss Measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition of a facility as summarised 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 summarises 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.

<u>Quantitative criteria</u>

(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 months; 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 2019.

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 Bank 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 amortising 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 2019 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		2020	2021	2022	2023	2024
Gross Domestic Product ("GDP")	Base	0.87%	1.21%	1.54%	1.88%	2.21%
	Upside	1.04%	1.56%	2.15%	2.80%	3.52%
	Downside	0.70%	0.85%	0.94%	0.95%	0.91%

The weightings assigned to each economic scenario at 31 December 2019 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%

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%

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 recognised. 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 2019 are as follows:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
Balances with Central Banks (excluding cash)	5,733,654	-	-	5,733,654
Loss allowance	(25,635)	-	-	(25,635)
Carrying amount	**5,708,019**	**-**	**-**	**5,708,019**
Deposits with banks and financial institutions				
Investment grade	390,314	-	-	390,314
BB+ and below	19,918	7,925	-	27,843
Gross carrying amount	**410,232**	**7,925**	**-**	**418,157**
Loss allowance	(3,196)	-	-	(3,196)
Carrying amount	**407,036**	**7,925**	**-**	**414,961**
Loans and advances to customers				
Performing	1,445,465	722,860	-	2,168,325
Substandard	-	-	24,536	24,536
Doubtful	-	-	311,335	311,335
Bad	-	-	14,031	14,031
Gross carrying amount	**1,445,465**	**722,860**	**349,902**	**2,518,227**
Loss allowance	(11,069)	(21,492)	(230,199)	(262,760)
Carrying amount	**1,434,396**	**701,368**	**119,703**	**2,255,467**
Debtors by acceptances				
Performing	44,192	5,823	866	50,881
Loss allowance	(285)	(98)	-	(383)
Carrying amount	**43,907**	**5,725**	**866**	**50,498**
Investment securities at amortized cost				
Investment grade	7,582	-	-	7,582
BB+ and below	1,454,396	1,954,018	-	3,408,414
Gross carrying amount	**1,461,978**	**1,954,018**	**-**	**3,415,996**
Loss allowance	(18,143)	-	-	(18,143)
Carrying amount	**1,443,835**	**1,954,018**	**-**	**3,397,853**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
Investment securities at fair value through other comprehensive income				
Investment grade	37,970	-	-	37,970
BB+ and below	50,752	-	-	50,752
Gross carrying amount	**88,722**	**-**	**-**	**88,722**
Loss allowance	(291)	-	-	(291)
Carrying amount	**88,431**	**-**	**-**	**88,431**
Undrawn credit lines, guarantee and other financial liabilities				
Performing	856,947	152,741	26,710	1,036,398
Loss allowance	(5,837)	(2,704)	-	(8,541)
Carrying amount	**851,110**	**150,037**	**26,710**	**1,027,857**

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	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL 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	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL 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:

	2019	2018
	LL Million	LL Million
Investment securities at fair value through profit or loss (note 9a)	**12,886**	14,022

3.1.4.2 Collateral and Other Credit Enhancements

Collateral against loans and advances measured at amortised 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
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
At 31 December 2019									
Gross amount	**134,592**	**553**	**1,694**	**4,215**	**23,946**	**244,124**	**6,807**	**5,801**	**421,732**
***Fair value of collateral**	**153,727**	**-**	**2,649**	**314**	**18,429**	**171,637**	**2,027**	**2,743**	**351,526**
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	338,706

**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 BDL intermediate circular no. 396 issued on 8 September 2015.

3.1.5 Loss Allowance

The following tables explain the changes in the loss allowance from 1 January 2019 to 31 December 2019:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
Balances with Central Banks				
Loss allowance as at 1 January 2019	26,064	-	429	26,493
New financial assets originated	3,331	-		3,331
Changes in PDs/LGDs/EADs	(2,346)	-	-	(2,346)
Financial assets derecognised	(1,414)	-	(429)	(1,843)
Loss allowance as at 31 December 2019	**25,635**	**-**	**-**	**25,635**

The credit loss allowance for cash and balances with Central Banks recognised 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
	LL Million	LL Million	LL Million	LL Million
Deposits with banks and financial institutions				
Loss allowance as at 1 January 2019	3,066	-	-	3,066
New financial assets originated	2,495	-	-	2,495
Changes in PDs/LGDs/EADs	(185)	-	-	(185)
Financial assets derecognised	(2,180)	-	-	(2,180)
Loss allowance as at 31 December 2019	**3,196**	**-**	**-**	**3,196**

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
	LL Million	LL Million	LL Million	LL Million
Loans and advances to customers				
Loss allowance as at 1 January 2019	6,300	16,998	137,056	160,354
Transfers:				
Transfer from Stage 1 to Stage 2	(1,911)	1,911	-	-
Transfer from Stage 1 to Stage 3	(494)	-	494	-
Transfer from Stage 2 to Stage 1	342	(342)	-	-
Transfer from Stage 2 to Stage 3	-	(9,902)	9,902	-
Transfer from Stage 3 to Stage 1	20	-	(20)	-
Transfer from Stage 3 to Stage 2	-	1,470	(1,470)	-
New financial assets originated	5,988	14,694	85,718	106,400
Changes in PDs/LGDs/EADs	2,072	3,421	53,675	59,168
Financial assets derecognized	(1,248)	(6,758)	(55,156)	(63,162)
Loss allowance as at 31 December 2019	**11,069**	**21,492**	**230,199**	**262,760**
Loans and advances to customers - Corporate				
Loss allowance as at 1 January 2019	1,964	16,709	78,674	97,347
Transfers:				
Transfer from Stage 1 to Stage 2	(1,472)	1,472	-	-
Transfer from Stage 1 to Stage 3	(461)	-	461	-
Transfer from Stage 2 to Stage 1	255	(255)	-	-
Transfer from Stage 2 to Stage 3	-	(9,682)	9,682	-
Transfer from Stage 3 to Stage 2	-	1,467	(1,467)	-
New financial assets originated	5,988	14,493	83,536	104,017
Changes in PDs/LGDs/EADs	2,475	2,893	51,099	56,467
Financial assets derecognised	(1,091)	(6,724)	-	(7,815)
Loss allowance as at 31 December 2019	**7,658**	**20,373**	**221,985**	**250,016**
Loans and advances to customers - Retail				
Loss allowance as at 1 January 2019	4,336	289	58,382	63,007
Transfers:				
Transfer from Stage 1 to Stage 2	(439)	439	-	-
Transfer from Stage 1 to Stage 3	(33)	-	33	-
Transfer from Stage 2 to Stage 1	87	(87)	-	-
Transfer from Stage 2 to Stage 3	-	(220)	220	-

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
Transfer from Stage 3 to Stage 1	20	-	(20)	-
Transfer from Stage 3 to Stage 2	-	3	(3)	-
New financial assets originated	-	201	2,182	2,383
Changes in PDs/LGDs/EADs	(403)	528	2,576	2,701
Financial assets derecognized	(157)	(34)	(55,156)	(55,347)
Loss allowance as at 31 December 2019	**3,411**	**1,119**	**8,214**	**12,744**

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
	LL Million	LL Million	LL Million	LL Million
Acceptances				
Loss allowance as at 1 January 2019	237	371	-	608
New financial assets originated	93	5	-	98
Changes in PDs/LGDs/EADs	113	72	-	185
Financial assets derecognised	(158)	(350)	-	(508)
Loss allowance as at 31 December 2019	**285**	**98**	**-**	**383**

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
	LL Million	LL Million	LL Million	LL Million
Investment securities at amortized cost				
Loss allowance as at 1 January 2019	20,033	-	-	20,033
New financial assets originated	5,227	-	-	5,227
Changes in PDs/LGDs/EADs	(767)	-	-	(767)
Financial assets derecognized	(6,350)	-	-	(6,350)
Loss allowance as at 31 December 2019	**18,143**	**-**	**-**	**18,143**

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	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
Investment securities at fair value through other comprehensive income				
Loss allowance as at 1 January 2019	409	-	-	409
Changes in PDs/LGDs/EADs	264	-	-	264
Financial assets derecognised	(382)	-	-	(382)
Loss allowance as at 31 December 2019	**291**	**-**	**-**	**291**

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	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
Undrawn credit lines, guarantee and other financial liabilities				
Loss allowance as at 1 January 2019	1,812	2,741	27	4,580
Transfer from Stage 1 to Stage 2	(521)	521	-	-
Transfer from Stage 2 to Stage 1	478	(478)	-	-
Transfer from Stage 2 to Stage 3	-	(439)	439	-
New financial assets originated	1,630	665	4	2,299
Changes in PDs/LGDs/EADs	2,701	515	(465)	2,751
Financial assets derecognized	(263)	(821)	(5)	(1,089)
Loss allowance as at 31 December 2019	**5,837**	**2,704**	**-**	**8,541**

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 tables explain 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
	LL Million	LL Million	LL Million	LL 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 derecognised	(1,413)	(3,794)	(5,435)	(10,642)
Loss allowance as at 31 December 2018	**26,064**	**-**	**429**	**26,493**
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 derecognised	(7,074)	(13)	-	(7,087)
Loss allowance as at 31 December 2018	**3,066**	**-**	**-**	**3,066**
Loans and advances to customers				
Loss allowance as at 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

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
Changes in PDs/LGDs/EADs	(24,490)	(9,184)	8,838	(24,836)
Financial assets derecognised	(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				
Loss 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	-
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 derecognised	(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 Stage 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 derecognised	(875)	(66)	(1,157)	(2,098)
Loss allowance as at 31 December 2018	**4,336**	**289**	**58,382**	**63,007**
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 derecognised	(26)	(36)	-	(62)
Loss allowance as at 31 December 2018	**237**	**371**	-	**608**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL 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 derecognised	(4,719)	-	-	(4,719)
Loss allowance as at 31 December 2018	**20,033**	**-**	**-**	**20,033**
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**
Undrawn credit lines, guarantee and other financial liabilities				
Loss allowance as at 1 January 2018	1,657	3,370	157	5,184
Transfers:				
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 derecognised	(566)	(795)	(156)	(1,517)
Loss allowance as at 31 December 2018	**1,812**	**2,741**	**27**	**4,580**

Gross carrying amount

The following tables further explain the changes in the gross carrying amount from 1 January 2019 to 31 December 2019:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
Balances with Central Banks				
Gross carrying amount as at 1 January 2019	4,251,306	-	429	4,251,735
New financial assets originated	5,677,516	-	-	5,677,516
Financial assets derecognised during the year	(4,195,168)	-	(429)	(4,195,597)
Gross carrying amount as at 31 December 2019	**5,733,654**	**-**	**-**	**5,733,654**
Deposits with banks and financial institutions				
Gross carrying amount as at 1 January 2019	930,974	-	-	930,974
Transfer from Stage 1 to Stage 2	(3,247)	3,247	-	-
New financial assets originated	193,200	5,606	-	198,806
Repayments during the year	(229,364)	-	-	(229,364)
Financial assets derecognised during the year	(481,331)	(928)	-	(482,259)
Gross carrying amount as at 31 December 2019	**410,232**	**7,925**	**-**	**418,157**
Loans and advances to customers				
Gross carrying amount as at 1 January 2019	1,875,009	617,994	306,578	2,799,581
Transfers:				
Transfer from Stage 1 to Stage 2	(207,423)	207,423	-	-
Transfer from Stage 1 to Stage 3	(22,532)	-	22,532	-
Transfer from Stage 2 to Stage 1	30,153	(30,153)	-	-
Transfer from Stage 2 to Stage 3	-	(72,769)	72,769	-
Transfer from Stage 3 to Stage 1	73	-	(73)	-
Transfer from Stage 3 to Stage 2	-	846	(846)	-
New financial assets originated	357,777	208,269	119,657	685,703
Repayments during the year	(155,883)	(3,135)	22,850	(136,168)
Financial assets derecognised during the year	(431,709)	(205,615)	(193,565)	(830,889)
Gross carrying amount as at 31 December 2019	**1,445,465**	**722,860**	**349,902**	**2,518,227**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
Loans and advances to customers - Corporate				
Gross carrying amount as at 1 January 2019	1,125,592	595,341	288,901	2,009,834
Transfers:				
Transfer from Stage 1 to Stage 2	(138,471)	138,471	-	-
Transfer from Stage 1 to Stage 3	(21,859)	-	21,859	-
Transfer from Stage 2 to Stage 1	17,146	(17,146)	-	-
Transfer from Stage 2 to Stage 3	-	(70,190)	70,190	-
Transfer from Stage 3 to Stage 1	73	-	(73)	-
Transfer from Stage 3 to Stage 2	-	598	(598)	-
New financial assets originated	295,865	203,451	119,532	618,848
Repayments during the year	(69,693)	1,471	21,775	(46,447)
Financial assets derecognised during the year	(421,865)	(188,730)	(288,715)	(899,310)
Gross carrying amount as at 31 December 2019	**786,788**	**663,266**	**232,871**	**1,682,925**
Loans and advances to customers - Retail				
Gross carrying amount as at 1 January 2019	749,417	22,653	17,677	789,747
Transfers:				
Transfer from Stage 1 to Stage 2	(68,952)	68,952	-	-
Transfer from Stage 1 to Stage 3	(673)	-	673	-
Transfer from Stage 2 to Stage 1	13,007	(13,007)	-	-
Transfer from Stage 2 to Stage 3	-	(2,579)	2,579	-
Transfer from Stage 3 to Stage 2	-	248	(248)	-
New financial assets originated	61,912	4,818	125	66,855
Repayments during the year	(86,190)	(4,606)	1,075	(89,721)
Financial assets derecognised during the year	(9,844)	(16,885)	95,150	68,421
Gross carrying amount as at 31 December 2019	**658,677**	**59,594**	**117,031**	**835,302**
Acceptances				
Gross carrying amount as at 1 January 2019	83,297	17,486	-	100,783
Transfers:				
Transfer from Stage 1 to Stage 2	(474)	474	-	-
New financial assets originated	5,923	3,096	866	9,885
Repayments during the year	18,291	(7,076)	-	11,215
Financial assets derecognised during the year	(62,845)	(8,157)	-	(71,002)
Gross carrying amount as at 31 December 2019	**44,192**	**5,823**	**866**	**50,881**

	Stage 1 12-month ECL LL Million	Stage 2 Lifetime ECL LL Million	Stage 3 Lifetime ECL LL Million	Total LL Million
Investment securities at amortized cost				
Gross carrying amount as at 1 January 2019	3,820,832	-	-	3,820,832
Transfers:				
Transfer from Stage 1 to Stage 2	(26,291)	26,291		
New financial assets originated	1,461,857	1,927,727	-	3,389,584
Financial assets derecognised during the year	(3,794,420)	-	-	(3,794,420)
Gross carrying amount as at 31 December 2019	1,461,978	1,954,018	-	3,415,996
Investment securities at fair value through other comprehensive income				
Gross carrying amount as at 1 January 2019	118,242	-	-	118,242
Financial assets derecognised during the year	(29,520)	-	-	(29,520)
Gross carrying amount as at 31 December 2019	**88,722**	**-**	**-**	**88,722**
Undrawn credit lines, guarantee and other financial liabilities				
Gross carrying amount as at 1 January 2019	1,040,398	240,073	10,799	1,291,270
Transfers:				
Transfer from Stage 1 to Stage 2	(17,934)	17,934	-	-
Transfer from Stage 1 to Stage 3	(22,175)	-	22,175	-
Transfer from Stage 2 to Stage 1	40,953	(40,953)	-	-
Transfer from Stage 2 to Stage 3	-	(2,950)	2,950	-
New financial assets originated	39,996	5,190	80	45,266
Repayments during the year	(112,221)	3,170	-	(109,051)
Financial assets derecognised during the year	(112,070)	(69,723)	(9,294)	(191,087)
Gross carrying amount as at 31 December 2019	**856,947**	**152,741**	**26,710**	**1,036,398**

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

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL 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 derecognised 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 derecognised during the year	(612,473)	(107)	-	(612,580)
Gross carrying amount as at 31 December 2018	**930,974**	**-**	**-**	**930,974**
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 derecognised 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**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
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)	-
New financial assets originated	976,738	-	-	976,738
Repayments during the year	(449,589)	(117,582)	2,933	(564,238)
Financial assets derecognised 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 at 1 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 derecognised 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)
Financial assets derecognised during the year	(10,098)	(2,182)	-	(12,280)
Gross carrying amount as at 31 December 2018	**83,297**	**17,486**	**-**	**100,783**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	LL Million	LL Million	LL Million	LL Million
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 derecognised 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)	(52)	(102,163)
Financial assets derecognised 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**

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 3.7 billion.

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 maximising 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 3,070 million at 31 December 2019 (2018 - LL 4,629 million).

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

Financial assets modified during the period	2019	2018
	LL Million	LL Million
Amortized cost before modification	**3,070**	4,629
Net modification loss	**1,402**	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	**4,629**	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 2019 and as at 31 December 2018. 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
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
Financial assets						
Balances with Central Banks	5,490,010	217,296	-	713	-	5,708,019
Deposits with banks and financial institutions	22,716	3,319	203,869	178,188	6,869	414,961
Loans and advances to customers	1,879,492	268,217	496	84,459	22,803	2,255,467
Debtors by acceptances	45,057	4,878	-	-	563	50,498
Investments securities at fair value through other comprehensive income (debt securities)	50,583	-	9,149	28,699	-	88,431
Investments securities at fair value through profit and loss	12,085	-	68	-	733	12,886
Investment securities at amortized cost	3,390,315	-	-	7,538	-	3,397,853
Other assets	101,097	3,993	-	271	-	105,361
At 31 December 2019	**10,991,355**	**497,703**	**213,582**	**299,868**	**30,968**	**12,033,476**
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 and 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
Investments securities at fair value through 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	57,600	-	-	593	-	58,193
At 31 December 2018	**10,532,991**	**422,807**	**400,246**	**458,402**	**54,931**	**11,869,377**

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:

	2019	2018
	LL Million	LL Million
Nature of assets		
Residential property-carrying amount	**19,339**	3,007

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.

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 2019 and 2018. 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 2019	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
Financial assets						
Cash and balances with Central Banks	2,373,887	3,268,708	121,107	1,650	57,818	5,823,170
Deposits with banks and financial institutions	5,136	379,320	16,639	2,848	11,018	414,961
Loans and advances to customers	579,818	1,490,969	88,584	72,858	23,238	2,255,467
Debtors by acceptances	-	45,320	2,652	513	2,013	50,498
Investment securities at fair value through other comprehensive income (debt securities)	50,752	37,679	-	-	-	88,431
Investment securities at amortized cost	1,742,699	1,596,253	58,901	-	-	3,397,853
Other assets	34,961	69,872	262	-	266	105,361
Total financial assets	**4,787,253**	**6,888,121**	**288,145**	**77,869**	**94,353**	**12,135,741**
Financial liabilities						
Due to the Central Bank of Lebanon	2,163,013	1,705	-	-	-	2,164,718
Deposits from banks and financial institutions	19,046	158,260	586	-	330	178,222
Deposits from customers	2,097,768	6,424,057	227,205	81,509	56,425	8,886,964
Engagements by acceptances	-	45,672	2,684	513	2,012	50,881
Other liabilities	61,665	28,418	2,111	44	4,483	96,721
Total financial liabilities	**4,341,492**	**6,658,112**	**232,586**	**82,066**	**63,250**	**11,377,506**
Net on-balance sheet financial position	**445,761**	**230,009**	**55,559**	**(4,197)**	**31,103**	**758,235**

At 31 December 2018	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Others LL Million	Total LL Million
Financial assets						
Cash and 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 and 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**	**331,844**	**(7,492)**	**(3,326)**	**35,731**	**833,981**

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 summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised 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 2019	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
Financial assets							
Cash and balances with Central Banks	299,614	22,885	122,054	2,083,935	2,924,155	370,527	5,823,170
Deposits with banks and financial institutions	213,936	3,738	143,431	2,510	-	51,346	414,961
Loans and advances to customers	862,897	209,628	734,164	384,138	25,642	38,998	2,255,467
Debtors by acceptances	1,714	1,130	1,354	-	-	46,300	50,498
Investment securities at fair value through other comprehensive income (debt securities)	-	-	68,687	19,744	-	-	88,431
Investment securities at amortized cost	109,432	151,032	170,212	1,842,045	1,125,132	-	3,397,853
Other assets	1,978	-	-	-	-	103,383	105,361
Total financial assets	**1,489,571**	**388,413**	**1,239,902**	**4,332,372**	**4,074,929**	**610,554**	**12,135,741**
Financial liabilities							
Due to the Central Bank of Lebanon	22,925	-	-	903,788	1,238,005	-	2,164,718
Deposits from banks and financial institutions	19,051	3,857	152,007	-	-	3,307	178,222
Deposits from customers	4,202,941	1,128,831	1,843,460	723,951	6,971	980,810	8,886,964
Engagements by acceptances	-	-	-	-	-	50,881	50,881
Other liabilities	540	-	-	-	-	96,181	96,721
Total financial liabilities	**4,245,457**	**1,132,688**	**1,995,467**	**1,627,739**	**1,244,976**	**1,131,179**	**11,377,506**
Total interest repricing gap	**(2,755,886)**	**(744,275)**	**(755,565)**	**2,704,633**	**2,829,953**		

At 31 December 2018	Up to 1 month LL Million	1-3 months LL Million	3-12 months LL Million	1-5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL 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)**	**(603,132)**	**(397,379)**	**2,983,363**	**2,888,519**		

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
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
At 31 December 2019						
Assets						
Cash and balances with Central Banks	666,151	22,672	122,414	2,689,750	13,029,660	16,530,647
Deposits with banks and financial institutions	265,110	3,748	144,512	2,511	-	415,881
Loans to customers	886,593	207,304	744,865	467,241	40,637	2,346,640
Debtors by acceptances	47,947	1,159	1,392	-	-	50,498
Investment securities at fair value through other comprehensive income (debt securities)	70	207	72,745	20,710	-	93,732
Investment securities at amortized cost	127,356	184,700	332,552	2,436,670	1,506,169	4,587,447
Other assets	105,361	-	-	-	-	105,361
Total financial assets	**2,098,588**	**419,790**	**1,418,480**	**5,616,882**	**14,576,466**	**24,130,206**
Liabilities						
Due to the Central Bank of Lebanon	22,820	-	-	982,351	1,476,730	2,481,901
Deposits from banks and financial institutions	22,314	3,871	154,490	-	-	180,675
Deposits from customers	5,155,696	1,133,450	1,919,417	883,392	11,718	9,103,673
Engagement by acceptances	50,881	-	-	-	-	50,881
Other liabilities	96,721	-	-	-	-	96,721
Total liabilities	**5,348,432**	**1,137,321**	**2,073,907**	**1,865,743**	**1,488,448**	**11,913,851**
Net financial (liabilities)/assets	**(3,249,844)**	**(717,531)**	**(655,427)**	**3,751,139**	**13,088,018**	**12,216,355**

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
At 31 December 2018						
Assets						
Cash and balances with 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**

Other financial facilities and guarantees (note 33) 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
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
At 31 December 2019						
Loan commitment (unused facilities)	160,600	110,541	331,944	124,131	2,617	729,833
Letters of guarantee	35,661	1,303	20,951	3,048	-	60,963
Letters of credit	235,948	5,223	4,431	-	-	245,602
Total liabilities	**432,209**	**117,067**	**357,326**	**127,179**	**2,617**	**1,036,398**
At 31 December 2018						
Loan commitment (unused facilities)	121,609	147,241	4,946	260,492	383,402	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**	**616,284**	**1,291,270**

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 recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (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 2019.

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	LL Million	LL Million	LL Million	LL Million	LL Million
At 31 December 2019					
Assets					
Balances with Central Banks (i)	-	6,822,193	-	6,822,193	5,708,019
Deposits with banks and financial institutions (i)	-	415,829	-	415,829	414,961
Loans and advances to customers (ii)	-	-	2,220,618	2,220,618	2,255,467
Debtors by acceptances	-	50,498	-	50,498	50,498
Investment securities at amortized cost (iii)	801,826	1,765,646	-	2,567,472	3,397,853
Other assets	-	105,361	-	105,361	105,361
Total financial assets	**801,826**	**9,159,527**	**2,220,618**	**12,181,971**	**11,932,159**
Liabilities					
Due to the Central Bank of Lebanon (iv)	-	1,418,119	-	1,418,119	2,164,718
Deposits from banks and financial institutions (iv)	-	180,670	-	180,670	178,222
Deposits from customers (v)	-	-	8,974,189	8,974,189	8,886,964
Engagement by acceptances	-	50,881	-	50,881	50,881
Other liabilities	-	96,721	-	96,721	96,721
Total financial liabilities	**-**	**1,746,391**	**8,974,189**	**10,720,580**	**11,377,506**

There are no transfers between levels of fair value measurement hierarchy during the years 2019 and 2018.

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
	LL Million	LL Million	LL Million	LL Million	LL 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 (v)	-	-	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	**-**	**1,666,617**	**9,599,629**	**11,266,246**	**11,179,402**

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

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 reprice 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 and deposits from banks and financial institutions

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 not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) 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.

(c) Financial instruments measured at fair value

	Level 1	Level 2	Total
	LL Million	LL Million	LL Million
At 31 December 2019			
Investment securities at fair value through profit or loss			
- Equity securities	12,064	822	12,886
Investment securities at fair value through other comprehensive income:			
- Debt securities	37,969	50,462	88,431
- Equity securities	-	26,653	26,653
Total assets measured at fair value	**50,033**	**77,937**	**127,970**
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	50,080	117,833
- Equity securities	-	26,663	26,663
Total assets measured at fair value	**69,720**	**88,798**	**158,518**

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 summarises the composition of regulatory capital ratios for the years ended 31 December 2019 and 2018. 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).

	2019	2018
	LL Million	LL Million
Common Equity Tier 1 ("CET 1")		
Share capital and contributions to capital	**149,413**	149,403
Reserves (excluding profit for the year)	**282,311**	414,215
Retained earnings	**169,705**	125,343
Less: regulatory adjustments		
Intangible assets	**(1,365)**	(1,974)
Total CET 1	**600,064**	686,987
Additional Tier 1 Capital ("AT 1")		
Non-cumulative preferred shares and similar financial instruments	**196,001**	196,001
Total qualifying Tier 1 Capital	**796,065**	882,988
Real estate revaluation reserve	**10,000**	10,000
ECL allowance on Stage 1	**118,294**	57,923
Unrealized gain on financial assets at fair value through other comprehensive income	**2,484**	1,744
Additional provisions	**-**	6,030
Tier 2 Capital	**130,778**	75,697
Total regulatory capital (Tier1 + Tier2)	**926,843**	958,685
Risk-weighted assets		
Credit risk	**9,463,550**	5,522,361
Market risk	**27,436**	14,378
Operational risk	**413,406**	420,152
Total risk-weighted assets	**9,904,392**	5,956,891

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

	BBAC		Supervisory		Basel III	
	2019	2018	**2019**	2018	**2019**	2018
Common Equity Tier 1 Ratio	**6.06%**	11.53%	**7%**	10%	**10%**	4.5%
Tier 1 Capital Ratio	**8.04%**	14.82%	**8.5%**	13%	**13%**	6.0%
Total Capital Ratio	**9.36%**	16.09%	**10.5%**	15%	**15%**	10.5%

The capital adequacy ratios as at 31 December 2019 were calculated based on the balances recorded at the reporting date and do not take into consideration the adjustments that will result from the resolution of the uncertainties mentioned in notes 1.2 and 1.3.

4 Critical Accounting Estimates and Judgments

Estimates and judgements 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 allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised 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 judgements 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.

(b) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the separate 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 assetbacked 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) Going concern

As mentioned in notes 2.1.1, the financial statements have been prepared on the going concern basis, as management believes that the Bank is solvent and highly liquid and is therefore able to meet its current liabilities as they fall due. At 31 December 2019, the Bank had at its disposal cash and cash equivalents of LL 889 billion (note 32). These funds are considered sufficient to enable the Bank to meet its current obligations as they fall due for the foreseeable future.

In addition to the above and should significant losses arise on financial assets from adverse developments in the country's economic and financial conditions, the board of directors and the shareholders of the Bank are committed to take the necessary measures, in coordination with the regulatory authorities, to remain, at all times, in compliance with applicable banking regulations.

(e) 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.

4.2 Critical judgements in applying the Bank's accounting policies

(e) Business model

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

- management's stated policies and objectives for the portfolio and the operation of those policies 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.

(f) Foreign currency

During the latter part of 2019, Lebanon experienced significant shortages in hard currency. As a result, the Banks in Lebanon implemented unofficial foreign exchange controls in the banking sector to manage the shortages. The US dollar has been in wide use and circulation over the last 2 decades or more and against which the Lebanese Pound has been pegged throughout that period at US$ 1 equals LL 1,507.5 («official exchange rate»). In terms of the banking sector, rates did not vary from the official rate and all US$ sold by Banks have been at the official quoted rate.

Given the shortage in US$ and in order to support the imports of fuel oil, wheat and medicine, the Central Bank has decided to provide importers with hard currency to finance 85% of their foreign purchases in US$ of such goods at the official rate.

In terms of IFRS, foreign exchange denominated monetary assets and liabilities should be measured using the spot rate as at 31 December 2019. In addition, the results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as set out in note 2.3. Determination of the spot rate is complex as availability of US$ at the official rate is not always possible due to the exchange controls implemented. As a result of the above situation, an unofficial rate has emerged in the foreign exchange market that is applied by foreign exchange brokers in their currency trades ("parallel rate"). Management has applied their judgement to determine if the parallel rate should be considered a spot rate. Management do not believe the parallel rate can be considered a spot rate nor can it be considered an official rate for reasons set out below:

- The rates are not quoted daily and may differ significantly from exchange house to exchange house. The rate is considered a hypothetical rate as this rate may also not be available at any given time even between exchange houses.
- Certain exchange houses are not regulated or licensed to trade and may not be considered a legal exchange mechanism.

Accordingly, the official exchange rate of US$ 1 equals LL 1,507.5 has been used to translate and record the US dollar denominated transactions and balances. In addition, the official rate was used to translate foreign operations having US$ as their functional currency. Had other exchange rates been used, the amounts would have been significantly different. In particular, liabilities would have been significantly higher.

The following are the balances denominated in foreign currencies that the entity is exposed to and, as a result, may be settled at different values than as reported under IFRS:

	2019	2019	2019
	US$ (000)	Other foreign currencies (000)	LL Million
Monetary assets			
Cash and balances with Central Banks	2,018,935	71,246	3,163,926
Deposits with banks and financial institutions	249,367	36,397	405,460
Loans and advances to customers	886,012	940,686	1,499,539
Debtors by acceptances	27,544	147,263	46,299
Financial assets:			
- At fair value through profit or loss	8,003	-	12,064
- At fair value through OCI	25,187	-	37,969
- At amortised cost	1,058,681	34,917	1,654,862
Other assets	43,755	242	66,216
Total monetary assets	**4,317,484**	**1,230,751**	**6,886,335**
Monetary liabilities			
Due to the Central Bank of Lebanon	1,131	-	1,705
Deposits from banks and financial institutions	104,305	386	157,870

	2019	2019	2019
	US$ (000)	Other foreign currencies (000)	LL Million
Deposits from customers	3,926,354	202,493	6,201,479
Engagements by acceptances	27,704	147,280	46,568
Other liabilities	149,390	56	225,305
Total monetary liabilities	**4,208,884**	**350,215**	**6,632,927**

If the Lebanese pound weakened/strengthened by 100% against the US Dollar with all other variables held constant, profit for the year would have been LL 79.93 billion higher/lower in 2019.

5 Cash and Balances with Central Banks

	2019	2018
	LL Million	LL Million
Cash in hand	**111,493**	139,250
Other money market placements	**226,125**	226,159
Balances with Central Banks other than mandatory reserve deposits	**323,581**	278,593
Included in cash and cash equivalents (note 32)	**661,199**	644,002
Mandatory reserve deposits with Central Banks	**1,024,767**	1,070,273
Mandatory reserve - cash in hand (Central Bank of Iraq)	**3,658**	4,756
Placements with BDL other than mandatory reserves (maturity more than 3 months)	**4,081,808**	2,620,573
Accrued interest receivable - BDL	**77,373**	56,137
	5,848,805	4,369,248
Allowance for impairment	**(25,635)**	(26,493)
	5,823,170	4,369,248
Current	**871,770**	775,307
Non-current	**4,951,400**	3,593,941
	5,823,170	4,369,248

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

	2019	2018
	LL Million	LL Million
Balance at beginning of year	**26,493**	6,943
Initial application of IFRS 9	**-**	17,054
Net (decrease) increase in impairment allowance during the year (note 24)	**(858)**	2,496
Balance at end of year	**25,635**	26,493

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.

Cash and balances with Central Banks include assets under leverage arrangement amounting to LBP 376 billion consisting of term placements with the Central Bank of Lebanon in LBP originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP, purpose of which is to provide yield adjustment on certain transactions related to either fresh deposits in foreign currency or sale of foreign currency against LBP placed in term deposits at the Central Bank of Lebanon and/or Government securities. The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

	2019	2018
	LL Million	LL Million
Term placements with Central Bank of Lebanon (note 17b)	**376,274**	-

6 Deposits with Banks and Financial Institutions

	2019	2018
	LL Million	LL Million
Current accounts	**205,179**	439,121
Placements with other banks (with original maturities of less than 3 months)	**-**	454,222
Items in course of collection from other banks	**23,071**	26,201
Included in cash and cash equivalents (note 32)	**228,250**	919,544
Placements with other banks (with original maturities of less than 3 months)	**34,238**	-
Deposits with banks and financial institutions	**155,571**	10,288
Interest receivable	**98**	1,142
	418,157	930,974
Less: allowance for impairment	**(3,196)**	(3,066)
	414,961	927,908
Current	**414,961**	927,908
Non-current	**-**	-
	414,961	927,908

Term deposits with original maturities of less than three months were excluded in 2019 from cash and cash equivalents and were shown separately within placements with other banks due to the underlying and significant credit risk.

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

	2019	2018
	LL Million	LL Million
Balance at beginning of year	3,066	-
Initial application of IFRS 9	-	7,979
Net release of impairment allowance during the year (note 24)	130	(4,913)
Balance at end of year	3,196	3,066

7 Loans and Advances to Customers

	2019	2018
	LL Million	LL Million
Medium and long term loans	2,075,963	2,297,807
Overdrafts	348,611	412,884
Discounted bills	3,030	15,741
Short term loans	20,972	21,008
Scheduled loans	63	950
Loans and advances to related parties (note 34)	5,870	12,058
Creditors accidentally debtors	2,918	2,258
Unpaid bills	490	7,385
Net debit against credit accounts - speculation accounts	52	58
Interest receivable	60,258	29,432
Gross loans and advances to customers	2,518,227	2,799,581
Less: allowance for impairment (see below)	(262,760)	(160,354)
Net loans and advances to customers	2,255,467	2,639,227
Current	1,849,831	1,003,061
Non-current	405,636	1,636,166
	2,255,467	2,639,227

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

	2019	2018
	LL Million	LL Million
Balance at beginning of year	160,354	214,062
Initial application of IFRS 9	-	(56,225)
Charge for the year (note 24)	111,565	8,876
Reversal of impairment (note 24)	(4,734)	(4,958)
Write-off of non-performing loans	(3,739)	(1,401)
Other	(686)	-
Balance at end of year	262,760	160,354

The loss allowances for ECL on undrawn credit lines, guarantees and other financial liabilities of LL 8.54 billion (2018: LL 4.58 billion) are included within other liabilities (refer to note 19).

8 Debtors and Engagements by Acceptances

	2019	2018
	LL Million	LL Million
Customers' acceptances	50,881	100,783
Less: allowance for impairment	(383)	(608)
	50,498	100,175

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:

	2019	2018
	LL Million	LL Million
Balance at beginning of year	608	-
Initial application of IFRS 9	-	1,932
Net release of impairment allowance during the year (note 24)	(225)	(1,324)
Balance at end of year	383	608

9a Financial Assets at Fair Value Through Profit or Loss

	2019	2018
	LL Million	LL Million
Equity securities		
- Listed	1,967	1,967
- Unlisted	10,919	12,055
Total equity securities at fair value through profit or loss	12,886	14,022
Total investment securities at fair value through profit or loss	12,886	14,022

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 2019.

9b Financial Assets at Fair Value Through Other Comprehensive Income

	2019	2018
	LL Million	LL Million
Unlisted debt securities		
- Lebanese treasury bills	50,752	50,438
- Certificates of deposit - BDL	-	22,962
- Other debt securities	37,970	44,842
Total debt securities at fair value through other comprehensive income	88,722	118,242
Equity securities		
- Unlisted	25,650	25,661
- Other	1,003	1,002
Total equity securities at fair value through other comprehensive income	26,653	26,663
Allowance for impairment losses	(291)	(409)
Total investment securities at fair value through other comprehensive income	115,084	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:

	2019	2018
	LL Million	LL Million
Balance at beginning of year	409	-
Initial application of IFRS 9	-	429
Net decrease of impairment allowance during the year (note 24)	(118)	(20)
Balance at end of year	291	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 2019. The shares are held with five reputable local banks.

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

During 2019, there was no derecognition of equity instruments at fair value through OCI.

10 Financial Assets at Amortized Cost

	2019 LL Million	2018 LL Million
Listed debt securities		
- Lebanese treasury bills (denominated in USD)	**758,704**	874,863
- Other debt securities	**7,545**	7,545
	766,249	882,408
Unlisted debt securities		
- Lebanese treasury bills	**1,127,125**	1,478,543
- Certificates of deposit - BDL (denominated in LL)	**616,693**	817,692
- Certificates of deposit - BDL (denominated in USD)	**872,927**	608,516
- Securitisation funds	**12,636**	13,258
- Other debt securities	**20,366**	20,415
	2,649,747	2,938,424
	3,415,996	3,820,832
Less: allowance for impairment	**(18,143)**	(20,033)
Total financial assets at amortized cost	**3,397,853**	3,800,799
Current	**453,128**	475,994
Non-current	**2,944,725**	3,324,805
	3,397,853	3,800,799

All debt securities have fixed coupons.

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

	2019 LL Million	2018 LL Million
At 1 January	**3,820,832**	3,774,577
Reclassification on transition to IFRS 9	**-**	35,992
Additions	**286,772**	526,661
Sales	**(201,696)**	(71,241)
Redemptions	**(488,615)**	(440,613)
Exchange differences on financial assets	**(1,297)**	(4,544)
At 31 December	**3,415,996**	3,820,832

During November 2019, the Bank sold Certificates of Deposit with a carrying amount of LL 194 billion in order to boost its liquidity in local currency at the Central Bank.

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:

	2019	2018
	LL Million	LL Million
Balance at beginning of year	**20,033**	-
Initial application of IFRS 9	**-**	23,647
Net release of impairment allowance during the year (note 24)	**(1,890)**	(3,614)
Balance at end of year	**18,143**	20,033

11 Investment in Subsidiaries

	%	**2019**	2018
	Ownership	**LL Million**	LL 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 24.05 billion (2018 - LL 20.65 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 2.5 billion (2018 - LL 2.4 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 6.5 billion (2018 - LL 6.3 billion).

12 Investment Properties

	2019	2018
	LL Million	LL Million
Land	**5,747**	5,747
Building	**1,591**	1,591
	7,338	7,338

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 recognised in the statement of comprehensive income:

	2019	2018
	LL Million	LL Million
Rental income	88	90
Maintenance expense (note 29)	(138)	(132)
	(50)	(42)

13 Property and Equipment

	Lands and buldings	Construction in progress	Computer equipment	Furniture, fixtures & equipment	Vehicles	Leasehold Improvements	Total
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
At 1 January 2018							
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)	(88)	-	-	(3,381)
Depreciation charge (note 28)	(1,916)	-	(1,212)	(944)	(107)	(1,952)	(6,131)
Closing net book amount	**61,609**	**1,367**	**2,902**	**3,335**	**398**	**14,812**	**84,423**
At 31 December 2018							
Cost	89,130	1,367	16,936	13,002	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**	**3,335**	**398**	**14,812**	**84,423**
Year ended 31 December 2019							
Opening net book amount	61,609	1,367	2,902	3,335	398	14,812	84,423
Additions	2,102	4,036	3,784	3,607	9	983	14,521
Disposals	(195)	(361)	(2,957)	(3,312)	41	-	(6,784)
Depreciation charge (note 28)	(1,708)	-	(1,292)	(752)	(105)	(1,992)	(5,849)
Closing net book amount	**61,808**	**5,042**	**2,437**	**2,878**	**343**	**13,803**	**86,311**
At 31 December 2019							
Cost	91,030	5,042	17,691	13,168	957	37,627	165,515
Accumulated depreciation	(29,222)	-	(15,254)	(10,290)	(614)	(23,824)	(79,204)
Net book amount	**61,808**	**5,042**	**2,437**	**2,878**	**343**	**13,803**	**86,311**

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).

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
	LL Million
At 1 January 2018	
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
Amortisation charge (note 28)	(838)
Closing net book amount	**1,812**
At 31 December 2018	
Cost	13,149
Accumulated amortization	(11,337)
Net book amount	**1,812**
Year ended 31 December 2019	
Opening net book amount	1,812
Additions	203
Amortisation charge (note 28)	(728)
Closing net book amount	**1,287**
At 31 December 2019	
Cost	13,352
Accumulated amortization	(12,065)
Net book amount	**1,287**

15 Other Assets

	2019	2018
	LL Million	LL Million
Advances on purchases of property and equipment (i)	70,318	17,597
Electronic card facilities - not yet allocated to client accounts (ii)	14,441	11,602
Prepaid expenses	3,308	1,778
Receivable from National Social Security Fund (iii)	4,535	3,847
Other receivables	4,330	15,344
Doubtful receivables (iv)	16,212	15,808
Less: allowance for impairment (iv)	(7,783)	(7,783)
	105,361	58,193
Current	79,490	30,977
Non-current	25,871	27,216
	105,361	58,193

i) Advances on purchases of property and equipment include an amount of LL 5.4 billion (2018 - 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 finalisation of negotiations around the contractual price.

During 2019, advances on purchases of property and equipment include an amount of LL 37.7 billion in respect of the construction of a branch and a Head Office in Beirut Central District. In June 2020, the properties' ownership titles were transferred to the Bank.

(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 (2018 - LL 2.9 billion). A provision of LL 1.8 billion (2018 - LL 1.8 billion) is carried to cover the expected loss.

(b)An amount of LL 3.2 billion (2018 - 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 10.1 billion (2018 - LL 9.5 billion), who were involved in fraudulent activities. A provision of LL 2.8 billion (2018 - 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

	2019	2018
	LL Million	LL Million
At 1 January	**38,280**	36,445
Acquisitions during the year	**19,339**	3,007
Disposals during the year	**-**	(1,172)
At 31 December	**57,619**	38,280

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).

At 31 December 2019, 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

	2019	2018
	LL Million	LL Million
Deposits from banks	**173,056**	251,885
Deposits from financial institutions	**4,694**	8,695
Interest payable	**472**	2,612
	178,222	263,192
Current	**178,222**	211,880
Non-current	**-**	51,312
	178,222	263,192

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

17b Due to the Central Bank of Lebanon

	2019	2018
	LL Million	LL Million
Term loans from the Central Bank of Lebanon (i)	**2,137,788**	816,700
Term loans from the Central Bank of Lebanon (ii)	**-**	376,274
Loan from the Central Bank of Lebanon (iii)	**22,820**	24,637
Interest payable	**4,110**	6,387
	2,164,718	1,223,998
Current	**26,930**	31,024
Non-current	**2,137,788**	1,192,974
	2,164,718	1,223,998

Central Bank of Lebanon arrangements and facilities made available to the banking sector during 2019 comprise the following:

(i) During the years 2018 and 2019, 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 2019, the total loans granted to the Bank and reinvested in Lebanese treasury bills amounted to LL 869.36 billion (31 December 2018 - LL 416.97 billion).

During 2019, 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 2019, total loans granted to the Bank amounted to LL 76.98 billion (31 December 2018 - LL 76.98 billion).

During 2019, 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 2019, the total loans granted to the Bank amounted to LL 1,608.64 billion (31 December 2018 - LL 297.10 billion).

During 2019, 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 2019, the total loans granted to the Bank and reinvested in Lebanese treasury bills amounted to LL 35.20 billion (31 December 2018 - LL 25.64 billion).

(ii) During 2019, 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 2019, total loans granted to the Bank amounted to LL 376.27 billion (31 December 2018 - 376.27 billion).

Under an agreement with the Central Bank of Lebanon in 2019 concerning the above transactions, settlement of the loans due to the Central Bank against the term placements with the Central Bank are to be effected upon maturity on a net basis.

The below tables summarises the amounts that have been offset in the balance sheet:

	2019	2018
	LL Million	LL Million
Total term loans against term placements denominated in LL	**376,274**	376,274
Term placements with the Central Bank of Lebanon (note 5)	**(376,274)**	-
Net amount reported on the balance sheet	**-**	376,274

(iii) The Central Bank of Lebanon has granted the Bank a facility in accordance with BDL intermediary circular no. 318. The total loan amounts to LL 22.82 billion (2018 - LL 24.64 billion) and can only be used by the Bank for providing housing and environmental loans to clients with average interest rates of 4.19% (2018 - 4.19%). 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

	2019	2018
	LL Million	LL Million
Term deposits	**6,644,101**	7,289,276
Current/settlement accounts (a)	**1,599,730**	1,517,244
Deposits held as collateral (b)	**390,878**	503,534
Deposits from related parties (note 34)	**185,593**	163,264
Accrued interest payable	**66,662**	47,165
Total deposits from customers	**8,886,964**	9,520,483
Current	**8,156,043**	8,321,251
Non-current	**730,921**	1,199,232
	8,886,964	9,520,483
(a) Current/settlement accounts:		
Checking and current accounts	**1,287,915**	1,199,557
Saving accounts - demand	**261,832**	266,569
Debtors accidentally creditors	**35,913**	19,549
Payment orders	**9,884**	28,648
Public sector deposits	**4,186**	2,921
	1,599,730	1,517,244
(b) Deposits held as collateral:		
Blocked accounts against credit facilities	**321,724**	395,338
Margins against issuance of letters of guarantee	**68,785**	49,584
Margins on speculation accounts	**369**	637
Margins against issuance of documentary credits	**-**	57,975
	390,878	503,534

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

19 Other Liabilities

	2019	2018
	LL Million	LL Million
Due to credit card institution (i)	**17,901**	12,245
Accrued expenses	**9,574**	8,712
ECL allowance against financial guarantees and commitments (ii)	**8,541**	4,580
Withholding taxes and other charges	**6,757**	8,740
Due to employees	**5,675**	5,168
Provision for foreign currency fluctuations	**1,397**	1,477
Provision for credit card loyalty programmes	**1,103**	986
Due to National Social Security Fund	**595**	590
Dividends payable and interest payable on cash contribution to capital	**294**	309
Cheques in the course of settlement	**-**	6,477
Provisions for miscellaneous contingencies	**36,841**	15,769
Other liabilities	**8,043**	5,893
	96,721	70,946

(i) The amount due to credit card institution of LL 17.90 billion (2018 - LL 12.24 billion) represents transactions entered into by the clients through their credit cards and not yet settled by the Bank.

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

	2019	2018
	LL Million	LL Million
Balance at beginning of year	**4,580**	-
Initial application of IFRS 9	**-**	5,184
Net charge (release) of impairment allowance during the year (note 24)	**3,961**	(604)
Balance at end of year	**8,541**	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:

	2019	2018
	LL Million	LL Million
At 1 January	**39,288**	34,881
Charge for the year (note 27)	**7,194**	6,191
Payments during the year	**(1,344)**	(1,784)
At 31 December	**45,138**	39,288

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

	2019	2018
	LL Million	LL Million
Economic assumptions		
Discount rate	**8.0%**	8.0%
Average future increase on basic salary	**6.0%**	5.50%
Future expected return on contributions	**5.50%**	5%
Bonus	**-**	5.50%
Demographic assumptions		
Retirement age	**-**	64
Mortality rate	**-**	None
Turnover rate	**-**	2%

21 Share Capital, Share Premium and Cash Contributions to Capital

	2019	2018
	LL Million	LL Million
Common shares (i)	**148,752**	148,752
Preferred shares (iv):		
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

	2019	2018
	LL Million	LL Million
Other reserves		
Real estate revaluation reserve (a)	**21,061**	21,061
Legal reserve (b)	**101,055**	100,222
Reserve for future increases in capital (c)	**38,086**	38,086
Reserve for liquidation of assets classified as held for sale (d)	**12,500**	10,698
General non-distributable reserve (f)	**124,676**	124,676
Fair value through OCI reserve (g)	**15,778**	14,718
Other reserves	**2,469**	2,469
	315,625	311,930
Retained earnings (e)		
Retained earnings - portion that is available for distribution	**235,251**	306,718
Retained earnings - portion not available for distribution (BCC circular no. 270) (h)	**-**	-
	235,251	306,718

(a) Real estate revaluation reserve

The revaluation reserve of LL 21.06 billion (2018 - 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 833 million (2018 - LL 7.85 billion). At 31 December 2019, the reserve amounted to LL 101.06 billion (2018 - LL 100.22 billion).

(c) 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.

(d) 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 2019 the reserve amounted to LL 12.50 billion (2018 - LL 10.69 billion). The current year appropriation amounted to LL 1.80 billion (2018 - LL 1.01 billion).

(g) Retained earnings

	2019	2018
	LL Million	LL Million
At 1 January	**306,718**	279,031
(Loss) profit for the year	**(48,565)**	78,002
Dividends declared (note 31)	**(20,266)**	(23,799)
Interest on cash contributions to capital (note 31)	**(1)**	(1)
Transfers to:		
General non-distributable reserve (paragraph (f))	-	(581)
Transfer to fair value through OCI reserve (paragraph (g))	-	(15,719)
Legal reserve (paragraph (b))	**(833)**	(7,851)
Reserve for liquidation of assets classified as held for sale (paragraph (d))	**(1,802)**	(1,012)
Other reserve	-	(1,352)
	(2,635)	(26,515)
At 31 December	**235,251**	306,718

The general assembly meeting held on 13 June 2019 approved the distribution of dividends amounting to LL 20.27 billion (LL 45 per common share, LL 1,055 per preferred share B and LL 1,055 per preferred share C) (refer to note 31).

The appropriation of reserves at 31 December 2019 is to be proposed by the Board and is subject to the final approval of the general assembly that is to be held in 2020 to approve the 2019 financial statements.

(f) General non-distributable reserve

During 2018, this reserve was established mainly by transfer from other reserves as indicated below;

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

	2019	2018
	LL Million	LL Million
At 1 January	**124,676**	-
Transfer from general reserve for retail loans	**-**	5,609
Transfer from reserve for unspecified banking risks	**-**	118,486
Transfer from retained earnings	**-**	581
At 31 December	**124,676**	**124,676**

(g) Fair value through OCI reserve

Movements during the year are as follows:

	2019	2018
	LL Million	LL Million
At 1 January	**14,718**	-
Transfer from retained earnings (unrealized gain on investment securities at fair value through profit or loss) (paragraph (h))	**-**	15,719
Fair value of sold securities	**1,001**	-
Fair value movements during the year	**59**	(1,001)
At 31 December	**15,778**	14,718

(h) Retained earnings - portion that is not available for distribution under BCC 270

Cumulative unrealised 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 (g) above, this part of retained earnings has been transferred to fair value through OCI reserve.

	2019	2018
	LL Million	LL Million
At 1 January	**-**	15,719
Transfer to fair value through OCI reserve (note 22g)	**-**	(15,719)
At 31 December	**-**	-

23 Net Interest and Similar Income

	2019	2018
	LL Million	LL Million
Interest and similar income		
Central Bank of Lebanon	**334,249**	208,176
Customers	**217,960**	185,033
Banks and financial institutions	**21,923**	18,649
Loans and advances to related parties (note 34)	**640**	491
	574,772	412,349
Investment securities at fair value through profit or loss	**-**	439
Investment securities at fair value through other comprehensive income	**5,190**	5,117
Investment securities at amortized cost	**248,891**	256,933
	254,081	262,489
	828,853	674,838
Interest and similar expenses		
Deposits from customers	**579,018**	455,436
Deposits from banks and financial institutions	**46,306**	22,989
Deposits from related parties (note 34)	**11,002**	9,002
	636,326	487,427
Net interest and similar income	**192,527**	187,411

24 Net Impairment (Charges) Releases

	2019	2018
	LL Million	LL Million
Loans and advances to customers (notes 3.1.5 and 7)	**(106,831)**	(3,918)
Cash and balances with Central Banks (note 3.1.5 and 5)	**858**	(2,496)
Financial assets at fair value through other comprehensive income (notes 3.1.5 and 9)	**118**	20
Deposits with banks and financial institutions (notes 3.1.5 and 6)	**(130)**	4,913
Financial assets at amortized cost (notes 3.1.5 and 10)	**1,890**	3,614
Acceptances (notes 3.1.5 and 8)	**225**	1,324
Undrawn credit lines, guarantee and other financial liabilities (notes 3.1.5 and 19)	**(3,961)**	604
Other provisions for impairment	**(371)**	-
	(108,202)	4,061

25 Net Fee and Commission Income

	2019	2018
	LL Million	LL Million
Fee and commission income		
Commissions on banking operations	18,011	15,593
Credit-related fees and commissions	10,123	17,048
Commissions on transfers	7,572	7,099
Commissions on letters of credit and guarantees	5,603	7,854
Brokerage fees	1,948	3,661
Other	694	289
	43,951	51,544
Fee and commission expense		
Commissions on banking operations	5,622	4,191
Brokerage fees paid	354	1,912
Other	519	349
	6,495	6,452
Net fee and commission income	37,456	45,092

26 Net Trading Income

	2019	2018
	LL Million	LL Million
Net realised gains on foreign exchange transactions	47	1,595
Net unrealised gains on foreign exchange translations	8,067	5,335
	8,114	6,930

27 Personnel Expenses

	2019	2018
	LL Million	LL Million
Wages and salaries	46,343	53,309
Pension costs - defined benefit plan (note 20)	7,194	6,191
Social security costs	6,437	6,318
Scholarship	3,020	2,946
Medical expenses	2,452	2,354
Transportation	2,088	2,221
Training expenses	272	208
Other employee benefits	6,811	2,748
	74,617	76,295

28 Depreciation and Amortisation Charges

	2019	2018
	LL Million	LL Million
Depreciation charge (note 13)	5,849	6,131
Amortization charge (note 14)	728	838
	6,577	6,969

29 Other Operating Expenses

	2019	2018
	LL Million	LL Million
Professional fees	6,798	5,781
Office supplies and utilities	4,877	5,036
Municipality and other taxes	4,370	7,021
Deposit guarantee premiums	4,321	4,619
Software costs	3,710	3,090
Operating leases	2,836	2,191
Advertising	2,295	14,842
Security	2,266	2,276
Repairs and maintenance	2,096	2,138
Directors' remuneration (note 34)	1,680	1,680
Travel expense and entertainment	1,515	2,587
Subscriptions	1,278	1,083
Transportation	1,222	1,370
Insurance (note 34)	971	1,150
Provision for risk and charges	904	5,903
Directors' attendance fees (note 34)	818	818
Donations	801	753
Maintenance on investment properties (note 12)	138	132
Other	3,477	3,414
	46,373	65,884

30 Income Tax Expense

Income tax expense comprises the following:

	2019	2018
	LL Million	LL Million
Corporate income tax (i)	10,152	9,552
Tax withheld on interest (ii)	44,477	29,282
	54,629	38,834

(i) Corporate Income Tax

The notional income tax computation for the year is determined as follows:

	2019	2018
	LL Million	LL Million
Lebanon ("Head Office and branches")	**6,300**	7,500
Foreign branches (Cyprus and Iraq)	**3,852**	2,052
Tax charge for the year	**10,152**	9,552
Proof of tax is determined as follows:		
Profit before income tax	**6,064**	116,836
Less: foreign entities	**(21,030)**	(13,419)
Less: tax whithheld on interest (see below)	**(44,477)**	(29,282)
(Loss) profit before income tax - local entity	**(59,443)**	74,135
Income tax at an effective rate of 17%	**(10,105)**	12,603
Effect of expenses not deductible/(deductible) for tax purposes:		
Differences between accounting and fiscal depreciation	**14**	60
Net unrealised loss on investment securities and financial liabilities	**201**	(41)
Impairment allowance on loans (previously subject to tax)	**15,665**	(12,726)
Pension costs - defined benefit plan	**-**	510
Donations and other provisions	**136**	128
Other	**389**	478
Income tax - Lebanon	**6,300**	1,012
Income tax - foreign branches	**3,852**	2,052
Additional provisions - (see below)	**-**	6,488
Total corporate income tax	**10,152**	9,552

The movement in the current income tax liability is as follows:

	2019	2018
	LL Million	LL Million
At 1 January	**7,343**	7,096
Charge for the year	**10,152**	9,552
Payments during the year	**(4,420)**	(9,305)
At 31 December	**13,075**	7,343

The breakdown in the current income tax liability is as follows:

	2019	2018
	LL Million	LL Million
Lebanon entity	**7,931**	4,985
Foreign entities (Cyprus and Iraq)	**5,144**	2,358
At 31 December	**13,075**	7,343

During 2018, 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 2019 for the local entity remain subject to examination by the income tax authorities.

(ii) Tax withheld on interest income

The tax withheld on interest income arises on the following:

	2019	2018
	LL Million	LL Million
Cash and balances with Central Banks	**34,183**	14,295
Investment securities	**10,219**	13,344
Deposits with banks and financial institutions	**75**	1,643
	44,477	29,282

31 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 13 June 2019 approved the distribution of dividends of LL 20,266 million (LL 45 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 2018.

	2019	2018
	LL Million	LL Million
LL 45 (2018 - LL 70) per common share	**6,480**	10,080
LL 1,055 (2018 - LL 1,055) per preferred share (designated "B")	**8,484**	8,442
LL 1,055 (2018 - LL 1,055) per preferred share (designated "C")	**5,302**	5,277
	20,266	23,799

In addition the Bank paid interest on cash contribution of LL 1.4 million (2018 - LL 1.4 million).

32 Cash and Cash Equivalents

With effect from October 2019, measures were adopted unofficially by banks that limit the amounts that may be withdrawn by clients in cash from their current accounts. In addition, foreign exchange controls were implemented unofficially that effectively prohibit most bank transfers outside the country. Notwithstanding the above, the Bank's current accounts continue to be classified as cash and cash equivalents on the basis that such funds may be utilised without limitations within the country. These are comprised of the following:

	2019	2018
	LL Million	**LL Million**
Cash and balances with Central Banks (note 5)	**661,199**	644,002
Deposits with banks and financial institutions (note 6)	**228,250**	919,544
	889,449	1,563,546

33 Contingent Liabilities and Commitments

(a) Legal proceedings

There were a number of lawsuits involving claims by and against the Bank at 31 December 2019, 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 2019 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:

	2019	2018
	LL Million	LL Million
Loan commitment (unused facilities)	**729,833**	917,690
Letters of credit	**245,602**	142,605
Letters of guarantee (see below)	**60,963**	230,975
	1,036,398	1,291,270

The nature and the amounts of the letters of guarantee are as follows:

	2019	2018
	LL Million	LL Million
Guarantees given to customers	**29,049**	145,200
Guarantees against bank facilities	**31,914**	85,775
	60,963	230,975

(c) Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2019	2018
	LL Million	LL Million
Not later than 1 year	**846**	991
Later than 1 year and not later than 5 years	**3,651**	4,227
Later than 5 years	**2,371**	3,130
Total operating lease commitments	**6,868**	8,348

(d) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2019	2018
	LL Million	LL Million
Property and equipment	**2,111**	10,500

34 Related-Party Transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon) which owns 46.87% of the ordinary shares, and Fransabank S.A.L. (incorporated in Lebanon) which owns 37.21% of the ordinary shares. The remaining 15.92% 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 parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2019	2018	**2019**	2018
	LL Million	LL Million	**LL Million**	LL Million
Loans and advances (note 7)	**5,870**	12,058	**-**	-
Interest income (note 23)	**640**	491	**-**	-

No provisions have been recognised in respect of loans given to related parties (2018 - 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.

(b) Deposits from related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2019	2018	**2019**	2018
	LL Million	LL Million	**LL Million**	LL Million
Deposits (note 18)	**43,116**	32,912	**142,477**	130,352
Interest expense (note 23)	**2,604**	2,973	**8,398**	6,029

(c) Letters of guarantee

	2019	2018
	LL Million	LL Million
The Capital Insurance and Reinsurance Company S.A.L.	**432**	307

(d) Other transactions with related parties

	2019	2018
	LL Million	LL Million
The Capital Insurance and Reinsurance Company S.A.L.		
Commission income	**1,395**	2,211
Dividend income	**2,400**	4,000
Insurance expense - Bank (note 29)	**(971)**	(1,150)
Insurance expense - staff	**(332)**	(328)

(e) Key Management Compensation

	2019	2018
	LL Million	LL Million
Directors' remuneration (note 29)	**1,680**	1,680
Directors' attendance fees (note 29)	**818**	818
Other key management compensation	**6,280**	5,967

(f) Professional Fees

Professional fees include remunerations to the audit and risk board members amounting to LL 509 million (2018 - LL 509 million).

35 Subsequent Events

(i) Covid-19

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across Lebanon, causing disruptions to businesses and economic activity. The Bank considers this outbreak to be a non-adjusting event after the reporting period. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Bank. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the Bank's IFRS9 estimates of expected credit loss provisions in 2020.

(ii) Explosion in Beirut port

A devastating explosion occurred in the Port of Beirut on 4 August 2020 caused by a fire in one of the warehouses of the Port that contained highly inflammable materials consisting of ammonium nitrate. The resulting blast wave levelled buildings near the port and caused extensive damage over much of the rest of the capital. The explosion caused severe damages to the Bank's head office and to the branches located near the Port area. Management is still assessing the damages and do not consider it practicable, at this stage, to provide a quantitative estimate of the potential impact of this event on the Bank. This is considered a non-adjusting event after the reporting period.

04

NETWORK

Correspondent Banks

Abu Dhabi
First Abu Dhabi Bank P.J.S.C

Amman
Jordan Ahli Bank Plc

Doha
Qatar National Bank (Q.P.S.C.)

Dubai
MashreqBank PSC

Frankfurt
Deutsche Bank AG
Commerzbank AG

Hong Kong
Standard Chartered Bank

Kuwait
National Bank of Kuwait SAKP

London
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 Bank ASA

Paris
Société Générale

Riyadh
Banque Saudi Fransi

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

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UNESCO (Corniche El Mazraa)
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Hamra (Abd El Aziz Street)
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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: (25) 555433/4 - 557433
(03) 548549 Fax: (25) 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: (25) 554701 - 557701/2
(03) 563564 Fax: (25) 554432

Shahhar - Kabr Chmoun
Tel: (05) 410281/2 - (03) 265509
Fax: (05) 411190

Chouf

Baakline (Main Road)
Tel: (25) 300776 - 304060
(03) 265503 Fax: (25) 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: (28) 510014 - (03) 840842
Fax: (28) 511085

Rachaya El Wadi (Main Road)
Telefax: (28) 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: (27) 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

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